the restaurant group plc

A year of good progress

Annual Report 2011

The Restaurant Group plc ("TRG" or "the Group") operates 400 restaurants and pub restaurants. Its principal trading brands are Frankie & Benny's, Chiquito and Garfunkel's and it also operates a Pub restaurant business as well as a Concessions division which trades on over 50 sites, principally at UK airports.

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Financial highlights

The Group had a strong performance in 2011:

- Revenue increased to £487m (like-for-like sales +3.25%)
- Adjusted EBITDA increased to £89.7m*
- Adjusted profit before tax increased to £60.3m*
- Adjusted EPS increased to 22p per share*
- Proposed full year dividend of 10.5p per share
- Statutory profit before tax of £48.6m
- Statutory EPS of 17p

*Results marked as adjusted are stated excluding non-trading items and, unless otherwise stated, reflect the 52 week period in 2011 compared with the comparable 52 week period in 2010. Statutory results for 2010 were stated on a 53 week reporting period. Like-for-like information is stated for the consistent number of weeks in 2011 and 2010.

Operations strongly cash generative and net debt reduced by £5.3m to £46.1m

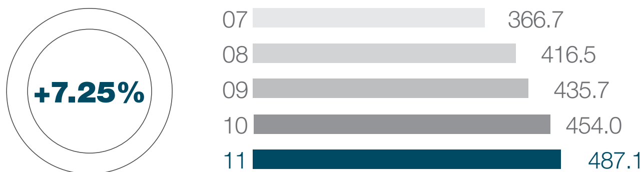
Roll out continues

- 25 new sites opened in the period
- 25-30 new sites targeted for 2012

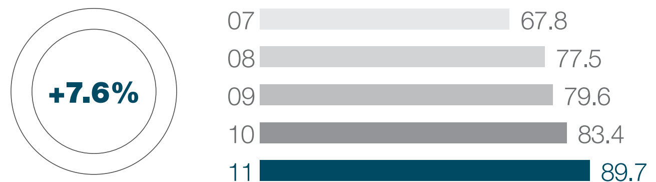
Over 500 new jobs created in 2011 and over 600 new jobs to be created in 2012

Solid current trading given the economic climate, with total sales up 3% and like-for-like sales at –2% for the eight weeks to 26 February 2012

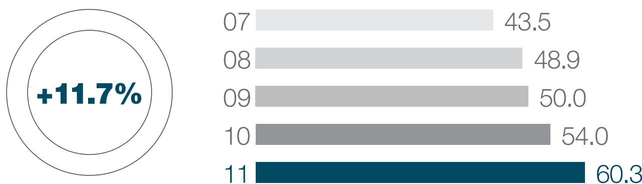
Revenue (£m)



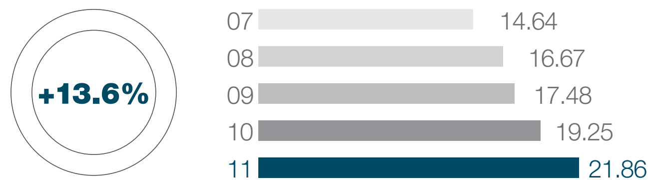
Adjusted EBITDA (£m)



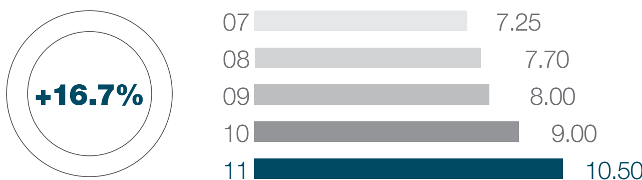
Adjusted profit before tax (£m)



Adjusted EPS (p)



Dividend per share (p)



At a glance

Frankie & Benny's
NEW YORK ITALIAN RESTAURANT & BAR

› 16 new openings in 2011 › 208 restaurants

Frankie & Benny's brings together classic American and Italian style with food and drink that always provides great value for money. The kitchen buzzes with bustling activity as the chefs prepare dishes from our broad menu – pizzas, pastas, burgers, grills and other favourites – while, in typical stateside fashion, service at Frankie & Benny's is second to none! Settle into a cosy booth to enjoy a casual family meal or a catch up with friends and observe the clatter and chatter of the open kitchen and the familiar classic 50's and 60's soundtrack playing in the background. The restaurant walls are filled with family snapshots and memorabilia showing life on the lower east side of the Big Apple, helping you into a "New York state-of-mind". First opened in 1995 in Leicester, Frankie & Benny's has become one of the best known casual dining brands in the United Kingdom, and trades successfully in leisure and retail locations, stand-alone sites and at six airports. The estate comprises of over 200 restaurants spread across the country from Aberdeen to St Austell.

www.frankieandbennys.com

CHIQUITO

› 4 new openings in 2011 › 69 restaurants

Mexican for fun, fantastic food, amazing atmosphere – for a good time, guaranteed. The Chiquito menu offers a great range of authentic Mexican & "Tex-Mex" dishes in a lively environment, with fantastic music. The décor draws inspiration from Mexican architecture and Latin style. Some restaurants have a rustic and relaxed feel while others demonstrate the buzz and graphic energy of contemporary Mexico City. Chiquito favourite dishes include nachos, burritos, enchiladas and our signature sizzling fajitas, as well as the old favourites – burgers, ribs, salads and hand-cut steaks from the grill. We specialise in great food, good times and fantastic cocktails to ensure every meal is a fiesta. Chiquito is open for lunch, lazy afternoons and lively evenings, so whether you're out shopping, meeting friends after work or planning a party it's the only place to be! Trading in the UK for over 20 years, Chiquito continues to attract a broad mix of young adults, couples, teenagers, families and large parties. Almost 70 leisure, retail and stand-alone restaurants cover the UK with more openings planned.

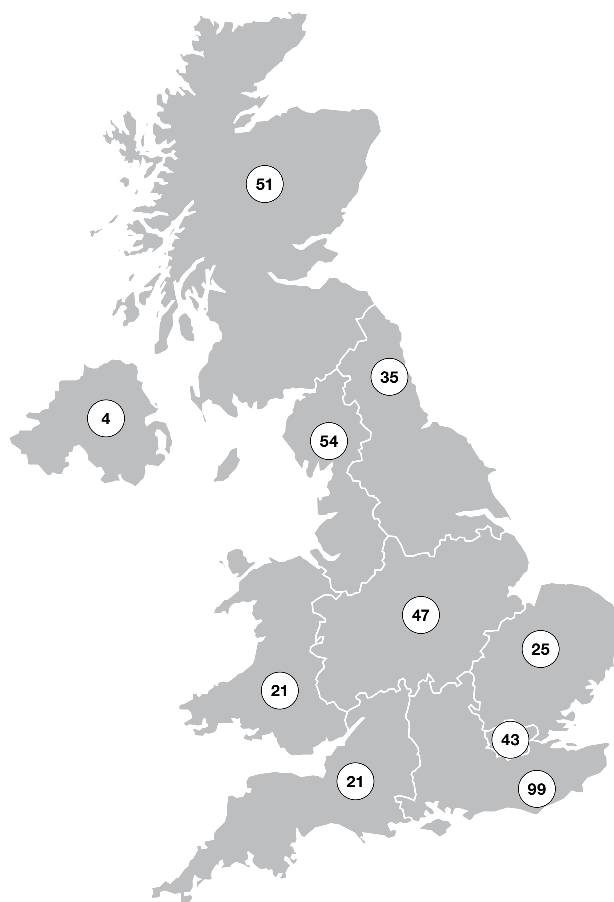
www.chiquito.co.uk

Pub restaurants

› 1 new opening in 2011 › 42 Pub restaurants

Really great pubs are timeless, familiar and very British. Everybody knows what their perfect pub looks like. Each of our pubs has its own style and personality, and you'll always find a warm welcome, ageless interiors, fine British pub food, a large variety of cask ales, fine wines and great coffee. Mostly set in beautiful rural or semi-rural locations, each pub has a 'local' feel and many are set in intriguing buildings with fascinating histories. We don't want all our pubs to look and feel the same – instead we preserve the character of the building, which after all was what attracted us to the property in the first place. The range of beers available changes frequently and seasonal and local specials mean the menu always offers new choices alongside trusted favourites each time you visit. There's friendly, engaging service from the moment you arrive, ensuring that all your needs are taken care of. We believe that, when done well, classic pubs will never go out of fashion, and that opportunities to expand in the sector are available for experienced operators with the right offer for customers.

www.trgplc.com/our-restaurants



Strong brands focused on the growing casual eating-out market

Scotland – 51
28 Frankie & Benny's
08 Chiquito
08 Garfunkel's
07 TRG Concessions

Northern Ireland – 4
03 Frankie & Benny's
01 Chiquito

Wales – 21
13 Frankie & Benny's
03 Chiquito
05 Pub restaurants

South West – 21
12 Frankie & Benny's
06 Chiquito
01 Garfunkel's
02 TRG Concessions

South East – 99
36 Frankie & Benny's
14 Chiquito
21 Pub restaurants
28 TRG Concessions

London (inside the M25) – 43
12 Frankie & Benny's
07 Chiquito
14 Garfunkel's
05 Pub restaurants
05 TRG Concessions

East Anglia – 25
13 Frankie & Benny's
03 Chiquito
02 Pub restaurants
07 TRG Concessions

Midlands – 47
36 Frankie & Benny's
09 Chiquito
02 TRG Concessions

North West – 54
30 Frankie & Benny's
09 Chiquito
09 Pub restaurants
06 TRG Concessions

North East – 35
25 Frankie & Benny's
09 Chiquito
01 TRG Concessions

trg concessions

› 2 new sites opened in 2011 › 58 sites

TRG's Concessions business has a market-leading reputation for developing partnerships to deliver catering solutions that meet the needs of our clients and their customers. Currently operating almost 60 outlets in the UK's busiest airports, other transport locations and shopping centres, we have more than 20 years of experience providing exceptional hospitality to the travelling public. Our specialist operating knowledge and flexibility ensures successful performance across our diverse brand portfolio, covering a wide range of popular categories including table service, counter service, sandwich shops, pubs and bars. To meet client and customer needs we deliver existing TRG brands, create bespoke concepts and establish partnerships to franchise brands from third parties as appropriate. Building on our track record of innovation, partnership and performance ahead of sector growth will ensure we remain a market leader in this xciting sector.

www.trgconcessions.co.uk

garfunkel's
breakfast . lunch . dinner

› 2 new openings in 2011 › 23 restaurants

Garfunkel's – founded in London's West End in 1979, Garfunkel's is proud to be the original British café restaurant serving breakfast, lunch and dinner all day every day. Wake up to a traditional British fry-up or a warming bowl of porridge, we have great coffee too, made just the way you like it. For lunchtime our salad bar really hits the spot, its fast, its fresh and you can make it any way you want to. And of course there's Garfunkel's classics like rotisserie chicken, hand-battered fish and chips and tasty topped burgers fresh from the grill. Everything has been chosen because we just love the taste. Principally located across Central London, each Garfunkel's restaurant offers a place to relax and take a break from the hustle and bustle outside, with a loyal following of visitors, local residents and workers who have been eating at Garfunkel's for years. Garfunkel's continuing popularity means expansion is still on the menu after over 30 years of trading and our latest restaurants offer the same friendly welcome and broad menu in a warm contemporary setting, just what you need after a hectic shopping trip in the West End or the perfect way to complement a theatre visit. Continued success means a healthy appetite for growth with more sites earmarked to open in Central London.

www.garfunkels.co.uk

Chairman's statement

"I am delighted to report that the Group delivered another excellent performance in 2011, with growth in revenues, adjusted profits and adjusted earnings per share."

39 million
meals served in the year

500
new jobs created

Although trading conditions were difficult, and the economic backdrop weak, the Group has been able to further strengthen its market positions, grow the estate and generate significant increases in cash flow. This means that we are well placed to weather the more straitened economic conditions with which UK consumer-facing businesses currently have to contend and, as conditions improve, the Group is very well positioned to take advantage of the opportunities to further accelerate its growth.

Our focus on our customers and providing consistently high standards of service and value for money has enabled the Group to continue its profitable progress. 2011 was a busy year for our team as we looked to build on the strong performance delivered in the previous year. We opened 25 new restaurants, served 39 million meals and created more than 500 new jobs. During 2011 the Group's revenues grew by 7.25% to £487m (2010: £454m), adjusted profit before tax grew by 12% to £60m (2010: £54m) and adjusted earnings per share increased by 14% to 22p (2010: 19p). This increase in earnings per share represents a compound annual growth rate of 14% over the five years to 2011; a significant achievement that demonstrates the resilience and consistently positive performance of the Group.

In addition to having to manage the business against a backdrop of pressure on household incomes we have also been faced with some fairly sizeable cost increases. Much effort has been put into mitigating and minimizing these cost increases and this manifested itself in a modest margin improvement and strong profit uplift.

As a result of this strong performance, the Board is recommending a final dividend of 6.5p per share giving a total for the year of 10.5p per share (2010: 9.00p), an increase of 17%. Subject to shareholder approval at the Annual General Meeting to be held on 17 May 2012, the final dividend will be paid on 19 July 2012 to shareholders on the register on 29 June 2012 and the shares will be marked ex-dividend on 27 June 2012.

A successful year of further organic growth

All of our businesses performed well with positive like-for-like sales growth, good levels of profits and we added new sites to each of our brands. The performance of our new openings has been excellent and our expectations in respect of returns on investment look likely to be exceeded. This bodes well for the future progress of the Group. Currently, we are expecting to open between 25 and 30 new restaurants during 2012 and we are encouraged by both the size and quality of the pipeline of new sites.

TRG has consistently demonstrated the resilient nature of its business model and this is another excellent set of results. The Group is managed in a disciplined and focused manner – growing both organically and also through a judicious and carefully executed roll out. By operating in this manner, we are able to grow our estate, increase earnings and dividends and generate high levels of cash and returns on investment.

These excellent results are the result of the hard work, expertise and dedication of our Directors, senior management and staff. On behalf of the Board I would like to record our thanks to all of them.

We have had a solid start to the current year, with sales growth of 3% (like-for-like sales of -2%) for the first eight weeks of the year, and we are looking to build further on this. We have a superb business with distinct market positions and strong brands with outstanding value-for-money offerings which have wide appeal. I am confident that we are well placed to continue our further profitable progress.

Alan Jackson
Chairman
29 February 2012

www.trgplc.com

Chief Executive Officer's review of operations

"It is particularly encouraging that returns from our openings in the last three years have been at some of the highest levels achieved in the past decade."

7.25%

total sales increase

12%

increase in adjusted profit before tax

Introduction

2011 was another year of good progress for The Restaurant Group, achieved against a challenging economic backdrop and an increasingly constrained environment for consumer–facing businesses. The Group traded well for most of the year, achieving like-for-like sales growth in eleven of the twelve months. The year started very well with a strong bounce back in the early months following the severe winter weather at the end of 2010. Trade during the spring months was variable and, as we entered summer, it picked up markedly. From late summer through to mid-November, trading was quite reasonable and for the final six or seven weeks of the year it was strong.

All of the constituent parts of the Group saw growth in 2011 and, despite having to contend with some significant input cost pressures, the Group achieved strong growth in adjusted profits and a modest improvement in adjusted margins. Total sales were 7.25% ahead of the previous year (like-for-like sales 3.25% ahead) and adjusted earnings per share increased by 14% - against a challenging backdrop and year-on-year growth for the previous years this represents a good result and bodes well for the future.

Results*

**Results marked as adjusted are stated excluding non-trading items and, unless otherwise stated, reflect the 52 week period in 2011 compared with the comparable 52 week period in 2010. Statutory results for 2010 were stated on a 53 week reporting period. Like-for-like information is stated for a consistent number of weeks in 2011 and 2010.*

TRG's trading metrics performed well for the 52 week period to 1 January 2012:

- Total sales increased by 7.25%
- Like-for-like sales increased by 3.25%
- We sold 39 million meals
- Adjusted EBITDA increased by 8% to £89.7m
- Adjusted operating profit increased by 8% to £61.2m
- Adjusted operating profit margin increased by 10 basis points to 12.6%
- Adjusted pre-tax profit increased by 12% to £60.3m
- Adjusted earnings per share increased by 14% to 21.86p
- Net debt, at 0.48x Group adjusted EBITDA, fell by £5.3m to £41.6m

Opening our 200th Frankie & Benny's

Our people and our business

Throughout our business, we aim to continually evolve and improve our offering - food, service and standards. Menus are reviewed twice a year, our seasonal specials menus change quarterly and we pay close attention to the nutritional and calorific content of dishes to ensure that we have something to match all of our customers' requirements. Particular attention is paid to our children's offerings to ensure that they afford the opportunity to form a key part of a sensibly balanced diet. Much work has taken place throughout our Group in this area and further detail is contained in the corporate responsibility report. Our focus continues to be directed towards providing our customers with a great dining experience – plenty of choice across the price points, offerings geared towards specific parts of the day, good value and superb hospitality and service. We strive to employ the best people and to provide them with an opportunity to develop. Our staff benefit from a number of training programmes as soon as they join us and, as they progress through the ranks, the training becomes more specifically geared to equipping them to become efficient and effective managers. In addition to our management training programmes, our staff at all levels have the opportunity to secure qualifications in several areas relevant to our industry, including Food Hygiene, Health & Safety, NVQ's and BII accreditations.

We employ more than 10,000 people throughout the UK and during 2011 more than 500 new members joined the TRG team. 2011 also marked the first graduate recruitment programme for TRG. This attracted a large number of very high quality applicants and we have employed eleven graduates who have embarked on a fast–track scheme towards restaurant management.

Our brands

Frankie & Benny's (208 units)

Frankie & Benny's performed well in 2011, increasing revenues and profits; margins were maintained at 2010 levels. We opened 16 new restaurants of which nine were on non-cinema sites. All of the new openings are trading strongly and they are expected to deliver excellent returns. We anticipate opening between 14 and 18 new Frankie & Benny's restaurants in 2012.

Chiquito (69 units)

Chiquito delivered a good performance in 2011 with increases in revenues, profits and margins. We opened four new Chiquito restaurants during the year all of which are located alongside Frankie & Benny's. This dual roll out strategy works well and we expect it to continue in 2012. The new Chiquito's are trading well and are expected to deliver strong returns. During 2012 we expect to open two to four new Chiquito restaurants.

Garfunkel's (23 units)

Garfunkel's traded well during 2011 delivering good levels of margins and profits. During the year we opened two new Garfunkel's restaurants – these are trading well and are set to deliver strong returns. We are building a good pipeline of new Garfunkel's sites and currently expect to open two to four a year for the next few years. During the first half of 2012 we expect to open at least two new restaurants in central London.

Pub restaurants (42 units)

Pub restaurants traded well during 2011 and delivered good levels of margins and profits. During 2011 the ex-Blubeckers conversion programme was completed. The portfolio is now operating in line with the Brunning & Price model and the results of the changes made over the past 18 months are most encouraging. We opened one new Pub restaurant, the Old Hall at Sandbach, which is trading superbly and is set to deliver strong returns. During 2012 we expect to open between three and five new Pub restaurants.

Concessions (58 units)

Our Concessions business has traded superbly during 2011 with strong increases in revenues, margins and profits. An absence of disruptions, as experienced during 2010, certainly helped the performance but, even adjusting for this, the underlying trend was one of good improvements across all of the key metrics. Passenger numbers at the principal UK airports rose solidly and our business benefited from this. During the year we opened two new restaurants at Gatwick airport – these are trading well and are set to deliver excellent returns. We are expecting to open two or three new restaurants during 2012.

Chief Executive Officer's review of operations
(continued)

The TRG business model, capital structure, and rationale
Our core objective continues to be growth in shareholder value and our strategy to achieve this is to build a business capable of delivering long-term, sustainable and growing cash flows. The Group has a consistent record of converting profits into cash at a very healthy rate, and delivering increasing cash flows each year, and in 2011 this was again the case. TRG's business model enables the Group to grow in a predominately organic and highly value-accretive way, funded from its internally generated funds.

Our touchstones are cash flow and return on investment. Our business model enables our shareholders to enjoy the benefits of high returns on capital, growth in profits and cash flow and sizeable income distributions from our progressive dividend policy. The Group's capital structure is framed in a sensible and prudent manner which enables shareholder value to grow and which recognises the operational and financial gearing inherent in our (predominantly) lease-based business model. In determining the appropriate capital structure, the key considerations which we keep under regular review are:

1. The level of free cash flow generated and our expectation for this going forward;
2. The level of capital investment required to fund our new openings (and our expectations with regard to the number of new openings over the medium-term);
3. The maintenance of our progressive dividend policy and our intention to grow dividends in line with earnings;
4. Ensuring that we have sufficient financial resources available to take advantage of opportunities to expand the business;
5. Ensuring that we have sufficient financial resources available to cope with a deterioration in trading conditions as a result of an economic downturn or other adverse factors; and
6. Maintaining a good level of fixed charge cover as measured by the Group's ability to meet and service all of its financial obligations.

As a result of strong cash generation, the Group has continued to significantly reduce its levels of debt. This has been especially marked in recent years whilst roll out opportunities for new restaurants have been limited to around 25 new sites per annum. In the four years since 2007, net debt has reduced from £77m to £42m. During this period the Group has invested £106m in opening 108 new restaurants, £48m (maintenance capex) has been invested in maintaining the existing estate and £67m has been paid out to shareholders in the form of dividends. During much of this period the economic backdrop has been poor (and at times very bleak). Against such a backdrop we believe that TRG's very prudent capital structure has been appropriate, safeguarding shareholders' interests whilst allowing the Group to grow profits and cash flow and for dividends to increase. Whilst economic conditions continue to be tough, and the immediate outlook opaque, we intend to continue to adopt this very prudent approach to capital structure. However, once conditions improve we will review the position to determine what, if any, adjustments to the capital structure are appropriate. This review will, of course, take full account of the key considerations listed above and any changes would be in line with our policy of maintaining a sensible and prudent capital structure whilst also growing shareholder value.

Our touchstones are cash flow and return on investment

A robust and well proven business model

Capital expenditure and TRG opening programme
Our key criteria in determining where to invest our capital is to operate restaurants in locations with high barriers to entry, good growth prospects and where we are confident that we can secure high returns on investment. Our focus is on edge of town, out of town, rural, semi-rural and airport locations and we occupy leading market positions in these segments. The footprint that the Group occupies in edge and out of town leisure and airport locations is comprehensive and, from a market positioning perspective, very formidable. It would be virtually impossible to replicate this footprint from scratch and the Group is well placed to continue to roll out more restaurants.

Our philosophy regarding capital expenditure remains consistent – we focus on cash generation and on securing a return on invested capital at rates ahead of TRG's weighted average cost of capital. We continue to apply the same levels of analytical rigour, commercial analysis, experience and risk adjustment to each capital project that we undertake. This approach has served TRG well and we do not intend to deviate from it. This disciplined and consistent approach has also ensured that our new openings continue to deliver strong returns. It is particularly encouraging that returns from our openings in the last three years have been at some of the highest levels achieved in the past decade.

Our free cash flow generation is sufficient to enable the Group to accelerate the openings programme whilst maintaining maintenance capital expenditure at an appropriate level and pursuing a progressive dividend policy. As a result of the tough economic backdrop, currently there are very few new edge and out of town schemes being built and, in the short-term, this situation is likely to persist. However, there are a significant number of new schemes in developers' pipelines and, at some point, these are likely to be activated. In the meantime, many of our new restaurant opportunities are being secured from a variety of other sources and the work that we are doing in this regard has had the benefit of widening the potential paths to further future roll out growth for the Group.

The economic downturn, whilst presenting formidable trading challenges, has also afforded to us several new opportunities and we intend to continue to identify and pursue these where we are confident that they will meet our returns criteria.

During 2012 we are expecting to open between 25 and 30 new restaurants and we are also successfully adding to our potential pipeline for the next two to three years.

Market dynamics and the economy
Companies operating in the retail environment have found conditions tough in recent years and this seems to have become a persistent theme. A deep recession followed by rising taxes, household inflation, a fiscal squeeze with lower government spending and higher direct and indirect taxation, rising unemployment (with the equally corrosive, concomitant, fear of unemployment) and negative changes in year-on-year real wages, have placed significant pressures on many consumer-facing businesses. This has proved particularly problematic for businesses with poor market positioning, weak business models and high levels of financial leverage. Attempts at stimulating the economy through expansionary monetary stimuli have had some success, but the economic backdrop remains very tough. Selling products and services to the UK consumer has certainly become quite a challenge.

In addition to consumers being squeezed as a result of the difficult economic backdrop, other factors are also at work and some distinct trends, both operationally and behaviourally, have been evident. Those companies that have established strong market positions, with offerings that are accessible, attractive, convenient, well understood, trusted and are seen by their customers to offer good value have tended to outperform. Customers have become more selective about what, and how, they purchase and it is noteworthy how important a strong and clear online offering and communication platform has become for many parts of the retail marketplace. The ability to read and quickly adapt to customer trends is increasingly important.

Chief Executive Officer's review of operations
(continued)

With many households experiencing a squeeze on funds available for discretionary spend, harder choices between competing consumption wishes are having to be made. A propensity to save (or pay down debt) has replaced the urge to buy on credit that was so prevalent just a few years ago. Consumer-facing businesses have had to work harder to claim a share of this smaller cake.

Those companies that operate in the dining out sector have approached these challenges in different ways. Many have chosen to compete for customers largely on price and this has often manifested itself via heavy promotions and deep discounting. "Buy one get one free" and other similar, deep discounting, offers have been rife, and they still are. Our Group adopted a different approach, focusing on value, choice and consistency of service and standards. We have also increasingly harnessed digital media to broaden awareness of our brands and what we can offer. This has served TRG well, enabling it to continue to grow profits and protect margins.

Eating out has become habitual in the UK and it is an activity that many people are reluctant to give up. At our price point it represents a "small ticket" item or, to put it another way, "an affordable treat". In times of fiscal restraint and stretched finances, it is a "pleasure" in which many people still feel able to indulge.

This trend to eat out regularly is secular, driven largely by socio-economic factors (ageing population, busy lifestyles, more women in the workplace etc) and growth is set to continue over the longer term. Whilst this growth may be harder to achieve in the current climate, once conditions improve, and particularly when people feel more confident about their jobs and incomes, the upward path is likely to be re-established.

In the short-term however, the key risks to growth are largely macro-economic. This time last year the picture seemed to be getting clearer and there was a real expectation that the economy had started the steep climb out of recession. Indeed this picture persisted until early summer, at which point political paralysis in the US followed by the significant shocks in the Eurozone brought it to an abrupt halt. The final part of 2011 was characterised by great uncertainty about the Eurozone, sovereign debt and the pressures on the banking and financial system. Although the UK is not part of the Eurozone, around half of its export business is directed there and its banks and financial institutions have exposure to Eurozone sovereign and corporate debt. A collapse of the Eurozone was, and still is, regarded as being bad for Britain. Against this backdrop, increasing uncertainty and deep concern took hold in much of the UK during the latter stages of 2011 and this is still evident. This makes life more difficult for consumer–facing businesses as many households decide to rein in their discretionary expenditure even more. More recently a number of steps have been taken to re-structure the heavily indebted Eurozone countries and to provide liquidity to the banking system in an effort to stimulate the economies of the Eurozone countries. This has provided some breathing space in which to try to secure a workable solution and to work towards a re-balancing. However, in the short-term it is likely that uncertainty will persist and this will act as a further drag on economic growth during 2012.

In the UK, 2011 ended with the economic outlook poorer than it had been just a few months earlier. Projections for UK GDP growth were cut and the outlook for employment deteriorated. As we start 2012, it seems that we will be facing an economic backdrop just as tough as the one experienced during the past year. There are however several positives – inflation is expected to fall sharply and, whilst money wage increases are likely to be fairly modest, it is possible that, as we move through 2012, household incomes available for

Our aim is to deliver long-term and sustainable profitable growth

discretionary spend will rise, sterling is still at a level that makes UK exports attractive and several of the larger exporters (for example vehicle manufacturers) are beginning to invest and hire more workers and there now seems to be a new determination within the Eurozone to implement measures that will avoid a break-up and may eventually lead to a sustainable re-balancing. Within the UK we are also looking forward to two significant events – the Diamond Jubilee and the Olympic Games. Both of these will be good for Britain and could also benefit UK businesses.

From our perspective, the major short-term macro-economic issues are unemployment, job insecurity and squeezed household finances. Providing there is not a significant further deterioration in any of these, the UK should, as we move into the second part of the year, start to see a gradual re-building of consumer confidence.

Future prospects

We are planning on the basis that the outlook for 2012 will be just as tough as the conditions experienced last year and we have framed our plans accordingly. Over the past four years, our business has experienced some difficult trading conditions and during that period sales, profits and cash flow all increased. TRG is well placed to cope with challenging conditions and, very importantly, to benefit significantly from the upturn in consumer confidence that will, in due course, prevail.

www.trgplc.com

TRG's businesses command strong market positions in each of our chosen segments and our brands are well recognised for the quality, breadth and value of their offerings. We have a well proven business model, a strong balance sheet and are well positioned to continue our expansion. Just as we did in 2011, during 2012 we will continue to:

- Stick to our areas of expertise;
- Focus on our customers by providing excellent value, choice and service;
- Maintain high standards of operational efficiency and execution;
- Carefully control our costs and seek to mitigate and minimise the impact of inflationary input costs. Where we are able to secure fixed or capped price contracts for key purchases, on acceptable terms, we will seek to do so;
- Add high quality new restaurants to our portfolio; and
- Focus on cash flow, returns and growing shareholder value.

Our aim is to continue to strengthen our market positions and deliver long-term and sustainable profitable growth.

2011 was a tough year for our sector and it presented TRG with some big challenges. As always, our team rose to those challenges and produced a superb performance. All of our people will be working towards replicating this again in 2012. The first two months of 2012 have started solidly with total sales 3% ahead of last year (like-for-like sales of -2%), and we will be looking to build further on this as we move through the year.

Andrew Page
Chief Executive Officer
29 February 2012

Group Finance Director's report

"Against the background of another challenging year in terms of the macro-economic environment, the Group has recorded another strong set of financial results."

Compared to the comparable 52 week period the adjusted results (excluding non-trading items) are as follows:

	52 weeks ended 1 January 2012 £m	Comparable 52 weeks ended 2 January 2011 £m	% change	53 weeks ended 2 January 2011 £m	% change
Revenue	**487.1**	454.0	+7.25%	465.7	+4.6%
Cost of sales	**(397.8)**	(370.3)		(379.3)	
Pre-opening costs	**(1.9)**	(1.6)		(1.6)	
Gross profit	**87.4**	82.1	+6.4%	84.8	+3.0%
Administration costs	**(24.0)**	(23.3)		(24.0)	
Share-based payments	**(2.2)**	(2.2)		(2.2)	
Adjusted EBITDA	**89.7**	83.4	+7.6%	85.8	+4.6%
Depreciation	**(28.5)**	(26.8)		(27.2)	
Adjusted operating profit	**61.2**	56.6	+8.2%	58.6	+4.5%
Adjusted operating margin	**12.6%**	12.5%		12.6%	
Net interest	**(0.9)**	(2.6)		(2.7)	
Adjusted profit before tax	**60.3**	54.0	+11.7%	55.9	+7.9%
Tax	**(16.6)**	(15.7)		(16.2)	
Adjusted profit after tax	**43.7**	38.3	+14.1%	39.7	+10.1%
Adjusted EPS (pence)	**21.86**	19.25	+13.6%	19.95	+9.6%

A strong set of financial results

Results
The previous statutory financial year was for a 53 week period ending on 2 January 2011. The comparatives in the statutory accounts refer to this period.

Total revenues increased by 7.25%, as a result of 3.25% like-for-like sales growth and the impact of new sites. Total adjusted EBITDA of £89.7m increased by 7.6% on the prior year, and adjusted operating profit of £61.2m grew by 8.2%. At the half year the Group adjusted operating margin was 20 basis points lower than the prior year. It is therefore very pleasing to see that for the full year the adjusted operating margin has increased by 10 basis points. This was the result of continued attention to detail and diligence in all areas of cost, combined with the decision taken a number of years ago not to pursue the deep discounting strategy that has become endemic across the sector.

Net interest costs reduced substantially during the year, due to reduced average levels of net debt, lower average interest costs as interest rate swaps unwound and interest income from the Group's outstanding loan note with the Living Ventures group. Adjusted profit before tax of £60.3m grew by 11.7% compared to the prior year. The Group's average tax rate continues to decline in line with the reducing rate of UK corporation tax. This resulted in adjusted earnings per share of 21.86p, 13.6% ahead of the prior year.

Compared to the statutory 53 week period last year, total revenues increased by 4.6%, adjusted operating profits were up from £58.6m to £61.2m and adjusted profit before tax increased from £55.9m to £60.3m. Adjusted earnings per share increased by 9.6% compared to the 53 week adjusted statutory comparative of 19.95p.

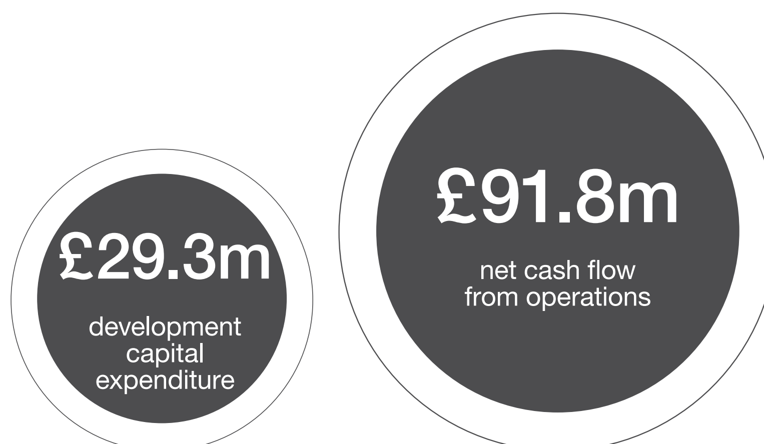
Cost inflation
Cost inflation in 2011 proved to be a somewhat more significant issue than anticipated at the start of the year, particularly on food and beverage costs where we saw average increases for the year of over 3%. Wage cost inflation was higher than in 2010, principally due to the much higher level of minimum wage increase which was effective from October 2010 (an increase of 2.2% compared to 1.2% in October 2009).

The outlook for 2012 in terms of cost inflation is uncertain at this stage. We think it unlikely that food and beverage cost inflation will be any less than that experienced in 2011. Although our strategy continues to be one of fixing costs where sensible, at present a larger proportion of our food and beverage input costs remain unfixed than would normally be the case. This is in anticipation of further softening in commodity prices during 2012.

In terms of labour costs, the standard rate of national minimum wage increased by 2.5% in October 2011, and this will be the key driver in 2012. All our main utility contracts are fixed through until October 2012. We have already entered into new contracts effective from October 2012 on a number of constituent elements of our utility cost base, which will result in some level of cost increase in the final quarter of the year. Business rates are linked to the Retail Prices Index and are expected to increase in April 2012. Rental cost inflation continues to run at low levels compared to historic trends that prevailed prior to 2009. We expect this relatively benign situation on rental increases to continue in 2012.

Non-trading items
The full year statutory results include a non-trading charge of £11.7m before tax, and £9.3m after tax. At the half year we reported a pre-tax charge of £7.2m in respect of site disposals and closures (the Group's Spanish business, a number of the ex-Edwinns sites and a number of legacy sites in the Chiquito estate). During the second half of the year we decided to exit a small number of additional sites which do not generate adequate levels of return. Additionally, following the Paramount business going into administration at the end of 2011, we have made a provision relating to leases on former Café Uno sites which have reverted or could potentially revert to TRG. This provision has also been included in the non-trading charge.

Group Finance Director's report
(continued)



Cash flow
Set out below is a summary cash flow statement for the full year.

	2011 £m	2010 £m
Adjusted operating profit (52 weeks in 2010)	**61.2**	56.6
Working capital and non-cash adjustments	**2.1**	1.9
Depreciation (52 weeks in 2010)	**28.5**	26.8
Net cash flow from operations	**91.8**	85.3
Net interest paid	**(0.3)**	(2.1)
Tax paid	**(15.7)**	(17.6)
Maintenance capital expenditure	**(14.4)**	(11.3)
Free cash flow	**61.4**	54.3
Development capital expenditure	**(29.3)**	(20.7)
Dividends	**(22.3)**	(15.7)
Normalised net cash flow	**9.8**	17.9
Extra trading week in 2010 (EBITDA)	**–**	2.5
Disposals	**(2.8)**	–
Net cash flow from share issues	**1.0**	1.9
SWAP termination payment	**(0.4)**	(1.0)
Purchase of shares for employee benefit trust	**(3.1)**	(1.4)
Finance costs offset against bank debt	**0.8**	(0.1)
Reduction in net debt	**5.3**	19.8
Net bank debt at start of year	**(46.9)**	(66.7)
Net bank debt at end of year	**(41.6)**	(46.9)

Capital expenditure
During the year the Group invested a total of £43.7m in capital expenditure (2010: £32.0m). £14.4m of this was spent on refurbishment and maintenance expenditure (2010: £11.3m). This includes completion of the programme to reposition the ex-Blubeckers pubs to the Brunning & Price model. We have also upgraded much of the underlying IT infrastructure across the Group and the cost of this is included in the maintenance capex figure.

Development capital expenditure in the year was £29.3m (2010: £20.7m). This includes the 25 new sites opened in the year (three of which were freeholds), and also includes the cost of acquiring two pub freeholds currently in development which will open during 2012. The 25 sites opened during the year are all performing very satisfactorily, on average generating levels of turnover and financial return significantly ahead of our feasibility requirements.

We continue to be absolutely focused on ensuring that all of our new sites generate very high levels of financial return. All potential new sites are subject to a thorough due diligence process before we commit to a project. As well as detailed financial modelling and evaluation, this due diligence process includes demographic analysis, detailed review of competitors and planned/potential developments in the area. We also identify other existing sites with similar characteristics both in terms of demographics and location to further inform our decision making process. We conduct regular post-investment appraisals and these confirm that we are continuing to achieve levels of return in line with our high hurdle rates.

As noted in the comments above regarding non-trading items, the Group closed a number of sites during the year bringing the year end total to exactly 400.

£43.7m of capital expenditure on refurbishments and new openings

The table below summarises opening and closures in the year:

	Year end 2010	Opened	Closed	Year end 2011
Frankie & Benny's	197	16	(5)*	208
Chiquito	68	4	(3)	69
Garfunkel's	23	2	(2)	23
Pub restaurants	43	1	(2)	42
Concessions	58	2	(2)	58
Total	389	25	(14)	400

* including three restaurants in Spain

Financing and key financial ratios

As announced in November 2011, the Group successfully completed a refinancing exercise in October. We now have a new £140m five year facility in place which runs until October 2016, with the same covenants as our previous facility. Both of these covenants are tested on a six monthly basis by reference to the Group's published results. These and other key financials are summarised as follows:

	Banking covenant	2011	2010
EBITDA / Interest cover	>4x	47x	32x
Net debt / EBITDA	<3x	0.48x	0.55x
Fixed charge cover	n/a	2.6x	2.6x
Balance sheet gearing	n/a	26%	32%

As can be seen from this table the Group has substantial headroom against banking covenants and is in a very strong financial position. This strong financial position means we are able to maintain and accelerate the level of new openings and acquire pub and other freeholds where it is sensible to do so. We are also able to maintain our programme of investment in the existing estate, a very important factor in maintaining a strong and successful business going forward. The Group's strong financial position also ensures that we are able to pay a generous and increasing level of dividends.

Tax

The total tax charge in the year was £14.2m, analysed as follows:

	2011 (52 weeks)			2010 statutory (53 weeks)		
	Trading £m	Non-trading £m	Total £m	Trading £m	Non-trading £m	Total £m
Corporation tax	18.0	(1.1)	16.9	17.6	(0.3)	17.3
Deferred tax	(1.4)	(1.3)	(2.7)	(1.4)	0.5	(0.9)
Total	16.6	(2.4)	14.2	16.2	0.2	16.4
Average tax rate	27.5%			29.0%		

On trading activities the underlying tax charge in the year was £16.6m. This represents an average tax rate of 27.5% compared to 29.0% in 2010. This reduction primarily reflects the reduced level of UK corporation tax rate. We expect to see a continuing reduction in the average tax rate over the next few years as the Government implements the phased reduction in corporation tax rates announced in 2010. The Group's average tax rate will continue to be higher than the headline UK rate primarily due to significant levels of disallowable expenditure in our capital expenditure programme.

Stephen Critoph
Group Finance Director
29 February 2012

Board of Directors

Alan Jackson
Non-executive Chairman

Aged 68, he joined The Restaurant Group plc as Executive Chairman in March 2001 and became non-executive Chairman from January 2006. He has a wealth of experience in the leisure sector. For 18 years, from 1973 to 1991, he occupied various positions within Whitbread, principally Managing Director of Beefeater steakhouses and also the Whitbread restaurant division where he was responsible for the creation and development of Beefeater, Travel Inns and TGI Friday brands. After the Beer Orders in 1991 he founded his own business which became Inn Business Group plc in 1995 and was subsequently acquired by Punch in 1999. He chaired Oriental Restaurant Group plc until its sale to Noble House in 2000. Currently Alan is non-executive deputy chairman of Redrow plc and a non-executive director of Playtech plc.

Andrew Page
Chief Executive Officer

Aged 53, he joined The Restaurant Group plc as Finance Director in June 2001. In December 2003 he was appointed Group Managing Director and in January 2006 became Chief Executive Officer. His career has spanned both international and domestic businesses. Prior to joining The Restaurant Group plc, he held a number of senior positions in the leisure and hospitality industry including Senior Vice President with InterContinental Hotels and Finance Director of Hanover International plc. Prior to that, Andrew spent six years as a Corporate Financier with Kleinwort Benson having trained and qualified as a Chartered Accountant with KPMG. Andrew is a non-executive director of Arena Leisure plc.

Stephen Critoph
Group Finance Director

Aged 51, he was appointed as Finance Director of The Restaurant Group plc in September 2004. Previously he has held several senior finance positions in Compass Group plc and Granada Group plc, including Corporate Development Director of Compass Roadside and Finance Director of Travelodge and Little Chef. He trained and qualified as a Chartered Accountant with Deloitte & Touche.

Trish Corzine
Executive Director, TRG Concessions

Aged 54, she joined The Restaurant Group plc in 1993 as Area Manager for Garfunkel's which included the Group's airport operations. In 1997 she was appointed Brand Director of Garfunkel's and Airports, and in 1999 was promoted to Operations Director – Concessions. In March 2003 she was appointed Managing Director – Concessions and in October 2003 was appointed to the Board. Prior to joining The Restaurant Group plc, Trish worked for Häagen-Dazs then managed the Atacama Restaurant Group.

Tony Hughes
Non-executive

Aged 63, he was appointed as a non-executive Director of the Company in January 2008. He was Managing Director of the Restaurants Division of Mitchells & Butlers plc (previously Bass plc and Six Continents plc) from 1995 to 2007 and served on the Board of Mitchells & Butlers plc from 2003 to 2007. Prior to joining Bass, he held senior management roles at B&Q, J.A. Devenish and Whitbread.

Simon Cloke
Non-executive

Aged 44, he was appointed as a non-executive Director of the Company in March 2010. Formerly Global Head of Industrials at Dresdner Kleinwort Wasserstein, he was appointed Managing Director of HSBC's Diversified Industries Group in 2005 and is currently responsible for managing HSBC's business with some of its largest house building and building materials clients.

Robert Morgan
Company Secretary

Aged 40, he joined The Restaurant Group plc in 2002 in the finance department and was appointed as Company Secretary in September 2004. Previously he worked in the finance function of Coca-Cola HBC S.A. having qualified as a Chartered Accountant with KPMG.

Report of the Directors

The Directors present their Annual Report and the Group Accounts for the year ended 1 January 2012.

Results and dividends

The results for the year ended 1 January 2012 are presented under International Financial Reporting Standards ("IFRSs"). The Report and Accounts are drawn up on a 52 week reporting basis ending on 1 January 2012 (2010: 53 week reporting basis ending on 2 January 2011). The results for the year are set out in the consolidated income statement on page 43. This shows a Group profit after tax of £34.4m (2010: £40.1m). As highlighted in the 2011 Interim Report, the Board has decided that it is appropriate to rebalance the weighting of the payment of the dividend between the interim and final dividends. An interim dividend of 4.0p per share was paid on 12 October 2011. The Directors propose a final dividend of 6.5p per share, which is subject to approval at the Company's Annual General Meeting to be held on 17 May 2012. Should this be approved, the final dividend will be paid on 19 July 2012, bringing the ordinary dividend per share payable in respect of 2011 to 10.5p (2010: 9.0p).

Principal activity

The principal activity of the Group is the operation of restaurants and pub restaurants. Further information relating to the business, including a review of the year's performance and planned developments, is given in the Chief Executive Officer's review of operations on pages 6 to 11.

Business review

The Company is required by the Companies Act to include a business review in this report. The information that fulfils the requirements of the business review can be found in the Chairman's statement, Chief Executive Officer's review of operations and Group Finance Director's report on pages 4 to 15, which are incorporated in this report by reference.

Directors

Full details of the Directors of the Company are given on pages 16 and 17. The Directors who held office during 2011 were as follows:

Executive Directors

- Andrew Page
- Stephen Critoph
- Trish Corzine

Non-executive Directors

- Alan Jackson
- Tony Hughes
- Simon Cloke

In respect of 2011, each of the non-executive Directors (excluding the Chairman) is considered by the Board to be independent. Tony Hughes held the position of senior non-executive Director. Alan Jackson transitioned from executive Chairman to non-executive Chairman on 1 January 2006 and following his tenure as an executive Director, is not considered to be an independent non-executive Director as defined by the UK Corporate Governance Code ("the Code").

No Director has a service contract with the Company requiring more than twelve months' notice. In accordance with the Code, all the Directors will be subject to re-election at the Annual General Meeting to be held on 17 May 2012.

During the year the Audit Committee comprised the following non-executive Directors:

- Simon Cloke (Chairman)
- Tony Hughes

During the year the Remuneration Committee comprised the following non-executive Directors:

- Tony Hughes (Chairman)
- Simon Cloke

During the year the Nominations Committee comprised the following Directors:

- Tony Hughes (Chairman)
- Simon Cloke
- Alan Jackson
- Andrew Page

The Directors' remuneration report, which includes details of Directors' remuneration and interests in the Company's shares and options, together with information on service contracts, is set out on pages 30 to 35.

Directors' shareholdings

The interests of the Directors in the shares of the Company, all being beneficially owned, were as follows:

	At 28 February 2012	At 1 January 2012	At 2 January 2011
Executive Directors			
Andrew Page	631,486	631,486	576,806
Stephen Critoph	283,197	283,197	258,647
Trish Corzine	274,705	274,705	255,497
Non-executive Directors			
Alan Jackson	400,191	400,191	400,191
Tony Hughes	400,000	400,000	91,476
Simon Cloke	15,000	15,000	–

Details of the Directors' share options are disclosed in the Directors' remuneration report on pages 34 and 35. The closing mid-market price of the ordinary shares on 1 January 2012 was 297.9p and the range during the financial year was 254.9p to 335.0p.

Share capital structure

The Company has one class of shares, ordinary shares of 28⅛p. The authorised share capital is 284,444,444 ordinary shares of 28⅛p. As at 1 January 2012, the issued, called up and fully paid number of shares in issue was 200,245,088 shares. There are no preference shares or special rights pertaining to any of the shares in issue.

Following the 2011 Annual General Meeting the Directors have had the authority to allot shares up to an aggregate nominal amount of £18,717,396 which represented approximately one third of the ordinary share capital of the Company at the time the authority was given by shareholders. This authority expires at the Annual General Meeting to be held on 17 May 2012 and it will be proposed to extend this authority (updated for the current number of shares in issue) at the forthcoming Meeting. The Directors have no present intention of exercising this authority. At the 2011 Annual General Meeting the Directors were also provided with the authority to allot shares for cash other than on a pre-emptive basis, up to an aggregate nominal amount of £2,807,609 which represented approximately 5% of the issued share capital at the time that the authority was given by shareholders. This authority also expires at the Annual General Meeting to be held on 17 May 2012 and it will be proposed to extend this authority (updated for the current number of shares in issue) at the forthcoming Meeting. The Directors have no present intention of exercising this authority.

In addition, following the 2011 Annual General Meeting, the Directors have the authority to make market purchases of shares in The Restaurant Group plc on behalf of the Company up to 19,965,222 ordinary shares (which represented 10% of the Company's issued ordinary share capital at the time of the Notice of the 2011 Annual General Meeting). The minimum price that may be paid for such shares is 28⅛p per share. The maximum price is the higher of 5% above the average middle market quotation for the ordinary shares for the five business days preceding the date of purchase and the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange Daily Official List at the time the purchase is carried out.

This authority expires at the forthcoming Annual General Meeting and it will be proposed to extend this authority (updated for the current number of shares in issue) at the forthcoming Meeting. As noted in the Chief Executive Officer's review of operations, the Directors will periodically review the capital structure of the Group to ensure there is an appropriate framework to enable shareholder value to grow and to recognise the operational and financial gearing inherent in TRG's (predominantly) lease-based model.

The Group has entered into various contracts, including leases, during the course of ordinary business which may be terminated in the event of a change of control of The Restaurant Group plc.

Substantial shareholdings

At 16 February 2012 the Company had been notified of the following interests of 3% or more in the issued ordinary share capital of the Company:

	Number of shares	% of issued share capital
Standard Life	10,925,116	5.46
BlackRock Inc	10,687,427	5.34
Old Mutual Asset Managers	10,556,442	5.27
Lloyds Banking Group	9,445,517	4.72
M&G Investment Management Ltd	9,129,908	4.56
Aviva Investors	7,734,845	3.86
F&C Asset Management plc	7,562,796	3.78
New Smith Asset Management LLP	7,516,765	3.75
Ameriprise Financial Inc	7,475,466	3.74
BAE Pension Fund Investment Mgmt	7,223,775	3.61
Legal & General Investment Management	6,934,465	3.46

Corporate governance

The Company is committed to high standards of corporate governance and to observing the principles of corporate governance contained in the UK Corporate Governance Code that was issued in 2010 by the Financial Reporting Council ("the Code") for which the Board is accountable to shareholders.

Statement of compliance with the UK Corporate Governance Code

Throughout the year ended 1 January 2012, the Company has been in compliance with the provisions set out in the Code except for provisions concerning the number of Directors considered to be independent, and the independence of the Chairman (who was previously executive Chairman before assuming the role of non-executive Chairman in January 2006). The Company currently has two non-executive Directors who are considered to be independent, which is less than the 50% of the Board best practice guidance under the Combined Code. As a consequence the Audit Committee and Remuneration Committees comprise two non-executive Directors rather than three as recommended by the Code. The size and composition of the Board is regularly reviewed to ensure that the effectiveness of the Board (and performance of the Group) is at a high standard.

Statement about applying the principles of the Code

The Company has applied the principles set out in section 1 of the Code, including both the Main Principles and the supporting principles, by complying with the Code as reported above. Further explanation of how the Main Principles have been applied is set out below and in the Directors' remuneration report and the Audit Committee report.

Report of the Directors
(continued)

The Board
The Board's role is to provide entrepreneurial leadership of the Company and Group within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board reviews the Group's business model and strategic objectives and looks to ensure that the necessary financial and human resources are in place to achieve these objectives, to sustain them over the long term and to review management performance against these objectives. The Board also sets the Company's values and standards and manages the business in a manner to meet its obligations to shareholders and other stakeholders.

The Board currently comprises the non-executive Chairman, the Chief Executive Officer, the Group Finance Director, the Executive Director of the Concessions business and two non-executive Directors. Their biographies appear on pages 16 and 17 and these demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, risk management, performance, resources and standards of conduct which is vital for the success of the Group. Tony Hughes acts as senior independent non-executive Director and is available to shareholders if they have reasons for concern on which contact through the normal channels is inappropriate or has failed to resolve an issue.

The roles of Chairman and Chief Executive Officer are clearly defined. The Chairman is responsible for the leadership and effectiveness of the Board and the Chief Executive Officer is responsible for the strategic direction and operational management of the Group. The Board meets on a regular basis and there is a formal schedule of matters specifically reserved for its consideration. This includes approval of the annual budget and the three year business plan, approval of the interim and year-end Report and Accounts, review and approval of significant capital expenditure (including development of new sites), significant disposals of assets and acquisitions or disposals of businesses.

Operational management are responsible for the day-to-day running of the Group and report on a regular basis on that performance to the Board. The Board is responsible for reviewing, challenging and approving the strategic direction of the Group and monitoring operational performance. The Board is responsible to shareholders for the proper management of the Group and has access to the necessary information and training to enable it to discharge its duties. All Directors are subject to election by shareholders at the first opportunity after their appointment, except where they are appointed by shareholders, and to annual re-election thereafter.

There is significant involvement from the non-executive Directors. This includes an ongoing dialogue with the executive Directors including constructive challenge of performance and the Group's strategy. The non-executive Directors are provided with sufficient information to allow them to monitor, assess and challenge the executive management of the Group. Comprehensive Board papers including financial information are circulated to all Directors prior to Board meetings and, on a weekly basis, they receive up-to-date trading information. The non-executive Directors have the opportunity to meet without the executive Directors present, and this includes discussions of targets set and achieved by management.

All Directors have access to the advice and services of the Company Secretary and a procedure has been agreed for the Directors in the furtherance of their duties to take independent professional advice, if necessary, at the expense of the Company. On joining the Board there is a process for Directors to receive training as to their role and its requirements and for non-executive Directors to gain an understanding of the whole business. Non-executive Directors are actively encouraged to meet with operational management and to visit the Group's operations in order to enhance their understanding of the Group's business, its brands, employees and processes.

During 2011 there were eight Board meetings with full attendance by Board members.

Executive Directors are included in the annual performance evaluation of all senior employees within the Group. This involves a comprehensive review of performance against objectives and covers areas for future development through appraisal documentation and meetings. The non-executive Directors also meet in the absence of the Chairman to appraise the Chairman's performance in the light of his fee review.

The Company acknowledges the importance of developing the skills of the Directors to run an effective Board. To assist in this, Directors are given the opportunity to attend relevant courses and seminars and to acquire skills and experience which may enhance their contribution to the ongoing progress of the Group. The Board and committees of the Board have been subject to a formal performance appraisal, through an internal questionnaire, and the performance of all members of the Board is considered as part of the annual remuneration review process.

Communications with shareholders

Communications with shareholders are given high priority. The Chairman's statement, Chief Executive Officer's review of operations and Group Finance Director's report on pages 4 to 15 include a detailed review of the business and the Chief Executive Officer's review of operations on pages 6 to 11 includes a review of planned future developments.

There is a regular dialogue with institutional investors including presentations after the Company's announcement of the year-end results, and at the half year. Feedback from major institutional shareholders is provided to the Board on a regular basis and, where appropriate, the Board will take steps to address their concerns and recommendations.

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Chairman aims to ensure that the chairmen of the Audit Committee, Remuneration Committee and Nominations Committee are available at the Annual General Meeting to answer questions, and for all Directors to attend.

Remuneration Committee

The Remuneration Committee consists of two non-executive Directors. There are written terms of reference for the Remuneration Committee. There was 100% attendance of the two Remuneration Committee meetings held during 2011. The role of this Committee and details of how the Company complies with the principles of the Code are set out in the Directors' remuneration report on pages 30 to 35.

Nominations Committee

The Nominations Committee consists of the non-executive Directors, the non-executive Chairman and the Chief Executive Officer. It met once during 2011 with full attendance at the meeting. There are written terms of reference for the Nominations Committee. It is responsible for making recommendations to the Board for the appointment or replacement of additional Directors and ensuring there is an appropriate balance and diversity of skills, experience, knowledge and independence both now and in the future. It is also responsible for succession planning for the Group. The Board acknowledges the importance of diversity and promoting equal opportunities throughout the Group. Since 2003, at least 25% of the executive Directors have been female and currently over 40% of senior management within the Group are female. The Nominations Committee will have regard to the recommendations of the "Women on Boards" report from Lord Davies published in February 2011 in its deliberations on future appointments.

Audit Committee

The Audit Committee consists of two non-executive Directors. During the year the Committee was chaired by Simon Cloke. There are written terms of reference for the Audit Committee. The Audit Committee met twice during 2011 with full attendance at each meeting. A more detailed description of the work undertaken by the Audit Committee is included in the Audit Committee report on pages 36 and 37. Shareholders of the Company have the opportunity to re-appoint Deloitte LLP as external auditors of the Company at the Annual General Meeting to be held on 17 May 2012.

The Restaurant Group plc – strategy

The Restaurant Group's key objective is to grow shareholder value and the strategy deployed to achieve this is to build a business capable of generating long-term, sustainable and growing cash flows. In pursuit of this we have built a scalable business model which is focused on the growing casual eating out market.

We have targeted segments of this market which offer distinct barriers to entry and where we can be confident of delivering good growth in profits and cash flows and where there is good potential for high returns on investment. This has led the Group to focus on edge and out of town leisure and retail developments, rural and semi-rural pubs and our Concessions business which operates principally on airports. The Group operates in the expanding casual dining market, and our offerings continue to provide good value for money in comfortable surroundings and excellent service from our dedicated teams.

The Group's strategy is to deliver further organic growth through the roll out of our brands – Frankie & Benny's, Chiquito, Garfunkel's and our Pub restaurant business. We have a solid pipeline of sites for development, coupled with a strong focus on continuing to deliver like-for-like sales growth from our existing restaurants. Our Concessions business operates in a dynamic and complicated market where our management teams have market-leading expertise and a track record of innovation and improving sales performance and the Group continues to look for opportunities to expand this division.

The Restaurant Group plc – risk factors

The Board of Directors regularly identify, monitor and manage potential risks and uncertainties to the Group. The list on the following page sets out what the Directors consider to be the current principal risks and uncertainties, with an overview of the mitigation process for these. This list is not presumed to be exhaustive and is, by its very nature, subject to change.

Report of the Directors
(continued)

Risks and uncertainties	Mitigation process
Adverse economic conditions and a decline in consumer confidence and spend in the UK	Regular monitoring of performance and appropriate action plans
Increased supply of new restaurant concepts into the market	Concentration on segments offering higher barriers to entry and good growth prospects; regular monitoring of performance and appropriate action plans
Impact of terrorism in key locations (including airports)	Contingency planning and training; liaison with authorities and landlords in key locations
Possible health pandemic that may cause customers to stay away or prevent restaurants being adequately staffed	Contingency planning and communication with employees
Lack of new site opportunities, and risks to existing Concession agreements	Dedicated property department focusing on new site development, strong relationships with Concessions partners
Failure to provide customers with brand-standard value for money offerings and service levels	Training, mystery diner visits, monitoring of customer feedback, internal quality control testing
Major failure of key suppliers to deliver products into restaurants	Contingency planning for supply chain and suppliers
Damage to our brands' images due to failures in environmental health compliance in the restaurants or from contamination of products	Training of restaurant and pub teams; detailed health and safety manual; regular internal and external auditing of all sites; auditing of supply chain and suppliers; health and safety incentives and awards
The loss of key personnel or failure to manage succession planning	Benchmarking of remuneration packages; analysis of staff turnover; performance appraisal and review system to retain existing talent; Long-Term Incentive Plan
Increase in prices of key raw materials (including foreign currency fluctuations), wages, overheads and utilities	Rolling programme of securing longer-term contracts to mitigate short-term pricing fluctuations; energy efficiency programme
Reversion of formerly sold or disposed leases following business failure of new occupiers	Monitoring of sub-let properties; ongoing relationships with property agents
Failure to meet banking covenants	Signed facility agreement, monitoring of financial performance against covenant levels; banking relationships; significant levels of headroom against covenants
Increased regulation of the food and beverage industry leading to higher costs	Monitoring of developments and liaison with external authorities such as the Food Standards Agency and Department of Health
Breakdown in internal controls through fraud or error, major failure of IT systems	Experienced staff in key roles; segregation of duties; internal and external audit processes; Audit Committee role
Changes to tax regime, including VAT, corporation tax and income tax	Ongoing monitoring in conjunction with external advisers

Further information on the management of risks highlighted above is provided in the Chief Executive Officer's review of operations and Group Finance Director's report on pages 6 to 15.

The Restaurant Group plc – key performance indicators

The Board of Directors and executive management receive a wide range of management information delivered in a timely manner. Listed below are the principal measures of progress that are reviewed on a regular basis to monitor the development of the Group.

Like-for-like sales

This measure provides an indicator of the underlying performance of our existing restaurants, and highlights successful development of our offerings to best match changing consumer demands over time. There is no accounting standard or consistent definition of "like-for-like sales" across the industry, although the Group has applied a consistent basis of calculation across years for reporting like-for-like performance. During 2011, the Group like-for-like sales increased by 3.25% which followed a 1% decline in 2010.

New sites opened

The expansion of our brands is a key driver of the Group's profitability. As noted in the Group Finance Director's report, potential new sites are subject to a rigorous appraisal process before they are presented to the Board for approval. This process ensures we maintain the quality of openings as well as the quantity of sites opened. During 2011 the Group opened 25 new sites (2010: 24) and plans to open 25 to 30 new restaurants during 2012.

EBITDA

The ability of the Group to finance its roll-out programme is aided by strong cash flows from the existing business. The Group defines EBITDA as operating profit before depreciation, amortisation and non-trading items. EBITDA serves as a useful proxy for cash flows generated by operations and is closely monitored. During 2011 the Group generated £89.7m EBITDA, an increase of 7.6% on the 2010 comparable level of £83.4m and an increase of 4.6% on the 2010 statutory level of £85.8m.

Operating profit margin

The Board and management closely monitor profit margins as an indicator of operating efficiency within restaurants and across the Group. For 2011 the Group adjusted operating margin was 12.6% (2010: 12.5% on a comparable basis). In addition, the Group closely scrutinises the returns on invested capital from new site openings and the average EBITDA generated by restaurants.

Further information on these key metrics is provided in the Chief Executive Officer's review of operations and the Group Finance Director's report.

Internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. In accordance with guidance for directors "Internal Control: Guidance for Directors on the Combined Code" (the "Turnbull Guidance"), the Board has ensured that there is an ongoing process for reviewing the effectiveness of the system of internal control including identifying, evaluating and managing the significant risks faced by the Group. This process, which is regularly reviewed by the Board, is carried out in conjunction with business planning and is documented in a risk register that has been progressively enhanced during the financial year and up to the date of approval of the Annual Report and Accounts. Whilst acknowledging its overall responsibility for the system of internal control, the Board is aware that the system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Group has well-established procedures which have been developed over many years which meet the requirements of the Turnbull Guidance. A key control procedure is the day-to-day involvement of executive members of the Board in all aspects of the business and their attendance at regular management meetings at which performance against plan and business prospects are reviewed. The Group has established a monthly executive management meeting where the three executive Directors, senior operational managers and head of functional departments review Group performance and issues affecting the Group. Additionally, the Board seeks to continually strengthen the internal control system where this is consistent with improving the relationship between risk and reward. The Group's associate company, Living Ventures Restaurants Group Limited, does not fall under the same internal controls as the Group. The internal controls within the associate are discussed with management of that company during shareholder meetings and are considered to be appropriate for an entity of its size.

Other key features and the processes for reviewing effectiveness of the internal control system are described below:

- Terms of reference for the Board and its sub-committees, including a schedule of matters reserved for the Board and an agreed annual programme of fixed agenda items for Board approval;
- An established organisational structure with clear lines of responsibility and rigorous reporting requirements;
- Operational performance and operational matters are considered at monthly meetings of the executive Directors with senior management. Financial performance is monitored and action taken through weekly reporting to the executive Directors and monthly reporting to the Board against annual budgets approved by the Board;
- Capital investment is regulated by a budgetary process and authorisation levels, with appraisals and post-investment reviews;
- Comprehensive policy manuals setting out agreed standards and control procedures. These include human resources related policies, information technology and health and safety. The Group employs a firm of external auditors to monitor restaurants on a regular basis for compliance with statutory and internal health and safety requirements; and
- An internal audit function headed by an experienced internal auditor has access to all areas of the Company and Group's business and reports into the Board.

Statement of Directors' responsibilities in relation to the accounts

The Directors are responsible for preparing the Annual Report, Directors' remuneration report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and have chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the parent company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Information provided to auditor

Each of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any relevant information needed by the Company's auditors for the purpose of their audit and to establish that the auditor is aware of that information. The Directors are not aware of any relevant information of which the auditor is unaware. This information is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Going concern

As referred to in the Chief Executive Officer's review of operations there continue to be significant economic concerns facing the United Kingdom and consumer-facing industries in particular. The Group Finance Director's report contains a summary of the cash flows and borrowing position of the Group.

Further information on the Group's policies for capital risk management and financial risk management are set out below. Potential risk factors and uncertainties that could affect the business are listed above.

The Group is highly cash generative, as explained in the Group Finance Director's report, and enjoys negative working capital as it generally does not give credit to its customers. During the year the Group renegotiated its banking facility and a new £140m rolling facility was entered into. This facility expires in October 2016. At 1 January 2012 the Group had net debt of £41.6m (2 January 2011: £46.9m).

Based on the Group's plans for 2012 and after making enquiries (including preparation of reasonable trading forecasts, consideration of current financing arrangements and current headroom for liquidity and covenant compliance), the Directors have a reasonable expectation that the Group has adequate resources to continue operations for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while looking to maximise returns to shareholders. The capital structure of the Group consists of equity (comprising issued share capital, reserves and retained earnings), debt, finance leases and cash and cash equivalents. The Group monitors its capital structure on a regular basis through cash flow projections and consideration of the cost of financing its capital. In October 2011 the Group completed a refinancing exercise. As part of this the Group has externally imposed borrowing requirements. The Group has a £140m revolving facility in place until October 2016 and a £10m overdraft facility. Under the terms of the £140m revolving facility the Group is required to comply with its financing covenants whereby net interest charges must be covered at least four times by EBITDA and net debt must not exceed three times EBITDA. The margin (on interest rates) applied to the revolving facility is dependent on the ratio of net debt to EBITDA. The banking facility covenants are tested twice annually and are monitored on a regular basis. The Group remained within its banking facility covenant limits throughout 2011.

Financial risk management

The Board of The Restaurant Group plc regularly reviews the financial requirements of the Group and the risks associated therewith. The Group does not use complex financial instruments, and where financial instruments are used it is for reducing interest rate risk. The Group does not use derivative financial instruments for trading purposes. Group operations are primarily financed from retained earnings and bank borrowings (including an overdraft facility).

In addition to the primary financial instruments, the Group also has other financial instruments such as debtors, prepayments, trade creditors and accruals that arise directly from the Group's operations. Further information is provided in note 23 to the accounts.

Effective from 16 January 2009, the Group entered into two interest rate swaps: a two year interest rate swap for a notional amount of £20m at a rate of 2.70% (plus margin) and a three year interest rate swap for a notional amount of £20m at a rate of 2.975% (plus margin). On 9 February 2011 the three year swap was terminated on a payment of £0.4m. On 17 January 2011 the two year swap expired. The Group's exposure to interest rate rises will continue to be monitored and the use of interest rate swaps may be considered in the future.

After the impact of the interest rate swaps, the average rate of interest charged during the year on the Group's debt was 1.87% (2010: 2.81%), and the average year-end rate was 2.02% (2010: 2.98%). On 2011 results, net interest was covered 35.8 times (2010: 21.9 times) by profit before tax, interest and non-trading items. Based on year end debt and profits for 2011, a 1% rise in interest rates would reduce profits before tax and non-trading items by 0.9% (2010: 0.2%) and interest cover would reduce to 27.3 times (2010: 21.1 times).

At 1 January 2012 the Group had gross borrowings attracting interest (including overdraft) of £53.0m (2010: £50.0m) and cash balances of £10.2m (2010: £2.7m).

Creditor payment policy

The Company's policy is to agree the terms of payments with its suppliers as and when a trading relationship is established. The Company ensures that the terms of payment are clear and its policy is to abide by the agreed terms, provided the supplier meets its obligations.

At 1 January 2012 the Company had no trade creditors. The Group had an average of 39 days (2010: 42 days) purchases outstanding in trade creditors.

Donations

No donations for political purposes have been directly made by the Company during the year. Charitable events, fund raising and sponsorship are organised by restaurants for organisations in their locality as described in the corporate responsibility report on pages 26 to 29.

Annual General Meeting

A separate Circular is included with the mailing of the Annual Report to shareholders setting out the resolutions to be voted on at the Annual General Meeting, which is to take place at 11am on 17 May 2012 at the offices of Maclay Murray & Spens LLP, One London Wall, London EC2Y 5AB.

The Board believes that the proposed resolutions to be put to the shareholders at the Annual General Meeting are in the best interests of shareholders and, accordingly, recommends that shareholders vote in favour of the resolutions, as the Directors intend to do in respect of their own beneficial shareholdings in the Company.

Auditor

Deloitte LLP have expressed their willingness to continue as auditor and a resolution will be proposed at the Annual General Meeting for their reappointment.

Directors' responsibilities statement

The Directors confirm that to the best of their knowledge:

1. the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and Group; and
2. the Chairman's statement, Chief Executive Officer's review of operations, Group Finance Director's report and report of the Directors include a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties faced.

By Order of the Board,

Robert Morgan
Company Secretary
29 February 2012

Corporate responsibility report

The Restaurant Group plc ("TRG" or "the Group") acknowledges that it has a significant role to play with regard to the community and wider environment in which it operates. This statement sets out the principal areas of focus and activity that the Group has undertaken to date, and what the Group is looking at for future development, in managing its impact on customers, employees, communities and the wider environment.

This is split into five sections:

- **Our market** – the area of business that our strategy is focused on.
- **Our people** – the Group's policies and actions towards our 10,000 employees.
- **Our communities** – how TRG interacts with those communities from which our customers and employees are drawn.
- **Our environment** – the impact of TRG on the wider environment, and how we are seeking to reduce this.
- **Our shareholders** – those that have invested capital in the development of The Restaurant Group plc, and to whom the Directors and management of the Group are accountable.

Our market

The Restaurant Group plc has focused its attention on markets in the United Kingdom which have significant growth potential. For a number of years, dining out has been a growing market, and, partially as a result of this, there has been an increased focus from customers and regulatory authorities on health issues relating to our sector. We have seen initiatives on alcohol, food (in particular on calorie consumption and fat and salt content) and smoking over recent years and these are set to continue to be a focus.

It is important that the Group continues to monitor closely these developments and ensure that we offer our customers a broad range of choice in our restaurants, including healthy options.

Healthy eating

In 2011, The Restaurant Group became a partner of the Public Health Responsibility Deal ("the Responsibility Deal"), launched by the Department of Health. The Responsibility Deal has been established to tap into the potential for businesses and other organisations to improve public health through their influence over food, alcohol, physical activity and health in the workplace.

TRG is currently committed to three pledges within the Responsibility Deal:

- We have removed all added trans fats from our products;
- We will use our local presence to encourage children and adults to become more active;
- We commit to ensuring effective action is taken in all premises to reduce and prevent under-age sales of alcohol (primarily through rigorous application of Challenge 21 and Challenge 25).

Being a Responsibility Deal partner means that TRG is required to monitor and provide regular updates to the Department of Health with regard to the actions we are taking to fulfil our commitments within the pledge. The Group is also working on initiatives which will enable its brands to commit to the Salt Pledge and Fruit and Vegetable Pledge.

2011 has also seen the launch of "lighter options" within TRG's core brand menus. This has involved the development of recipes which deliver a dish that has specific calorie contents. For example the Frankie & Benny's main menu contains a range of main course dishes containing 650 calories or less, with starters and desserts containing 300 calories or less. The aim of these dishes is to provide a guide for guests who are actively monitoring their calorie intake or who are simply conscious of the calories that they consume on a daily basis.

Healthy eating is a personal responsibility but TRG acknowledges that as a provider of food and drink we have a role to play in providing appropriate options from which individuals may choose when they eat out. TRG strongly believes that we should offer our guests choices on the menu. Whilst we do not wish to be prescriptive we aim to provide a healthy choice at each menu point, alongside more indulgent options. For many people dining out is a treat, and therefore the normal restrictions which may be applied to healthy eating on a day-to-day basis are waived in favour of enjoyment and experience. For example, whilst completing the weekly shop a consumer may choose chocolate fudge cake for their weekend dessert as opposed to a piece of fruit during the week.

Other initiatives

Our steaks and burgers are principally supplied from producers in the UK and Ireland and we have taken significant steps to reduce our "food miles". This process will continue into 2012, with a focus on improving our supply chain efficiency and reducing the number of deliveries, and therefore food miles, to our restaurants. Our Concessions business use only free range eggs and our pubs source locally where possible, supporting local producers and brewers.

TRG is a member of the Supplier Ethical Data Exchange ("SEDEX"), which facilitates measurement and improvement in ethical business practices across the supply chain; 123 of our food suppliers and 35 other (non-food) suppliers provide information describing their procedures and practices to the Group via SEDEX.

As in previous years, there continue to be no known genetically modified foods in any product the Group uses and new suppliers are required to confirm that they will not provide the Group with such products. We are also working with our suppliers to target and remove the "Southampton Institute" colourings that can cause hyperactivity in children and this will remain an ongoing focus during 2012.

Drink aware
All our restaurants operate an "Challenge 21" policy, whereby we will ask for proof of identification to anyone who appears to be under 21. We also participate in the "Challenge 25" policy in Scotland. We also do not permit the sale of alcohol to under 18's, even if the alcohol is for consumption with a meal. All of our restaurants offer a wide range of non-alcoholic drinks including fruit juices, carbonates, minerals and non-alcoholic cocktails and tap water is available for customers free of charge.

Smoking
From 1 July 2007 we have complied fully with the legislation throughout the United Kingdom which has banned smoking in public areas.

Our people
The most important asset any company can have is its people. At The Restaurant Group plc we strive to nurture our individuals to build great teams. Anyone has the potential to develop within our company and we endeavour to give them the tools and knowledge to encourage this. This is the key to any successful business and our team is one of which we are especially proud.

Our "Managers in Training" scheme continues to identify and develop talent and 2012 will see the roll out of a new Management Development initiative. Such schemes are a key feature of the Group's succession planning strategy and are therefore designed to equip managers with the skills they need to develop their careers at the next level and to ensure TRG remains their employer of choice over the long-term.

2011 also saw the first intake under TRG's graduate recruitment scheme in which new graduates will learn and develop skills from some of the best operators in the industry with a view to a fast-track career in restaurant management.

We employ over 10,000 people and continue to increase this number as we expand our business.

The Group opened a further 25 restaurants during 2011 and created over 500 jobs for local communities in the process. Our policies ensure that we offer equal rights regardless of age, colour, gender, sexual orientation, disability or religion and the diversity of our people reflects the diversity of the customers we serve.

This gives us a group of employees able to meet the challenges our market presents. We have a fair and open recruitment process with clear terms of employment and we have developed a new website (www.therestaurantgroup.jobs) to allow easier access to available jobs for potential employees across our Group. All staff are provided with a contract of employment and copies of our staff handbook along with other policies to ensure everyone is aware of our rules, expectations and procedures, including grievance and disciplinary issues.

The Group has an ethical dealings policy in place which incorporates a strict prohibition on bribery and corruption in compliance with the Bribery Act 2010. The Group also has a defined termination policy, should this be required.

Our focus on ensuring the recruitment of our teams complies with current legislation continues. With the UK Border Agency instigating regular visits to employers to check the validity of our employees' rights to work in the UK we have instigated robust measures to prevent the possibility of TRG contravening the rules.

The Restaurant Group plc pays all of its employees at least the national minimum wage and does not utilise tips in any form to make up this rate. All gratuities are paid to the employees, with credit card tips attracting only the usual tax deductions but, unlike some of our competitors, no administration fee is taken by the company.

The Group allocates considerable resources to provide high quality training to our teams. Training begins on the first day and is an ongoing process of development and support. Our training team is fully qualified and delivers high quality courses, as well as guiding new and established team members throughout their development.

With our portfolio of sites it is vital that our communication is of a very high standard. Each day branch staff are given team briefings; weekly meetings for staff and management are held; and weekly communications packs are issued from head office to each brand. Our senior managers are out in the business extensively and interact daily with their branch management and team members to ensure full two-way communication is present throughout the business.

The health and safety of our customers and employees is of paramount importance. The Group has extensive procedures to ensure we mitigate risks to our guests and teams as far as possible. We have very clear procedures and standards in place, and to enforce these we employ external auditors to perform a rolling programme of independent safety audits and carry out benchmarking of our restaurants. We have also significantly increased the level of training in health and safety matters across the Group in recent years to further enhance the clean, safe environment for our customers and staff.

Corporate responsibility report
(continued)

Our communities
Active involvement in the local communities around our restaurants and pub restaurants is important to the Group. Whilst we operate successful national brands our focus is on local community marketing, whether this is for Frankie & Benny's, with over 200 restaurants, or the individual pub at the heart of a village community. TRG supports staff fundraising activities at a brand and local level.

During 2011 we engaged in a number of local and national charitable events:

The Frankie & Benny's teams across the country supported a number of regional charities. In Scotland we raised over £75,000 with CHAS (children's hospices in Scotland). In the Midlands we raised £10,000 for CLIC Sargent, a children's cancer charity. At a national level Frankie & Benny's supported BBC's Children In Need in 2011 and raised over £125,000. Money was raised from customers and staff through local events, raffles and theme and fancy dress nights as well the "Pudsey Pizza" competition which ran during the summer. A campaign was rolled out through traditional and online channels asking children to submit a recipe for a Children In Need Pudsey Pizza. All submissions were reviewed and four regional winners were selected. The winners all received a family holiday to Disneyland Paris and their pizzas were sold through the restaurants in the run-up to the big Children In Need event in November 2011. £1 for every Pudsey Pizza sold was donated to the charity with almost £8,000 being raised in total through this initiative.

Frankie & Benny's continues its initiative to support local junior sports teams across the country, providing new sports kit for more than 160 local teams in 2011.

Chiquito teams raised over £6,500 in 2011 for Casa Alianza, a homeless children's charity in Mexico. Monies were raised through local events and activities during April and May within the brand's Fiesta of all Fiesta's campaign.

Our pubs undertake a number of fund-raising initiatives for local charities in their communities.

Following success with English Heritage's Best UK Pub Refurbishment in 2009 for Sutton Hall in Macclesfield, Brunning & Price undertook the redevelopment of an abandoned Grade 1 listed building, Old Hall in Sandbach, which has stood since 1656. The building had been derelict for a number of years and a local campaign group, the Sandbach Old Hall Action Group ("SOHAG") had been founded to try and prevent a further deterioration of the historic site. Following extensive planning and regulatory considerations Brunning & Price acquired the Old Hall in October 2009 with a view to transform it into a successful pub. The project to restore the Hall was a significant undertaking given the level of disrepair it had fallen into including securing the foundations of the building and relaying by hand of around 300 tons of stone slabs to rebuild the roof. In July 2011 the Old Hall was finally re-opened to the public and is now a focal point in the local community. We are delighted that following the opening of the pub, SOHAG have changed their name to the Sandbach Old Hall Appreciation Group.

We are proud of our Frankie & Benny's Schools Programme which supports the Primary Key Stages Curriculum. This encourages primary school classes to visit their local Frankie & Benny's restaurant to learn about the restaurant business, food hygiene and health and safety, and to have the opportunity to make and bake their own pizzas. During 2011 we held approximately 1,100 such visits across the country – over 27,000 pupils visited Frankie & Benny's as part of this initiative.

Our environment
During 2011 we have continued with the Group's commitment to minimising its impact on the environment, as part of which we appointed a dedicated Group Energy and Environmental Manager. Not only are the attitudes and expectations of our customers changing over time but we recognise that the Group's activities impact the natural environment, most significantly with regard to energy consumption (and carbon emissions), water consumption and the creation and removal of waste. Innovative regulatory mechanisms are being introduced that may in future create a direct link between environmental outcomes and financial benefits or penalties.

In 2011 we concluded a successful trial of energy efficient lighting systems and roll out has begun across the estate which we anticipate will lead to significant reductions in both energy use and running costs.

TRG is proud to have achieved the Carbon Saver Gold Standard in January 2012 in recognition of the Group's sustained reductions in energy use over the last three years.

We have a multi-disciplinary team working on further reducing our energy consumption through operational practices and staff awareness, premises design and the improved use of technology to monitor and control our use of energy, water and waste. We use external specialist advisers to assist in developing and monitoring our initiatives.

We recognise that lasting change in energy consumption by the Group requires changes in behaviour for our whole team. The provision of accurate and timely management information covering energy consumption is an essential tool supporting the change. A web-based energy-information portal to provide consumption data to restaurants and our operators has been developed in association with our energy consultants and allows us to target more inefficient sites and challenge our teams through league tables to improve their energy efficiency.

We have also launched an energy saving campaign to all sites, providing information to help our staff drive energy efficiency. By February 2012 we had installed automated meter readers to supplement half-hourly monitoring of electricity supplies at 99% of our eligible restaurants in Frankie & Benny's, Chiquito and Garfunkel's, and 98% of available sites for gas supplies.

We have installed an equipment monitoring system in one Frankie & Benny's restaurant to allow us to monitor all electrical equipment on a half hourly basis and test out new energy saving replacement equipment. This has already led to changes in the equipment that is installed in a standard Frankie & Benny's and during 2012 we will monitor the savings in energy consumption from this restaurant. We are continuing our work external advisers to develop further environmental efficiencies in our building design and equipment used in our operations.

New build sites now include heat recovery systems, energy saving lighting and low energy hand dryers. We continue to review the energy performance of all sites with a view to including energy and financially efficient equipment in other new restaurants.

Reducing the resources we use and the waste we generate is also a key objective for the Group. In 2011:

- We recycled over 750,000 litres of used cooking oil (an increase of around 100,000 litres from 2010); waste oil is re-used at a bio-diesel production facility;
- We reduced carbon dioxide emissions by over 1,400 tonnes, the equivalent of taking almost 700 cars of the road;
- We diverted almost 4,450 tons of waste from landfill;
- We have initiated mixed recycling at over 85% of our businesses where we control the collection; and
- We have food recycling trials in place and results are being monitored closely to develop efficiencies and reduce waste.

Our shareholders

The Group has had a clear strategy since 2001 – to deliver value for shareholders by focusing on sectors within the eating out market that offer high barriers to entry, where we can generate sustainable and growing cash flows and which offer high returns on investment. This has led the Group to focus investment into the edge and out of town leisure locations, rural and semi-rural pubs and our Concessions business, which operates principally on airports.

The Group has had a progressive dividend policy and has had a strong track record of growing profits and dividends for shareholders. The Chairman's statement, Chief Executive Officer's review of operations and Group Finance Director's report provide further detail on the Group's strategy, performance during 2011 and prospects for the Group.

Directors' remuneration report

Introduction
This report has been prepared in accordance with Schedule 8 of the Accounting Regulations under the Companies Act 2006. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to Directors' remuneration in the UK Corporate Governance Code ("the Code"). As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements are subject to approval.

The Act requires the auditor to report to the Company's members on the part of the Directors' remuneration report subject to audit and to state whether, in their opinion, that part of the report has been properly prepared in accordance with Schedule 8 of the Accounting Regulations under the Companies Act 2006. The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information
Remuneration Committee
The Company has established a Remuneration Committee ("the Committee") which is constituted in accordance with the recommendations of the Code. The members of the Committee during the year were Tony Hughes and Simon Cloke, who were independent non-executive Directors. The Committee is chaired by Tony Hughes.

None of the Committee has any personal financial interest in the Company (other than as shareholders). The Committee makes recommendations to the Board. No Director plays a part in any discussion about his own remuneration. In determining the other executive Directors' remuneration for the year the Committee consulted Alan Jackson (non-executive Chairman) about its proposals.

New Bridge Street (appointed independent advisers who provided no other services to the Group during the year) provided advice to the Committee, encompassing all elements of the remuneration packages.

The Remuneration Committee carried out a full review of the remuneration policy for executive Directors during 2010. The objective of the review was to ensure that the Group has a remuneration framework in place to attract, retain and incentivise a high calibre of senior management who can direct the business and deliver the Group's core objective of growth in shareholder value by building a business that is capable of delivering long-term, sustainable and growing cash flows. This objective has remained in place for the deliberations of the Committee during 2011.

To achieve this objective, executive Directors and senior management receive remuneration packages with elements of fixed and variable pay. Fixed pay elements (basic salary, pension arrangements and other benefits) are set at a level to recognise the experience, contribution and responsibilities of the individuals and to take into consideration the level of remuneration available from a range of the Group's broader competitors. Variable pay elements (annual bonuses and Long-Term Incentive Plans ("LTIPs")) are set at a level to incentivise executive Directors and senior management to deliver outstanding performance in line with the Group's strategic objectives. The balance of the potential remuneration package available for executive Directors is weighted towards variable pay elements, which have stretching performance targets attached to them.

Financial performance measures (profit before tax, earnings per share ("EPS") and Total Shareholder Return ("TSR")) are used as the key performance indicators. The Group's KPI's, as set out on page 23 in the report of the Directors, contribute to the delivery of profit before tax, EPS and TSR.

TSR is a clear indicator of the relative success of the Group in delivering shareholder value and, as a performance measure, firmly aligns the interests of Directors and shareholders. In 2008 the Remuneration Committee made a one-off decision to base the LTIP award for that year entirely on TSR compared with the comparator group of UK listed Travel and Leisure companies (excluding airlines). Over the three year period since the award was made, The Restaurant Group plc was ranked number one in the comparator group for TSR.

Set out below are the four main elements of the remuneration package for executive Directors:
- Basic annual salary and benefits;
- Annual bonus payments;
- Long-Term Incentive Plan ("LTIP") awards; and
- Pension arrangements.

Basic salary
An executive Director's basic salary is determined by the Committee prior to the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the Group as a whole and by reference to remuneration levels at other companies in the leisure and hospitality sectors. The average increase for managerial and administrative employees was 3.6% for 2011.

Basic salary	2011 £	2012 £
Andrew Page	558,000	590,000
Stephen Critoph	270,000	278,000
Trish Corzine	240,000	247,500

Mr Page's salary reflects his outstanding leadership and ongoing contribution to the success of the Group's development and recognises the importance of continuity and retention of a highly regarded CEO in a competitive and challenging market. Mr Page did not receive a salary increase in 2009 and in 2010 and 2011 his base salary increased at a level below that of the average for the Group.

In addition to basic salary, the executive Directors receive pension contributions and certain benefits-in-kind, principally a car (or car allowance), and health and life insurance.

Annual bonus payments

The annual bonus is based on the achievement of stretching targets based on Group profit before tax and certain personal objectives. Performance targets are set annually as part of the budgeting process and performance is reviewed against those targets at the end of the financial year. Following a policy review of the remuneration packages available to executive Directors in 2010, the maximum bonus that was payable in respect of performance in 2011 was 150% of basic salary for the Chief Executive Officer, 125% of basic salary for the Group Finance Director and 100% of basic salary for the Executive Director, Concessions.

Despite a record level of profit before tax of £60.3m being achieved by the Group in 2011, the stretch target for the payment of maximum bonuses was not achieved and a bonus pay-out ratio of 86% of maximum bonus for the three executive Directors was payable. The 2011 budget for profit before tax had been set significantly ahead of the comparable reported profit before tax achieved in 2010 and the stretch element required to achieve the maximum bonus was set at a level for profit before tax £3.5m higher than the 2011 budgeted profit before tax. Actual bonus payments in respect of 2011 are presented in the emoluments table on page 33. The annual bonus for 2012 has again had challenging performance measures set (on the same performance basis as 2011, again with stretching profit before tax targets) and the Remuneration Committee has determined that, for 15 senior managers (including executive Directors) within the Group, an additional 10% of maximum bonus may be payable providing the Group achieves a very challenging additional stretch target. Bonuses payable in excess of 100% of salary are to be deferred into shares (forming part of the Matching Award of the Long Term Incentive Plan, as described below). There is a clawback provision in place for bonus payments.

Long-term incentives

The Company operates the 2005 Long-Term Incentive Plan (“LTIP” or “Plan”), and the 2003 Save As You Earn (“SAYE”) Scheme under which awards may be granted to executive Directors.

Long-Term Incentive Plan

The 2005 LTIP (as amended by an ordinary resolution of the shareholders in 2011) is the primary long-term incentive scheme of the Company. Under the Plan, individuals may receive an award of conditional free shares (“Conditional Awards”) with a face value at grant of up to 150% of salary per annum, vesting three years after grant subject to performance conditions and continued employment. In addition, the Plan has the flexibility to grant conditional awards on a matching basis, pro rata to the number of shares purchased via the annual bonus (“Matching Awards”). Matching Awards may be granted over shares worth up to 50% of basic salary per annum.

The total LTIP opportunity is therefore 200% of basic salary, subject to 50% of basic salary being invested into the matching plan. For awards made in 2011, Conditional Award levels were set at 150% of basic salary for the Chief Executive Officer and 100% of salary for the Group Finance Director and the Executive Director, Concessions, and Matching Award levels were up to 50% of basic salary for all three individuals. Awards continue to be structured with a combination of total shareholder return (“TSR”) and earnings per share (“EPS”) performance conditions.

For awards to be made in March 2012, the level of Conditional Awards and Matching Awards will be calculated on the same basis for the executive Directors. The performance conditions will be as follows:

- The performance condition attached to 50% of the Conditional Awards and Matching Awards will require average annual EPS growth over the three year period of the award of between RPI plus 4% to RPI plus 10% per annum for between 30% and 100% of this part of the award to vest (i.e. between 15% and 50% of the total award).
- The performance condition attached to the other 50% of the Conditional Awards and Matching Awards will be based on TSR performance measured against the constituents of the FTSE Travel & Leisure Index (excluding airlines) over a single three year period.
- Awards will vest on a straight line basis between minimum and maximum thresholds.

The combination of EPS and TSR performance conditions provides a balance between rewarding management for growth in sustainable profitability and stock market outperformance. The EPS target range will require growth from the current all-time high level of profitability and the TSR condition will be based from a strong recent share price performance. Performance against the TSR and EPS targets will be independently calculated and reviewed by the Committee.

By way of example, for the award made in March 2011, the base EPS was 19.95p (being the audited adjusted EPS for the year ending 2 January 2011). Assuming RPI for the three years is 4% per annum this will require EPS of 29.6p in 2013 in order for the EPS element of the award made in March 2011 to vest in full. This represents an increase of 48% in the three year performance measurement period from the base start period. For awards made in 2012, the EPS component will be based off an all-time high of 21.86p.

A clawback provision was added to the LTIP during the year.

Pension arrangements

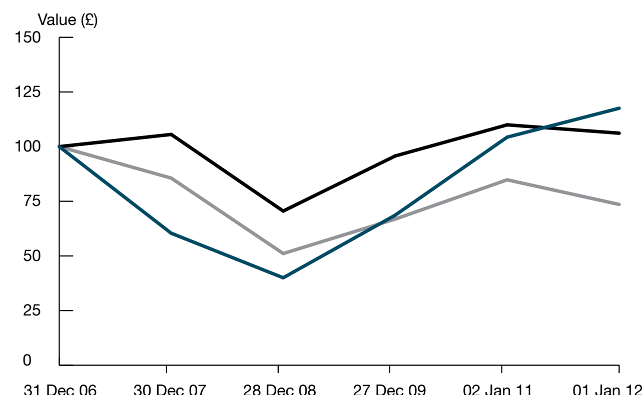
Executive Directors have individual pension arrangements in the form of personal pension plans. The Company makes a contribution of 20% of basic salary for the Chief Executive Officer and Group Finance Director and 10% of salary for the Executive Director, Concessions towards funding each executive Director’s pension plan. To the extent that this funding exceeds the relevant current HMRC limit, the surplus may be paid as a salary supplement. There are no unfunded pension promises or similar arrangement for Directors.

Directors' remuneration report
(continued)

Shareholding guidelines
The Company operates shareholding guidelines for executive Directors, linked to the out-turn of the Plan. At the time Conditional and Matching Awards vest under the Plan (or any other executive plan established in the future), there is a requirement to retain no fewer than 50% of the shares, net of taxes, vesting under an LTIP award until a shareholding with a market value (calculated by reference to purchase price) in line with the policy is achieved. Shareholding requirements are set at 200% of basic salary in respect of the Chief Executive Officer, 150% in respect of the Group Finance Director and 100% of basic salary for the Executive Director, Concessions.

SAYE Scheme
The Company also operates an SAYE Share Option Scheme for eligible employees under which options may be granted at a discount of up to 20% of market value. Under the terms of the SAYE scheme, the eligible employees are able to purchase shares under a three year savings contract. Awards under the SAYE scheme were made in 2008 and 2010 to eligible employees and Directors and it is planned to make a further award to eligible participants (including executive Directors) in 2012.

Performance graph
As required by the Regulations, the graph below compares the Company's TSR performance with the FTSE 350 Travel and Leisure Share Index for each of the past five years. The FTSE 350 Travel & Leisure Share Index has been selected for this comparison because it is the index most relevant to gauging the Company's relative performance. This graph shows the value, by 31 December 2011, of £100 invested in The Restaurant Group plc on 31 December 2006 compared with the value of £100 invested in the FTSE All-Share Index and the FTSE 350 Travel and Leisure Share Index.



Source: Thomson Reuters

The Restaurant Group
FTSE All-Share index
FTSE 350 Travel & Leisure index

Directors' contracts
It is the Company's policy that executive Directors should have contracts with an indefinite term providing for a maximum of one year's notice. However, it may occasionally be necessary to offer longer initial notice periods to new Directors. All executive Directors have contracts which are subject to one year's notice by either party. In the event of early termination (including following a change of control in the Company), the Directors' contracts provide for compensation in line with their contractual notice period. The details of the executive Directors' contracts are summarised in the table below:

	Date of contract	Notice period
Andrew Page	28 August 2002	1 year
Stephen Critoph	7 July 2004	1 year
Trish Corzine	31 March 2003	1 year

Appointments outside the Group
Executive Directors are entitled to accept appointments outside the Company or Group and there is no requirement for Directors to remit any fees to The Restaurant Group plc. Andrew Page is a non-executive director of Arena Leisure plc and received fees as a non-executive director of Arena Leisure plc of £51,000 in 2011 (2010: £50,000).

Non-executive Directors
Letters of appointment for the non-executive Directors were each set for an initial three year period (thereafter renewable for periods of three years). They are required to submit themselves for re-election every year. The non-executive Directors' appointments were made as follows:

	Date of appointment as non-executive Director	Notice period
Alan Jackson*	9 November 2005	1 year
Tony Hughes	1 January 2008	Nil
Simon Cloke	26 March 2010	Nil

* Alan Jackson was previously Executive Chairman of the Company, and was appointed in March 2001. From 1 January 2006 he has held the position of non-executive Chairman.

All non-executive Directors have specific terms of engagement and their remuneration (with the exception of Alan Jackson) is determined by the Board based on a review of fees paid to non-executive Directors of similar companies and reflects the time commitment and responsibilities of each role. The basic fee paid to the non-executive Directors (excluding Alan Jackson) in the year was £50,000 (2010: £50,000) (pro-rated by tenure of service). Alan Jackson's fee, which is set by the Remuneration Committee, was £300,000 (2010: £300,000). For 2012, fees to the non-executive Directors have been increased by 3%, in line with the average salary increase to employees. Alan Jackson will receive a fee of £309,000 per annum and Tony Hughes and Simon Cloke will receive a fee of £51,500 per annum.

Audited information

Aggregated Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2011			2010
	Executive £'000	Non-executive £'000	Total £'000	Total £'000
Emoluments	2,338	431	2,769	2,536
Money purchase pension contributions	186	–	186	156
	2,524	431	2,955	2,692

(a) Emoluments

(i) Executive

	2011				2010
	Basic salary £'000	Bonus £'000	Benefits in kind £'000	Total £'000	Total £'000
Andrew Page	558	720	27	1,305	1,115
Stephen Critoph	270	290	15	575	503
Trish Corzine	240	206	12	458	478
	1,068	1,216	54	2,338	2,096

(ii) Non-executive

	2011			2010
	Fees £'000	Benefits in kind £'000	Total £'000	Total £'000
Alan Jackson	300	29	329	330
Tony Hughes	50	1	51	51
Simon Cloke	50	1	51	38
John Jackson	–	–	–	21
	400	31	431	440

(b) Pension schemes

The executive Directors are members of money purchase schemes. Where an executive Director's entitlement to a contribution exceeds the allowable limit set by HMRC, a salary supplement may be payable up to but not exceeding the level of entitlement. Contributions paid as pension contributions or salary supplements by the Group in respect of the executive Directors were as follows:

	2011 £'000	2010 £'000
Andrew Page	112	109
Stephen Critoph	50	24
Trish Corzine	24	23
	186	156

Directors' remuneration report
(continued)

Long-term incentives

Aggregate emoluments disclosed above do not include any amounts for the long-term incentives granted to or held by the Directors. The policy for long-term incentives is described earlier in this report and the table below sets out the outstanding awards held by executive Directors.

Name of Director	Scheme	At 2 January 2011	Granted	Lapsed	Exercised	At 1 January 2012	Exercise price	Date from which exercisable	Expiry date
Alan Jackson	2003	100,000	–	–	(100,000)	–	134.4p	4.4.2008	4.4.2015
Andrew Page	2003	100,000	–	–	–	100,000	134.4p	4.4.2008	4.4.2015
	2008 SAYE	7,680	–	–	(7,680)	–	125.0p	1.6.2011	1.12.2011
	LTIP (1)	645,689	–	(56,499)	(589,190)	–	–	9.3.2011	9.9.2011
	LTIP (2)	90,084	–	(15,765)	(74,319)	–	–	9.3.2011	9.9.2011
	LTIP (3)	780,208	–	–	–	780,208	–	5.3.2012	5.9.2012
	LTIP (4)	111,457	–	–	–	111,457	–	5.3.2012	5.9.2012
	LTIP (5)	264,878	–	–	–	264,878	–	Publication of 2012 results	6 months after vesting
	LTIP (6)	97,865	–	–	–	97,865	–	Publication of 2012 results	6 months after vesting
	LTIP (7)	–	284,790	–	–	284,790	–	Publication of 2013 results	6 months after vesting
	LTIP (8)	–	94,930	–	–	94,930	–	Publication of 2013 results	6 months after vesting
Stephen Critoph	LTIP (1)	248,275	–	(21,725)	(226,550)	–	–	9.3.2011	9.9.2011
	LTIP (2)	58,188	–	(10,183)	(48,005)	–	–	9.3.2011	9.9.2011
	LTIP (3)	300,000	–	–	–	300,000	–	5.3.2012	5.9.2012
	LTIP (4)	75,000	–	–	–	75,000	–	5.3.2012	5.9.2012
	LTIP (5)	118,780	–	–	–	118,780	–	Publication of 2012 results	6 months after vesting
	LTIP (6)	43,902	–	–	–	43,902	–	Publication of 2012 results	6 months after vesting
	2010 SAYE	4,932	–	–	–	4,932	–	1.6.2013	1.12.2011
	LTIP (7)	–	91,867	–	–	91,867	–	Publication of 2013 results	6 months after vesting
	LTIP (8)	–	45,933	–	–	45,933	–	Publication of 2013 results	6 months after vesting
Trish Corzine	LTIP (1)	237,931	–	(20,820)	(217,111)	–	–	9.3.2011	9.9.2011
	LTIP (2)	54,310	–	(9,504)	(44,806)	–	–	9.3.2011	9.9.2011
	LTIP (3)	287,500	–	–	–	287,500	–	5.3.2012	5.9.2012
	LTIP (4)	71,874	–	–	–	71,874	–	5.3.2012	5.9.2012
	2008 SAYE	7,680	–	–	(7,680)	–	125.0p	1.6.2011	1.12.2011
	LTIP (5)	113,902	–	–	–	113,902	–	Publication of 2012 results	6 months after vesting
	LTIP (6)	42,073	–	–	–	42,073	–	Publication of 2012 results	6 months after vesting
	LTIP (7)	–	81,660	–	–	81,660	–	Publication of 2013 results	6 months after vesting
	LTIP (8)	–	40,830	–	–	40,830	–	Publication of 2013 results	6 months after vesting

LTIP (1) – Conditional Awards: Vesting of 50% of these awards was based on EPS growth of the 2010 results compared with the 2007 results and 50% based on TSR performance over the three financial years to 31 December 2010. The RPI+4%-10% p.a. EPS growth range was achieved partially and 82.5% of the EPS part of the award vested. For the TSR performance condition the performance of the Group was in the upper quartile, and in accordance with the scheme rules the condition was achieved in full with 100% vesting of this part of the award.

LTIP (2) – Matching Awards: Vesting was based on EPS growth of the 2010 results compared with the 2007 results. The RPI+4%-10% p.a. EPS growth range was achieved partially and 82.5% of the award vested.

LTIP (3) – Conditional Awards and LTIP (4) – Matching Awards: Vesting is based on TSR performance of the Group against a comparator group comprising the FTSE 350 Travel and Leisure Sector (excluding airlines) over the three years from 1 March 2009, with 30% of the award vesting at median performance and full vesting for top quartile performance. As at 29 February 2012, the Group is the highest ranked company in the comparator group over the performance period and the award will vest in full.

LTIP (5) – Conditional Awards: Vesting of 50% of the award is based on TSR performance of the Group against a comparator group comprising the FTSE 350 Travel and Leisure Sector (excluding airlines) over the three years from 2009 to 2012, with 30% of this part of the award vesting at median performance and full vesting of this part of the award for top quartile performance. The remaining 50% of the award is based on EPS growth of the 2012 results compared with the 2009 results, with a requirement for average annual growth of between RPI+4% and RPI+10% p.a..
LTIP (6) – Matching Awards: Vesting is based on EPS growth of the 2012 results compared with the 2009 results, with a requirement for average annual growth of between RPI+4% and RPI+10% p.a..
LTIP (7) – Conditional Awards: Vesting of 50% of the award is based on TSR performance of the Group against a comparator group comprising the FTSE 350 Travel and Leisure Sector (excluding airlines) over the three years from 2010 to 2013, with 30% of this part of the award vesting at median performance and full vesting of this part of the award for top quartile performance. The remaining 50% of the award is based on EPS growth of the 2013 results compared with the 2010 results, with a requirement for average annual growth of between RPI+4% and RPI+10% p.a..
LTIP (8) – Matching Awards: Vesting is based on EPS growth of the 2013 results compared with the 2010 results, with a requirement for average annual growth of between RPI+4% and RPI+10% p.a..

During 2011 certain Directors exercised options under the 2003 options scheme, Long-Term Incentive Plan and SAYE scheme that had vested. Details of these transactions during 2011 are detailed below:

Name of Director	Scheme	Number of options exercised	Exercise price	Market price at date of exercise	Gain on exercise before tax (£'000)
Alan Jackson	2003 scheme	100,000	134.4p	302.75p	168
Andrew Page	LTIP	663,509	–	302.75p	2,009
	SAYE	7,680	125.0p	296.0p	13
Stephen Critoph	LTIP	274,555	–	302.75p	831
Trish Corzine	LTIP	261,917	–	295.74p	775
	SAYE	7,680	125.0p	296.0p	13

For comparative information, during 2010 the following exercises of shares were made by Directors:

Name of Director	Scheme	Number of options exercised	Exercise price	Market price at date of exercise	Gain on exercise before tax (£'000)
Alan Jackson	One-off	200,000	45.0p	215.3p	341
	2003 scheme	178,114	67.4p	224.5p	280
	2003 scheme	200,000	97.7p	224.5p	254
	2003 scheme	150,000	134.4p	230.0p	143
Andrew Page	2003 scheme	200,000	97.7p	226.0p	257
	2003 scheme	127,679	134.4p	226.0p	117
	LTIP	157,704	–	226.0p	356
Stephen Critoph	2003 scheme	235,000	97.7p	215.3p	276
	2003 scheme	50,000	134.4p	215.3p	40
	LTIP	76,496	–	215.0p	164
Trish Corzine	LTIP	70,846	–	215.0p	152
	2003 scheme	100,000	97.7p	230.0p	132
	2003 scheme	90,000	134.4p	230.0p	86

Approval
This report was approved by the Board of Directors on 29 February 2012 and signed on its behalf by:

Tony Hughes
Chairman of the Remuneration Committee

Audit Committee report

This report sets out the work carried out by the Audit Committee of the Board with reference to the UK Corporate Governance Code and associated best practice guidance issue by the Financial Reporting Council ("FRC").

Audit Committee composition

The Audit Committee is appointed by the Board and comprises independent non-executive Directors of the Company. The Committee is chaired by Simon Cloke, who has significant financial experience gained as a Managing Director within HSBC Bank's Corporate Sector Group. Tony Hughes is also a member of the Committee.

The Code recommends that audit committees be comprised of at least two independent non-executive directors in the case of smaller companies (defined as those outside the FTSE 350) or at least three for companies with a premium listing, such as The Restaurant Group plc. During 2011 the Audit Committee was comprised of two independent non-executive directors. The Board continues to review the composition of the Audit Committee to ensure that it remains proportionate to the task and provides sufficient scrutiny of risk management and internal and external controls.

The Committee regularly invites the external auditor, the Chairman of the Board, the Chief Executive Officer and the Group Finance Director to its meetings. The Company Secretary attends the meetings and is secretary to the Committee. Discussions are held in private when appropriate.

Responsibilities of the Audit Committee

The responsibilities of the Audit Committee are set out in its terms of reference and the principal matters are to:

- provide additional assurance regarding the integrity, quality and reliability of financial information used by the Board and in financial statements issued to shareholders and the public;
- review the Company's internal procedures for control and compliance with regard to financial reporting to satisfy itself that these are adequate and effective;
- review the principles, policies and practices adopted in the preparation of the Group's financial statements to ensure they comply with statutory requirements and generally accepted accounting principles;
- receive reports from the Group's external auditor concerning external announcements, in particular the Annual Report and Accounts and the Interim Report;
- develop and oversee the Company's policy regarding the engagement of external auditors, review the independence of the external auditor, review the provision of non-audit services provided by the external auditor and review remuneration paid to the external auditor; and
- consider any other matter that is brought to its attention by the Board or the external auditor.

The Board as a whole reviews the risks facing the Group, and the processes on mitigating those risks, on a regular and formal basis. The Board also reviews the work carried out by the Internal Audit function.

Audit Committee frequency

The Committee meets at least twice a year. Two meetings of the Committee were held during 2011 with full attendance.

Audit Committee process

The Committee discharges its responsibilities, as defined in its terms of reference, through Audit Committee meetings during the year, at which detailed reports are presented for review. From time to time, the Committee commissions reports from external advisers or Company management, either after consideration of the Company's major risks or in response to developing issues. The Committee has the opportunity to meet privately with the external auditor at least twice a year and liaises with Company management in considering areas for review.

During the year, the Committee considered the following matters:

- interim and full year financial results. As part of this review the Committee received reports from the external auditor on their audit of the Annual Report and Accounts and their review of the Interim Results;
- the scope and cost of the external audit;
- the external auditor's interim and full year reports;
- non-audit work carried out by the external auditor in accordance with the Committee's policy to ensure the safeguard of audit independence, in particular with reference to the work undertaken by Deloitte LLP in respect of the refinancing exercise carried out in 2011;
- the proposed change in senior statutory audit partner as the current incumbent will have held office for five years following the conclusion of the audit of the 2011 results;
- the effectiveness of the external auditor and consideration of their reappointment; and
- the suitability of the Group's accounting policies and practices.

The Company's public financial statements are reviewed by the Committee in advance of their consideration by the Board.

Independence of the external auditors

The Committee has adopted a policy on the use of the external auditor for non-audit work which is in compliance with the Code. The pre-approved services may be summarised as follows:

- audit related services, including work related to the annual Group financial statements audit, subsidiary audits and local statutory accounts; and
- certain specified tax services, including tax compliance, tax planning and tax advice.

Other work to be carried out by the external auditor is subject to review by the Audit Committee. To fulfil its responsibility regarding the independence of the external auditor, the Audit Committee takes into account the following:

- the external auditor's plan for the current year, noting the role of the senior statutory audit partner who signs the audit report and who, in accordance with professional rules, has not held office for more than five years;
- the arrangements for day-to-day management of the audit relationship;
- a report from the external auditor describing their arrangements to identify, report and manage any conflicts of interest;
- the overall extent of non-audit services provided by the external auditor, in addition to its case-by-case approval of the provision of non-audit services by the external auditor; and
- the past service of the auditor who was first appointed in 2007.

To assess the effectiveness of the external auditor, the Audit Committee takes into account:

- the arrangements for ensuring the independence and objectivity of the external auditor;
- the external auditor's fulfilment of the agreed audit plan; and
- the robustness and perceptiveness of the auditor in their handling of the key accounting and audit judgements.

During the year Deloitte LLP provided additional services, other than those pre-approved, in the form of providing assistance to the Group in relation to its refinancing. A competitive tender process, involving other external financial services firms was undertaken prior to Deloitte LLP being appointed to the role and the Committee took into account the expertise offered by Deloitte LLP in this area alongside any potential conflict from an audit perspective. The Committee determined that the appointment of Deloitte LLP for the services on the refinancing would not cause any impairment of the external auditor's independence.

Overview

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference. The Committee has reviewed the independence and objectivity of Deloitte LLP as external auditor and recommends the re-appointment of Deloitte LLP by shareholders at the Annual General Meeting to be held on 17 May 2012.

On behalf of the Audit Committee,

Simon Cloke
29 February 2012

Independent auditor's report
to the members of The Restaurant Group plc

We have audited the Group financial statements of The Restaurant Group plc for the 52 weeks ended 1 January 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor
As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the Group financial statements:
- give a true and fair view of the state of the Group's affairs as at 1 January 2012 and of its profit for the 52 week period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the report of the Directors for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:
- the Directors' statement, contained within the report of the Directors, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter
We have reported separately on the parent company financial statements of The Restaurant Group plc for the 52 week period ended 1 January 2012 and on the information in the Directors' remuneration report that is described as having been audited.

Timothy Steel (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
29 February 2012

Accounting policies for the consolidated accounts

Significant accounting policies

The Restaurant Group plc (the "Company") is a company incorporated and registered in Scotland. The consolidated financial statements of the Company for the year ended 1 January 2012 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in its associate.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations adopted by the International Accounting Standards Board ("IASB") and as adopted by the European Union.

(b) Going concern basis

The consolidated financial statements have been prepared on a going concern basis as, after making appropriate enquires, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future at the time of approving the financial statements. The principal risks and uncertainties facing the Group and further comments on going concern are set out in the report of the Directors on pages 18 to 25.

(c) Basis of preparation

The accounting year runs to a Sunday within seven days of 31 December each year which will be a 52 or 53 week period.

The financial statements are presented in sterling, rounded to the nearest thousand. They have been prepared on the historical cost basis except derivative financial instruments which are held at their fair value. Non-current assets and assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Change in accounting policies

In the current financial year, the Group has adopted International Accounting Standard 24 (amended) "Related Party Disclosures" and Improvements to IFRSs (May 2010). There has been no impact on the consolidated financial statements on adoption of these standards.

Future accounting policies

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 1 (amended) — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- IFRS 7 (amended) — Disclosures – Transfers of Financial Assets
- IFRS 9 — Financial Instruments
- IFRS 10 — Consolidated Financial Statements
- IFRS 11 — Joint Arrangements
- IFRS 12 — Disclosure of Interests in Other Entities
- IFRS 13 — Fair Value Measurement
- IAS 1 (amended) — Presentation of Items of Other Comprehensive Income
- IAS 12 (amended) — Deferred Tax: Recovery of Underlying Assets
- IAS 19 (revised) — Employee Benefits
- IAS 27 (revised) — Separate Financial Statements
- IAS 28 (revised) — Investments in Associates and Joint Ventures

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods.

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account, regardless of management's intention to exercise that option or warrant. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Accounting policies for the consolidated accounts
(continued)

(ii) Associates
Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount would be reduced to £nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(iii) Transactions eliminated on consolidation
Intragroup balances and any gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(e) Foreign currency
Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the balance sheet. Transactions in foreign currencies are translated into sterling at the rate of exchange at the date of the transaction. The profit and loss accounts for overseas operations are translated at the average rate of exchange for the periods covered by the accounts. Exchange differences that relate to the net equity investment in overseas activities are taken directly to reserves.

(f) Derivative financial instruments
The Group uses derivative financial instruments, where appropriate, to hedge its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. The Group does not currently hold any derivative financial instruments.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

(g) Property, plant and equipment
Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy l).

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied properties (excluding land element) acquired by way of finance leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy l). Lease payments are accounted for as described in accounting policy s.

Subsequent costs
The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation
Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Freehold land	Indefinite
Freehold buildings	50 years
Long and short leasehold property	Term of lease or 50 years, whichever is lower
Fixtures and equipment	3–10 years
Motor vehicles	4 years
Computer equipment	3–5 years

(h) Intangible assets – Goodwill
All business combinations are accounted for by applying the acquisition method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 has not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 January 2004.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is formally tested bi-annually for impairment (see accounting policy l). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Any excess of fair value of net assets over consideration on acquisition are recognised directly in the income statement.

(i) Trade and other receivables
Trade and other receivables are stated at their cost less impairment losses (see accounting policy l).

(j) Stock
Stock is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(k) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(l) Impairment
The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment.

For property, plant and equipment, the carrying value of each cash generating unit ("CGU") is compared to its estimated value in use. Value in use calculations are based on discounted cash flows over the remaining useful life of the CGU (between 2 and 50 years). The discount rate used is the rate believed by the Board to reflect the risks associated with each CGU. Impairment losses are recognised in the income statement.

For goodwill and assets that have an indefinite useful life, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement and are not subsequently reversed.

(m) Share-based payment transactions
The share option programme allows Group employees to acquire shares of the Company and all options are equity-settled. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Stochastic model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to market based conditions not achieving the threshold for vesting.

(n) Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(o) Deferred and current tax
Corporation tax payable is provided on the taxable profit at the current rate. Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date, except to the extent that the deferred tax arises from the initial recognition of goodwill. Temporary differences are differences between the carrying amount of the Group's assets and liabilities and their tax base.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse based on tax rates and laws that are enacted, or substantively enacted, by the balance sheet date. Deferred tax is measured on a non-discounted basis.

(p) Pensions
The Group makes contributions for selected employees into defined contribution pension plans and these contributions are charged to the income statement as they become payable. The Group does not operate any defined benefit plans.

(q) Onerous contracts
A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Accounting policies for the consolidated accounts
(continued)

(r) Revenue
Revenue represents amounts received and receivable for services and goods provided (excluding value added tax and voluntary gratuities left by customers for the benefit of employees) and is recognised at the point of sale.

(s) Expenses
(i) Operating lease payments
Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Incentives to enter into an operating lease are also spread on a straight-line basis over the lease term as a reduction in rental expense.

(ii) Finance lease payments
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Pre-opening expenses
Property rentals and related costs incurred up to the date of opening of a new restaurant are written off to the income statement in the period in which they are incurred. Promotional and training costs are written off to the income statement in the period in which they are incurred.

(iv) Borrowing costs
Debt is stated net of borrowing costs which are spread over the term of the loan. All other borrowings costs are recognised in the income statement in the period in which they are incurred.

(t) Dividend policy
In accordance with IAS 10 "Events after the Balance Sheet Date", dividends declared after the balance sheet date are not recognised as a liability at that balance sheet date, and are recognised in the financial statements when they have received approval by shareholders.

Critical accounting judgements and key sources of estimation and uncertainty
In the process of applying the Group's accounting policies as described above, management has made a number of judgements and estimations of which the following are the most significant:

a) Impairment of carrying value of associate
The investment in Living Ventures Restaurants Group Limited and the loan note of £10.4m receivable from a subsidiary of that company were fully provided against in the years ended 30 December 2007 and 31 December 2006. Following a review of the trading performance of the company, the Directors have concluded that this treatment is appropriate and no adjustment has been made in either the current or the previous year. Further details are provided in note 12.

b) Impairment of goodwill and property, plant and equipment
The Group formally determines whether property, plant and equipment and goodwill are impaired on a bi-annual basis. This requires the Group to determine the lowest level of assets which generate largely independent cash flows (cash generating units or "CGU") and to estimate of the value in use of these assets or CGUs; and compare these to their carrying value. Cash generating units are deemed to be individual units, a collection of units or a brand depending on the nature of the trading environment in which they operate. Calculating the value in use requires the Group to make an estimate of the future cash flows of each CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows. The discount rate used in the year ended 1 January 2011 for all CGU was based on the Group's weighted average cost of capital of 8.4% (year ended 2 January 2001: 9.5%) as the Directors believe there are broadly equal risks associated with each CGU. No impairment is required in the year ended 1 January 2012.

Consolidated income statement

	Note	52 weeks ended 1 January 2012 Trading business £'000	Non-trading £'000	Total £'000	53 weeks ended 2 January 2011 Trading business £'000	Non-trading £'000	Total £'000
Revenue	2	**487,114**	**–**	**487,114**	465,704	–	465,704
Cost of sales:							
Excluding pre-opening costs	3	**(397,782)**	**(7,544)**	**(405,326)**	(379,268)	–	(379,268)
Pre-opening costs	3	**(1,948)**	**–**	**(1,948)**	(1,591)	–	(1,591)
		(399,730)	**(7,544)**	**(407,274)**	(380,859)	–	(380,859)
Gross profit / (loss)		**87,384**	**(7,544)**	**79,840**	84,845	–	84,845
Administration costs		**(23,962)**	**(192)**	**(24,154)**	(24,054)	–	(24,054)
Share-based payments		**(2,237)**	**–**	**(2,237)**	(2,235)	–	(2,235)
Trading profit / (loss)		**61,185**	**(7,736)**	**53,449**	58,556	–	58,556
Loss on disposal of fixed assets	4	**–**	**(4,169)**	**(4,169)**	–	–	–
Earnings before interest, tax, depreciation and amortisation:		**89,741**	**(8,405)**	**81,336**	85,806	–	85,806
Depreciation		**(28,556)**	**(3,500)**	**(32,056)**	(27,250)	–	(27,250)
Operating profit / (loss)		**61,185**	**(11,905)**	**49,280**	58,556	–	58,556
Interest payable	6	**(1,818)**	**230**	**(1,588)**	(2,788)	596	(2,192)
Interest receivable	6	**916**	**–**	**916**	114	–	114
Profit / (loss) on ordinary activities before tax		**60,283**	**(11,675)**	**48,608**	55,882	596	56,478
Tax on profit / (loss) from ordinary activities	7	**(16,575)**	**2,344**	**(14,231)**	(16,186)	(167)	(16,353)
Profit / (loss) for the year		**43,708**	**(9,331)**	**34,377**	39,696	429	40,125
Earnings per share (pence)							
Basic	8	**21.86**		**17.19**	19.95		20.16
Diluted	8	**21.84**		**17.18**	19.90		20.11
Dividend per share (pence)[1]	9			**10.50**			9.00

[1] The dividend per share of 10.50p is the interim and proposed final dividend in respect of 2011 (9.00p is the interim and final dividend in respect of 2010).

Consolidated statement of comprehensive income

	52 weeks ended 1 January 2012 £'000	53 weeks ended 2 January 2011 £'000
Profit for the year	**34,377**	40,125
Exchange differences on translation of foreign operations	**(488)**	(5)
Total comprehensive income for the year	**33,889**	40,120

Consolidated statement of changes in equity

	Share capital £'000	Share premium £'000	Foreign currency translation reserve £'000	Other reserves £'000	Retained earnings £'000	**Total £'000**
Balance at 3 January 2011	**56,101**	**23,234**	**488**	**(6,302)**	**71,192**	**144,713**
Profit for the year	–	–	–	–	34,377	**34,377**
Exchange differences on translation of foreign operations	–	–	(488)	–	–	**(488)**
Total comprehensive income for the year	**–**	**–**	**(488)**	**–**	**34,377**	**33,889**
Issue of new shares	218	748	–	–	–	**966**
Dividends	–	–	–	–	(22,337)	**(22,337)**
Share-based payments – credit to equity	–	–	–	2,237	–	**2,237**
Employee benefit trust – purchase of shares	–	–	–	(3,050)	–	**(3,050)**
Current tax on share-based payments taken directly to equity	–	–	–	–	1,178	**1,178**
Deferred tax on share-based payments taken directly to equity	–	–	–	–	(314)	**(314)**
Balance at 1 January 2012	**56,319**	**23,982**	**–**	**(7,115)**	**84,096**	**157,282**
Balance at 28 December 2009	**55,568**	**21,867**	**493**	**(7,104)**	**45,108**	**115,932**
Profit for the year	–	–	–	–	40,125	**40,125**
Exchange differences on translation of foreign operations	–	–	(5)	–	–	**(5)**
Total comprehensive income for the year	**–**	**–**	**(5)**	**–**	**40,125**	**40,120**
Issue of new shares	533	1,367	–	–	–	**1,900**
Dividends	–	–	–	–	(15,706)	**(15,706)**
Share-based payments – credit to equity	–	–	–	2,235	–	**2,235**
Employee benefit trust – purchase of shares	–	–	–	(1,433)	–	**(1,433)**
Current tax on share-based payments taken directly to equity	–	–	–	–	525	**525**
Deferred tax on share-based payments taken directly to equity	–	–	–	–	1,140	**1,140**
Balance at 2 January 2011	**56,101**	**23,234**	**488**	**(6,302)**	**71,192**	**144,713**

Consolidated balance sheet

	Note	At 1 January 2012 £'000	At 2 January 2011 £'000
Non-current assets			
Intangible assets	10	**26,433**	26,433
Property, plant and equipment	11	**269,141**	259,583
		295,574	286,016
Current assets			
Stock	13	**3,925**	3,630
Trade and other receivables	14	**7,382**	5,573
Prepayments		**15,158**	13,541
Cash and cash equivalents	22	**10,242**	2,738
		36,707	25,482
Total assets		**332,281**	311,498
Current liabilities			
Corporation tax liabilities		**(8,542)**	(8,539)
Trade and other payables	15	**(87,198)**	(81,945)
Financial liabilities – derivative financial instruments	23	**–**	(618)
Other payables – finance lease obligations	24	**(326)**	(296)
Provisions	16	**(3,282)**	(602)
		(99,348)	(92,000)
Net current liabilities		**(62,641)**	(66,518)
Non-current liabilities			
Long-term borrowings	22	**(51,835)**	(49,662)
Other payables – finance lease obligations	24	**(2,806)**	(2,772)
Deferred tax liabilities	17	**(16,733)**	(19,091)
Provisions	16	**(4,277)**	(3,260)
		(75,651)	(74,785)
Total liabilities		**(174,999)**	(166,785)
Net assets		**157,282**	144,713
Equity			
Share capital	18	**56,319**	56,101
Share premium		**23,982**	23,234
Foreign currency translation reserve		**–**	488
Other reserves	19, 20	**(7,115)**	(6,302)
Retained earnings		**84,096**	71,192
Total equity		**157,282**	144,713

The financial statements of The Restaurant Group plc (company registration number SC030343) on pages 39 to 66 were approved by the Board of Directors and authorised for issue on 29 February 2012 and were signed on its behalf by:

Alan Jackson
Stephen Critoph ACA

Consolidated cash flow statement

	Note	52 weeks ended 1 January 2012 £'000	53 weeks ended 2 January 2011 £'000
Operating activities			
Cash generated from operations	21	**91,745**	87,821
Interest received		**916**	114
Interest paid		**(1,612)**	(3,289)
Tax paid		**(15,722)**	(17,518)
Net cash flows from operating activities		**75,327**	67,128
Investing activities			
Purchase of property, plant and equipment		**(43,648)**	(31,982)
Disposal of fixed assets		**(2,754)**	–
Net cash flows used in investing activities		**(46,402)**	(31,982)
Financing activities			
Net proceeds from issue of ordinary share capital		**966**	1,900
Employee benefit trust – purchase of shares	19	**(3,050)**	(1,433)
Net proceeds from / (repayments of) loan draw downs		**3,000**	(20,000)
Dividends paid to shareholders	9	**(22,337)**	(15,706)
Net cash flows used in financing activities		**(21,421)**	(35,239)
Net increase / (decrease) in cash and cash equivalents		**7,504**	(93)
Cash and cash equivalents at the beginning of the year	22	**2,738**	2,831
Cash and cash equivalents at the end of the year	22	**10,242**	2,738

Notes to the accounts

For the year ended 1 January 2012

1 Segmental analysis

The Group trades in one business segment (that of operating restaurants) and one geographical segment (being the United Kingdom).

The Group previously reported its results in three business segments, Leisure, Concessions and non-core. The Directors have concluded that these businesses meet the criteria for aggregation as one reporting segment as they have similar economic characteristics.

2 Revenue

	2011	2010
Income for the year consists of the following:		
Revenue from continuing operations	**487,114**	465,704
Other income not included within revenue in the income statement:		
Rental income	**3,583**	3,527
Interest income	**916**	114
Total income for the year	**491,613**	469,345

3 Profit for the year

	2011 £'000	2010 £'000
Cost of sales consists of the following:		
Continuing business excluding pre-opening costs	**397,782**	379,268
Pre-opening costs	**1,948**	1,591
Non-trading charge	**7,544**	–
Total cost of sales for the year	**407,274**	380,859

	2011 £'000	2010 £'000
Profit for the year has been arrived at after charging / (crediting):		
Depreciation and impairment	**32,056**	27,250
Purchases	**111,015**	106,690
Staff costs (see note 5)	**153,048**	145,581
Rental income	**(3,583)**	(3,527)
Minimum lease payments	**51,012**	47,495
Contingent rents	**7,034**	7,083
Total operating lease rentals of land and buildings	**58,046**	54,578

	2011 £'000	2010 £'000
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**68**	66
Fees payable to the Company's auditor and their associates for other services to the Group		
The audit of the Company's subsidiaries pursuant to legislation	**82**	81
Total audit fees	**150**	147
Tax services	**69**	102
Corporate finance services	**195**	–
Other services	**37**	40
Total non-audit fees	**301**	142
Total auditor's remuneration	**451**	289

Audit fees included in the above total relating to the Company are borne by a subsidiary undertaking. All of the auditor's remuneration in 2011 and 2010 was expensed as administration costs except the £0.2m relating to corporate finance services which was incurred as part of the negotiation of the new debt facility and will be amortised over the life of the facility.

4 Non-trading items

	Note	2011 £'000	2010 £'000
Items classified as non-trading within ordinary activities:			
Provision for loss on disposal of fixed assets and onerous leases	i	(7,544)	–
Termination costs	ii	(192)	–
Net book value of disposed fixed assets included within non-trading	iii	(1,614)	–
Cash paid	iii	(2,754)	–
Creation of accrual for closure costs	iii	(313)	–
Transfer of accumulated foreign currency translation	iii	512	–
Loss on disposal of fixed assets		(4,169)	–
Finance credit arising from termination / remeasurement of interest rate swaps	iv	230	596
(Loss) / profit on ordinary activities before tax		(11,675)	596
Tax credit / (charge) on non-trading items	v	2,344	(167)
Total non-trading items after tax		(9,331)	429

i) During the 52 weeks ended 1 January 2012, the Group has recorded a charge of £7.5m for the exit costs of a number of sites which do not generate adequate levels of return and for future rental obligations of previously assigned leases that have returned to the Group. The £7.5m includes £3.5m fixed asset impairment, £0.1m cash paid for costs incurred and a further £3.9m provision for future lease and other costs.

ii) In the 52 weeks ended 1 January 2012 the Group has recognised a £0.2m non-trading charge for unamortised fees relating to its terminated bank facility. For more details, see note 23.

iii) During the 52 weeks ended 1 January 2012, the Group has disposed of various fixed assets including the three restaurants the Group operated in Spain. These closures have resulted in a loss on disposal of fixed assets of £4.2m including £2.8m of cash paid in respect of reverse premiums, legal and other costs.

iv) The Group has taken a credit of £0.2m (2010: £0.6m credit) in respect of the termination and remeasurement of its interest rate swaps. The Group's only remaining interest rate swap was terminated on payment of £0.4m on 9 February 2011.

v) In the 52 weeks ended 1 January 2012, the Group has recognised a non-trading tax credit of £2.3m (2010: £0.2m charge).

5 Staff costs and numbers

	2011	2010
a) Staff numbers (including executive Directors)		
Restaurant staff	**10,337**	10,257
Administration staff	**235**	223
	10,572	10,480

	2011 £'000	2010 £'000
b) Staff costs (including Directors) comprise:		
Wages and salaries	**140,475**	132,900
Social security costs	**9,847**	9,947
Share-based payments	**2,237**	2,235
Pension costs	**489**	499
	153,048	145,581
c) Directors' remuneration		
Emoluments	**2,769**	2,536
Money purchase (and other) pension contributions	**186**	156
	2,955	2,692
Charge in respect of share-based payments	**1,223**	1,326
	4,178	4,018

Further details of the Directors' emoluments and the executive pension schemes are given in the Directors' remuneration report on pages 30 to 35, of which the information on pages 33 to 35 has been audited.

6 Net finance charges

	2011 £'000	2010 £'000
Bank interest payable	**1,084**	1,978
Other interest payable	**375**	460
Interest on obligations under finance leases	**359**	350
Change in fair value of interest rate swaps	**(230)**	(596)
Total borrowing costs	**1,588**	2,192
Bank interest receivable	**(3)**	(2)
Other interest receivable	**(10)**	(112)
Loan note interest receivable (see note 12)	**(903)**	–
Total interest receivable	**(916)**	(114)
Net finance charges	**672**	2,078

7 Tax

	2011 £'000	2010 £'000
a) The tax charge comprises:		
Current tax		
UK corporation tax at 26.5% (2010: 28%)	**17,221**	17,571
Adjustments in respect of previous years	**(318)**	(288)
	16,903	17,283
Deferred tax		
Origination and reversal of timing differences	**(1,145)**	(291)
Adjustments in respect of previous years	**(56)**	142
Credit in respect of rate change	**(1,471)**	(781)
	(2,672)	(930)
Total tax charge for the year	**14,231**	16,353

b) Factors affecting the tax charge for the year

The tax charged for the year varies from the standard UK corporation tax rate of 26.5% (2010: 28%) due to the following factors:

	2011 £'000	2010 £'000
Profit on ordinary activities before tax	**48,608**	56,478
Profit on ordinary activities before tax multiplied by the standard UK corporation tax rate of 26.5% (2010: 28%)	**12,881**	15,814
Effects of:		
Depreciation on non-qualifying assets	**1,616**	1,642
Expenses not deductible for tax purposes	**113**	110
Loss on disposal of non-qualifying assets	**1,466**	–
Credit in respect of rate change on deferred tax liability	**(1,471)**	(781)
Adjustment in respect of previous years	**(374)**	(146)
Other adjustments	**–**	(286)
Total tax charge for the year	**14,231**	16,353

The Finance Act 2011 introduced a reduction in the main rate of corporation tax from 1 April 2011 from 28% to 26% resulting in a blended rate of 26.5% being used to calculate the tax liability for the 52 weeks ended 1 January 2012.

The Finance Act 2011 introduced a reduction in the main rate of corporation tax from 26% to 25% effective from 1 April 2012 and this rate is required to be used in calculating deferred tax provisions at the balance sheet date. The Government has also indicated that it intends to enact future reductions in the main corporation tax rate of 1% each year reducing the main tax rate down to 23% by April 2014.

From the previously announced main rate of corporation tax of 27%, the reduction to 25% from 1 April 2012 has resulted in a deferred tax credit in the income statement of £1.5m. Of the £1.5m, £0.7m has been reported as non-trading as 1% of the total 2% reduction in the 52 weeks ended 1 January 2012 is of a one-off nature and does not reflect the underlying trend in tax rate movements. The future 1% main tax rate reductions are expected to have a similar impact on the underlying trading tax rate as the current year, however the actual impact will be dependent on the Group's deferred tax position at that time.

8 Earnings per share

	2011	2010
a) Basic earnings per share:		
Weighted average ordinary shares in issue during the year	**199,956,884**	199,026,844
Total profit for the year (£'000)	**34,377**	40,125
Basic earnings per share for the year (pence)	**17.19**	20.16
Total profit for the year (£'000)	**34,377**	40,125
Effect of non-trading items on earnings for the year (£'000)	**9,331**	(429)
Earnings excluding non-trading items (£'000)	**43,708**	39,696
Adjusted earnings per share (pence)	**21.86**	19.95
b) Diluted earnings per share:		
Weighted average ordinary shares in issue during the year	**199,956,884**	199,026,844
Dilutive shares to be issued in respect of options granted under the share option schemes	**189,903**	495,532
	200,146,787	199,522,376
Diluted earnings per share (pence)	**17.18**	20.11
Adjusted diluted earnings per share (pence)	**21.84**	19.90

The additional non-statutory earnings per share information (where non-trading items, described in note 4, have been added back) has been provided as the Directors believe it provides a useful indication as to the underlying performance of the Group.

Diluted earnings per share information is based on adjusting the weighted average number of shares in issue in respect of notional share awards made to employees in respect of share option schemes. No adjustment is made to the reported earnings for 2011 or 2010.

9 Dividend

	2011 £'000	2010 £'000
Amounts recognised as distributions to equity holders during the year:		
Second interim dividend for the 53 weeks ended 2 January 2011 of nil (2009: 6.30p) per share	**–**	12,146
Final dividend for the 53 weeks ended 2 January 2011 of 7.46p (2009: 0.30p) per share	**14,525**	580
Interim dividend for the 52 weeks ended 1 January 2012 of 4.00p (2010: 1.54p) per share	**7,812**	2,980
Total dividends paid in the year	**22,337**	15,706
Proposed final dividend for the 52 weeks ended 1 January 2012 of 6.50p (2010 actual proposed and paid: 7.46p) per share	**12,695**	14,525

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting to be held on 17 May 2012 and is not recognised as a liability in these financial statements. The proposed final dividend payable reflects the number of shares in issue on 1 January 2012, adjusted for the 4.9m shares owned by the employee benefit trust for which dividends have been waived. Further details are provided in note 19.

10 Intangible assets

	£'000
Cost and carrying amount	
At 28 December 2009	26,241
Additional consideration[1]	192
At 2 and 3 January 2011 and 1 January 2012	**26,433**

[1] The additional consideration represents amounts paid to the previous shareholders of Brunning and Price Limited, as agreed under the terms of the purchase agreement, being monies received on outstanding negotiations relating to the pre-acquisition period.

Goodwill arising on business combinations is not amortised but is subject to a bi-annual impairment review, or more frequently if events or changes in circumstances indicate that it might be impaired. Therefore, goodwill arising on acquisition is monitored and an impairment test is carried out which compares the value in use of each cash generating unit ("CGU") to the carrying value. The goodwill represents amounts arising on the acquisition of Blubeckers Limited and Brunning and Price Limited, which now trade as Pub restaurants.

Value in use calculations are based on cash flow forecasts derived from the most recent financial budgets and three year business plans approved by the Board. Cash flows are then extrapolated in perpetuity with an annual growth rate of 2%. Perpetuity is believed to be reasonable due to the significant proportion of freeholds in the estate and the nature of the leasehold properties. The pre-tax discount rate applied to cash flow projections is 8.4% (2010: 9.5%) which is the rate believed by the Directors to reflect the risks associated with the CGU.

Since 1 January 1989 the cumulative amount of goodwill written off against realised reserves is £50.4m (2010: £50.4m). Records for periods prior to this date are not readily available.

Notes to the accounts
(continued)

11 Property, plant and equipment

	Land and buildings £'000	Fixtures, equipment and vehicles £'000	Total £'000
Cost			
At 28 December 2009	288,351	109,637	397,988
Exchange movement	42	17	59
Additions	22,097	9,885	31,982
Disposals	(3,740)	(2,460)	(6,200)
At 2 January 2011	**306,750**	**117,079**	**423,829**
Accumulated depreciation and impairment			
At 28 December 2009	87,139	56,008	143,147
Exchange movement	34	13	47
Provided during the year	13,659	13,591	27,250
Impairment	–	–	–
Disposals	(3,740)	(2,458)	(6,198)
At 2 January 2011	**97,092**	**67,154**	**164,246**
Cost			
At 3 January 2011	306,750	117,079	423,829
Exchange movement	34	14	48
Additions	28,771	14,877	43,648
Disposals	(6,703)	(5,814)	(12,517)
At 1 January 2012	**328,852**	**126,156**	**455,008**
Accumulated depreciation and impairment			
At 3 January 2011	97,092	67,154	164,246
Exchange movement	31	12	43
Provided during the year	14,446	14,110	28,556
Impairment	2,929	571	3,500
Disposals	(5,324)	(5,154)	(10,478)
At 1 January 2012	**109,174**	**76,693**	**185,867**
Net book value as at 2 January 2011	209,658	49,925	259,583
Net book value as at 1 January 2012	**219,678**	**49,463**	**269,141**

	2011 £'000	2010 £'000
Net book value of land and buildings:		
Freehold	**69,217**	58,454
Long leasehold	**2,683**	2,707
Short leasehold	**147,778**	148,497
	219,678	209,658

	2011 £'000	2010 £'000
Assets held under finance leases		
Costs at the beginning and the end of the year	**1,961**	1,961
Depreciation		
At the beginning of the year	**1,124**	1,099
Provided during the year	**25**	25
At the end of the year	**1,149**	1,124
Net book value at the end of the year	**812**	837

12 Investment in associate

The Restaurant Group holds a 38% investment in Living Ventures Restaurants Group Limited and this investment is accounted for using the equity method. Living Ventures Restaurants Group Limited has an accounting year end date of 31 March and as there is no material benefit in making the accounting year end co-terminus with the Group, no change has been made.

As a result of a detailed review of the trading performance of Living Ventures Restaurants Group Limited, the investment has been recorded at £nil and a loan note of £10.4m plus outstanding interest receivable due from LV Finance Limited, a subsidiary of Living Ventures Restaurants Group Limited, was fully provided against as at 1 January 2012 and 2 January 2011.

The Group's share of the post-tax result of Living Ventures Restaurants Group Limited for the 52 weeks ended 1 January 2012 was a profit of £0.12m (2010: loss of £0.18m). This profit has not been recognised in the income statement, in accordance with IAS 28 "Associates and Joint Ventures" as the investment has a carrying value of £nil and the Group's share of the cumulative earnings of Living Ventures Restaurants Group Limited remains negative.

Interest is receivable from LV Finance Limited on the loan note of £10.4m at a rate of LIBOR. In the 52 weeks ended 1 January 2012 £0.2m of interest has accrued of which the Group has recognised £0.1m (2010: £0.1m of which the Group recognised £nil). In the 52 weeks ended 1 January 2012 a further £0.8m of interest was received as part payment of the accrued interest, all of which was recognised in the income statement. Consequently in addition to the loan note of £10.4m outstanding at that date, £0.5m (2010: £1.2m) of interest receivable was still outstanding, of which, under the terms of the agreement, all was overdue.

Summarised financial information on Living Ventures Restaurants Group Limited is as follows:

	2011 £'000	2010 £'000
Non-current assets	**9,725**	10,859
Current assets	**3,863**	2,460
Non-current liabilities	**(17,310)**	(17,384)
Current liabilities	**(5,995)**	(5,979)
Equity	**(9,717)**	(10,044)
Revenue	**25,546**	24,232
Net profit / (loss)	**327**	(461)

At 1 January 2012 Living Ventures Restaurants Group Limited was contractually committed to £0.01m of capital expenditure (2 January 2011: £0.01m).

13 Stock

Stock comprises raw materials and consumables and has been valued at the lower of cost and estimated net realisable value. The replacement cost at 1 January 2012 is not considered by the Directors to be materially different from the balance sheet value. The Group recognised £111.0m of purchases as an expense in 2011 (2010: £106.7m).

14 Trade and other receivables

	2011 £'000	2010 £'000
Amounts falling due within one year:		
Trade debtors	**2,110**	1,117
Other debtors	**5,272**	4,456
	7,382	5,573

15 Trade and other payables

	2011 £'000	2010 £'000
Amounts falling due within one year:		
Trade creditors	**40,488**	36,613
Other tax and social security	**14,839**	12,948
Other creditors	**5,497**	5,487
Accruals	**26,374**	26,897
	87,198	81,945

Notes to the accounts
(continued)

16 Provisions

	2011 £'000	2010 £'000
Provision for onerous lease contracts and property exit costs:		
Balance at the beginning of the year	**3,862**	4,560
Additional provisions made	**4,107**	177
Amounts utilised	**(887)**	(899)
Provisions released	**(83)**	(645)
Adjustment for change in discount rate	**195**	239
Unwinding of discount	**365**	430
Balance at the end of the year	**7,559**	3,862
Analysed as:		
Amount due for settlement within one year	**3,282**	602
Amount due for settlement after one year	**4,277**	3,260
	7,559	3,862

The provision for onerous contracts is in respect of lease agreements and covers the element of expenditure over the life of those contracts which are considered onerous, expiring in 1 to 108 years. The provision for property exit costs is anticipated to be short-term and settled within one year.

17 Deferred taxation

	2011 £'000	2010 £'000
Balance at the beginning of the year	**19,091**	21,161
Depreciation in advance of capital allowances credited to the income statement	**(1,537)**	(392)
Other timing differences	**336**	243
Credit in respect of rate change	**(1,471)**	(781)
Deferred tax taken directly to the income statement (see note 7)	**(2,672)**	(930)
Tax on share-based payments	**179**	(1,214)
Credit in respect of rate change	**135**	74
Deferred tax taken through equity	**314**	(1,140)
Balance at the end of the year	**16,733**	19,091

	2011 £'000	2010 £'000
Deferred tax consists of:		
Capital allowances in advance of depreciation	**19,502**	22,564
Capital gains rolled over	**485**	523
Other timing differences	**(3,254)**	(3,996)
	16,733	19,091

18 Share capital

	Number	£'000
Authorised:		
At 2 January 2011 and 1 January 2012 (ordinary shares of 28 1/8p each)	**284,444,444**	**80,000**
Issued, called up and fully paid:		
At 28 December 2009	197,575,863	55,568
Exercise of share options	1,895,029	533
At 2 and 3 January 2011	**199,470,892**	**56,101**
Exercise of share options	774,196	218
At 1 January 2012	**200,245,088**	**56,319**

19 Employee benefit trust

An employee benefit trust ("EBT") was established in 2007 in order to satisfy the exercise or vesting of existing and future share awards under the Long-Term Incentive Plan. The EBT purchases shares in the market, using funds provided by the Company, based on expectations of future requirements. Dividends are waived by the EBT. At 1 January 2012, the Trustees, Appleby Trust (Jersey) Limited, held 4.9m shares in the Company (2 January 2011: 5.9m shares).

Net cash outflow in the 52 weeks ended 1 January 2012 was £3.1m, inclusive of costs (53 weeks ended 2 January 2011: £1.4m, inclusive of costs).

		Number	£'000
At 28 December 2009		**5,791,257**	
Purchase of shares on 27 April 2010 at an average price of £2.372 per share	600,000		1,433
		600,000	1,433
Transfer of shares to satisfy the exercise of share awards		(482,383)	
At 2 and 3 January 2011		**5,908,874**	
Purchase of shares on 28 March 2011 at an average price of £3.029 per share	1,000,000		3,050
		1,000,000	3,050
Transfer of shares to satisfy the exercise of share awards		(1,968,806)	
At 1 January 2012		**4,940,068**	

Details of options granted under the Group's share schemes are given in note 20.

20 Share-based payment schemes

The Group operates a number of share-based payment schemes, details of which are provided in the Directors' remuneration report on pages 30 to 35. The Group has taken advantage of the exemption under IFRS 2 "Share-based payments" not to account for share options granted before 7 November 2002.

The charge recorded in the financial statements of the Group in respect of share-based payments is £2.2m (2010: £2.2m).

The other reserve account in the balance sheet reflects the credit to equity made in respect of the charge for share-based payments made through the income statement and the purchase of shares in the market in order to satisfy the vesting of existing and future share awards under the Long-Term Incentive Plan (see note 19).

Executive Share Option Plans ("ESOPs")

The Group has in place two ESOPs; the 2003 scheme and a one-off scheme. Under these schemes, the Remuneration Committee may grant options over shares in The Restaurant Group plc to employees of the Group. Awards under the ESOPs are generally reserved for senior management level and above. The contractual life of an option is ten years. Options granted under ESOPs become exercisable on the third anniversary of the date of grant, subject to growth in earnings per share exceeding RPI growth by more than 2.5%. Exercise of options is subject to continued employment within the Group. Options were valued using a Stochastic option pricing model. No performance conditions were included in the fair value calculations.

20 Share-based payment schemes continued

Year ended 1 January 2012

Period during which options are exercisable	Exercise price	Outstanding at the beginning of the year	Granted	Exercised	Lapsed	Outstanding at the end of the year	Exercisable at the end of the year
1998 Scheme							
2003 – 2010	48.6p	–	–	–	–	–	–
Total number		**–**	**–**	**–**	**–**	**–**	**–**
Weighted average exercise price		**–**	**–**	**–**	**–**	**–**	**–**
2003 Scheme							
2006 – 2013	67.4p	7,034	–	–	–	7,034	7,034
2007 – 2014	97.7p	135,355	–	(70,000)	–	65,355	65,355
2008 – 2015	134.4p	361,000	–	(185,000)	–	176,000	176,000
Total number		**503,389**	**–**	**(255,000)**	**–**	**248,389**	**248,389**
Weighted average exercise price		**123.6p**	**–**	**124.3p**	**–**	**122.8p**	**122.8p**
One-off scheme (see note below)							
2004 – 2011	45.0p	–	–	–	–	–	–
Total number		**–**	**–**	**–**	**–**	**–**	**–**
Weighted average exercise price		**–**	**–**	**–**	**–**	**–**	**–**
Total number		**503,389**	**–**	**(255,000)**	**–**	**248,389**	**248,389**
Weighted average exercise price		**123.6p**	**–**	**124.3p**	**–**	**122.8p**	**122.8p**

Year ended 2 January 2011

Period during which options are exercisable	Exercise price	Outstanding at the beginning of the year	Granted	Exercised	Lapsed	Outstanding at the end of the year	Exercisable at the end of the year
1998 Scheme							
2003 – 2010	48.6p	3,015	–	(3,015)	–	–	–
Total number		**3,015**	**–**	**(3,015)**	**–**	**–**	**–**
Weighted average exercise price		**48.6p**	**–**	**48.6p**	**–**	**–**	**–**
2003 Scheme							
2006 – 2013	67.4p	186,887	–	(179,853)	–	7,034	7,034
2007 – 2014	97.7p	1,074,710	–	(939,355)	–	135,355	135,355
2008 – 2015	134.4p	929,679	–	(568,679)	–	361,000	361,000
Total number		**2,191,276**	**–**	**(1,687,887)**	**–**	**503,389**	**503,389**
Weighted average exercise price		**110.7p**	**–**	**106.8p**	**–**	**123.6p**	**123.6p**
One-off scheme (see note below)							
2004 – 2011	45.0p	200,000	–	(200,000)	–	–	–
Total number		**200,000**	**–**	**(200,000)**	**–**	**–**	**–**
Weighted average exercise price		**45.0p**	**–**	**45.0p**	**–**	**–**	**–**
Total number		**2,394,291**	**–**	**(1,890,902)**	**–**	**503,389**	**503,389**
Weighted average exercise price		**105.1p**	**–**	**100.2p**	**–**	**123.6p**	**123.6p**

During 2011, the weighted average market price at date of exercise was 297.3p per share (2010: 224.6p).

Note: The one-off scheme is in respect of Alan Jackson's share options granted on 5 June 2001. During the year ended 2 January 2011, Alan Jackson exercised 200,000 options under this scheme, and as at 1 January 2012 there are no share options outstanding. No charge to the income statement is recognised in respect of Alan Jackson's share options as they were granted prior to 7 November 2002.

20 Share-based payment schemes continued

Long-Term Incentive Plan

The Group also operates the 2005 Long-Term Incentive Plan ("LTIP"), details of which are provided in the Directors' remuneration report on pages 30 to 35. Awards under the LTIP are generally reserved for senior management level and above.

Conditional Award share options and Matching Award share options are granted to Directors and selected employees. In respect of the Matching Award share options, the respective Director or employee is required to acquire a number of shares by a specified date, known as "Deposited shares", and retain these shares until the Matching Award share options vest, for these Matching Award share options to be valid. The table below summarises the dates of awards under the LTIP and the dates by which Directors and employees were required to acquire their deposited shares.

Date of Award	Date by which Deposited Shares must be acquired
5 March 2009	30 June 2009
4 March 2010	30 June 2010
16 March 2011	30 June 2011

Vesting of share options under the LTIP is dependent on continuing employment. In exceptional circumstances, employees may be permitted to exercise options before the normal period in which they are exercisable.

The Conditional and Matching awards granted on 6 March 2008 became exercisable on the publication of the 2010 results. The vesting criteria for the Total Shareholder Return ("TSR") element of the Conditional award were met in full and consequently, 100% of this part of the award vested. Earnings per share ("EPS") growth of the 2010 results compared with the 2007 results was between RPI + 4% and RPI + 10% and consequently, 82.5% of the EPS element of the Conditional award and the Matching award vested.

For those awards granted on 5 March 2009 that vest in 2012, the performance criteria was based on TSR. The Restaurant Group plc was the highest ranked company for TSR in its comparator sector and consequently the award will vest in full for the remaining participants.

The options from the LTIP scheme will be satisfied through share purchases via a trust. Further details are provided in note 19.

Year ended 1 January 2012:

Period during which options are exercisable	Type of award	Fair value	Outstanding at the beginning of the year	Granted	Exercised	Lapsed	Outstanding at the end of the year	Exercisable at the end of the year
2011	Conditional – TSR element	83.1p	626,290	–	(626,290)	–	–	–
2011	Conditional – EPS element	146.0p	1,275,822	–	(1,039,845)	(235,977)	–	–
2011	Matching	146.0p	346,418	–	(302,671)	(43,747)	–	–
2012	Conditional	89.9p	2,327,600	–	–	(16,959)	2,310,641	–
2012	Matching	89.9p	482,759	–	–	–	482,759	–
2013	Conditional – TSR element	144.0p	531,904	–	–	(8,493)	523,411	–
2013	Conditional – EPS element	208.9p	531,905	–	–	(8,493)	523,412	–
2013	Matching	208.9p	376,546	–	–	–	376,546	–
2014	Conditional – TSR element	209.8p	–	483,165	–	(5,019)	478,146	–
2014	Conditional – EPS element	295.5p	–	483,165	–	(5,019)	478,146	–
2014	Matching	295.5p	–	436,771	–	(80,949)	355,822	–
Total number			**6,499,244**	**1,403,101**	**(1,968,806)**	**(404,656)**	**5,528,883**	**–**

20 Share-based payment schemes continued

Year ended 2 January 2011:

Period during which options are exercisable	Type of award	Fair value	Outstanding at the beginning of the year	Granted	Exercised	Lapsed	Outstanding at the end of the year	Exercisable at the end of the year
2010	Conditional – TSR element	240.9p	150,921	–	(94,295)	(56,626)	–	–
2010	Conditional – EPS element	336.0p	284,176	–	(268,219)	(15,957)	–	–
2010	Matching	336.0p	119,869	–	(119,869)	–	–	–
2011	Conditional – TSR element	83.1p	626,290	–	–	–	626,290	–
2011	Conditional – EPS element	146.0p	1,369,679	–	–	(93,857)	1,275,822	–
2011	Matching	146.0p	360,107	–	–	(13,689)	346,418	–
2012	Conditional	89.9p	2,593,420	–	–	(265,820)	2,327,600	–
2012	Matching	89.9p	492,653	–	–	(9,894)	482,759	–
2013	Conditional – TSR element	144.0p	–	541,699	–	(9,795)	531,904	–
2013	Conditional – EPS element	208.9p	–	541,699	–	(9,794)	531,905	–
2013	Matching	208.9p	–	486,497	–	(109,951)	376,546	–
Total number			**5,997,115**	**1,569,895**	**(482,383)**	**(585,383)**	**6,499,244**	**–**

Save As You Earn Scheme

Under the Save As You Earn ("SAYE") scheme, the Board may grant options over shares in The Restaurant Group plc to UK-based employees of the Group. Options are granted with a fixed exercise price equal to 80% of the average market price of the shares for the five days prior to invitation. Employees pay a fixed amount from their salary into a savings account each month for the three-year savings period. At the end of the savings period, employees have six months in which to exercise their options using the funds saved. If employees decide not to exercise their options, they may withdraw their funds saved and the options expire. Exercise of options is subject to continued employment within the Group. In exceptional circumstances, employees may be permitted to exercise these options before the end of the three-year savings period. Options were valued using the Stochastic share pricing model.

Year ended 1 January 2012:

Period during which options are exercisable	Exercise price	Outstanding at the beginning of the year	Granted	Exercised	Lapsed	Outstanding at the end of the year	Exercisable at the end of the year
2011	125.0p	548,237	–	(518,380)	(20,641)	9,216	9,216
2013	184.0p	319,111	–	(816)	(60,723)	257,572	–
Total number		**867,348**	**–**	**(519,196)**	**(81,364)**	**266,788**	**9,216**

Year ended 2 January 2011:

Period during which options are exercisable	Exercise price	Outstanding at the beginning of the year	Granted	Exercised	Lapsed	Outstanding at the end of the year	Exercisable at the end of the year
2011	125.0p	602,609	–	(4,127)	(50,245)	548,237	–
2013	184.0p	–	357,274	–	(38,163)	319,111	–
Total number		**602,609**	**357,274**	**(4,127)**	**(88,408)**	**867,348**	**–**

During 2011, the weighted average market price at date of exercise was 294.2p per share (2010: 251.7p).

20 Share-based payment schemes continued

Assumptions used in valuation of share-based payments granted in the year ended 1 January 2012:

	2011 LTIP Conditional Award		2011 LTIP Matching award
Scheme	**TSR element**	**EPS element**	
Grant date	**16/03/2011**	**16/03/2011**	**16/03/2011**
Share price at grant date	295.5p	295.5p	295.5p
Exercise price	n/a	n/a	n/a
No of options originally granted	483,165	483,165	436,771
Minimum vesting period	3 years	3 years	3 years
Expected volatility[1]	37.0%	0.0%	0.0%
Contractual life	3.5 years	3.5 years	3.5 years
Risk free rate	1.2%	1.2%	1.2%
Expected dividend yield	0.0%	0.0%	0.0%
Expected forfeitures	10%	10%	30%
Fair value per option	209.8p	295.5p	295.5p

[1] Expected volatility is the measure of the amount by which the share price is expected to fluctuate during a period. In order to calculate volatility, the movement in the return index (share price plus dividends re-invested) over a period prior to the grant date equal in length to the remaining period over which the performance condition applies has been calculated. For the discount for the TSR performance condition for the relevant Conditional Awards, the calculated volatility based on the movement in the return index over a period of 3 years prior to the grant has been used.

21 Reconciliation of profit before tax to cash generated from operations

	2011 £'000	2010 £'000
Profit before tax	**48,608**	56,478
Net finance charges	**672**	2,078
Loss on disposal of fixed assets	**4,169**	–
Share-based payments	**2,237**	2,235
Depreciation and impairment	**32,056**	27,250
(Increase) / decrease in stocks	**(295)**	492
Increase in debtors	**(3,426)**	(1,121)
Increase in creditors	**7,724**	409
Cash generated from operations	**91,745**	87,821

Major non-cash transactions

In the 52 weeks ended 1 January 2012, the Group has recorded a non-trading charge of £7.5m for the exit costs of a number of sites and onerous leases. This included £3.5m fixed asset impairment and £3.9m provision for future lease and other costs. In addition the Group has disposed of fixed assets with a net book value of £2.0m. Further details are provided in note 4.

There were no major non-cash transactions in the 53 weeks ended 2 January 2011.

22 Reconciliation of changes in cash to the movement in net debt

	2011 £'000	2010 £'000
Net debt:		
At the beginning of the year	**(46,924)**	(66,684)
Movements in the year:		
(Proceeds from) / repayments of loan draw downs	**(3,000)**	20,000
Non-cash movements in the year	**827**	(147)
Cash inflow / (outflow)	**7,504**	(93)
At the end of the year	**(41,593)**	(46,924)

22 Reconciliation of changes in cash to the movement in net debt continued

Represented by:	At 28 December 2009 £'000	Cash flow movements in the year £'000	Non-cash movements in the year £'000	At 2 and 3 January 2011 £'000	Cash flow movements in the year £'000	Non-cash movements in the year £'000	At 1 January 2012 £'000
Cash and cash equivalents	**2,831**	(93)	–	**2,738**	7,504	–	**10,242**
Bank loans falling due after one year	**(69,515)**	20,000	(147)	**(49,662)**	(3,000)	827	**(51,835)**
	(66,684)	19,907	(147)	**(46,924)**	4,504	827	**(41,593)**

23 Financial instruments and derivatives
The Group finances its operations through equity and borrowings. The Group borrows at floating rates and during 2010 used interest rate swaps to manage the interest profile. In February 2011, the Directors decided to take advantage of the benign and stable interest rate environment and the Group's falling level of debt and terminated the Group's remaining interest rate swap for a payment of £0.4m. This resulted in a £0.2m non-trading credit in the 52 weeks ended 1 January 2012 (2010: £0.6m credit).

Management pay rigorous attention to treasury management requirements and continue to:
- ensure sufficient committed loan facilities are in place to support anticipated business requirements;
- ensure the Group's debt service will be supported by anticipated cash flows and that covenants will be complied with; and
- manage interest rate exposure with a combination of floating rate debt and interest rate swaps when deemed appropriate.

The Board closely monitors the Group's treasury strategy and the management of treasury risk.

Further details on the business risk factors that are considered to affect the Group and more specific financial risk management (including sensitivity to increases in interest rates) are included in the report of the Directors on pages 18 to 25. Further details on market and economic risk are included in the Chief Executive Officer's review of operations on pages 6 to 11. Further detail on headroom against covenants is included in the Group Finance Director's report on page 15.

(a) Financial assets and liabilities
Financial assets
The financial assets of the Group comprise:

	2011 £'000	2010 £'000
Cash and cash equivalents – Sterling	**10,153**	2,470
Cash and cash equivalents – Euro	**89**	268
	10,242	2,738
Trade and other receivables	**7,382**	5,573
Total financial assets	**17,624**	8,311

Cash and cash equivalents include balances held on account in respect of deposits paid by tenants under the terms of their rental agreement.

Financial liabilities
The financial liabilities of the Group comprise:

	2011 £'000	2010 £'000
Trade and other payables excluding tax	**72,359**	68,997
Derivative financial instruments	**–**	618
Finance lease debt	**326**	296
Short-term financial liabilities	**72,685**	69,911
Long-term borrowings – at floating interest rates*	**51,835**	49,662
Finance lease debt	**2,806**	2,772
Long-term financial liabilities	**54,641**	52,434
Total financial liabilities	**127,326**	122,345

* Total financial liabilities attracting interest were £53.0m (2010: £50.0m). Interest is payable at floating interest rates which fluctuate and are dependent on LIBOR and base rate. The average weighted year end interest rate for these borrowings was 2.02% (2010: 1.30% and 2.98% after taking into account the impact of interest rates swaps in place at the time).

23 Financial instruments and derivatives continued

(a) Financial assets and liabilities continued

In October 2011, the Group agreed a new five year £140m loan facility which replaced the previous £120m facility. This facility provides the Group with medium-term security of funding, additional capacity to take advantage of business opportunities as they become available and the flexibility to optimise the Group's funding structure. The covenants and obligations of the new facility remain the same as the previous agreement and interest remains payable on the amount drawn down at LIBOR plus mandatory cost and the bank's margin, which is dependent on the debt to EBITDA ratio. As a result of the early termination of the old loan facility arrangement, the Group has recorded a non-trading charge of £0.2m for the 52 weeks ended 1 January 2012.

The Group has a £10m overdraft facility, which is repayable on demand, on which interest is payable at the bank's overdraft rate.

At 1 January 2012 the Group has £87.0m of committed borrowing facilities in excess of gross borrowings (2 January 2011: £70.0m) and £10.0m of undrawn overdraft (2 January 2011: £10.0m of undrawn overdraft).

The maturity profile of anticipated gross future cash flows, including interest, relating to the Group's non-derivative financial liabilities, on an undiscounted basis, are set out below:

At 1 January 2012

	Trade and other payables excluding tax £'000	Floating rate loan £'000	Finance lease debt £'000	**Total £'000**
Within one year	72,359	18,292	326	**90,977**
Within two to five years	–	40,340	1,303	**41,643**
After five years	–	–	6,148	**6,148**
	72,359	58,632	7,777	**138,768**
Less: Future interest payments	–	(6,797)	(4,645)	**(11,442)**
	72,359	51,835	3,132	**127,326**

At 2 January 2011

	Trade and other payables excluding tax £'000	Floating rate loan £'000	Finance lease debt £'000	**Total £'000**
Within one year	68,997	926	296	**70,219**
Within two to five years	–	51,170	1,184	**52,354**
After five years	–	–	6,016	**6,016**
	68,997	52,096	7,496	**128,589**
Less: Future interest payments	–	(2,434)	(4,428)	**(6,862)**
	68,997	49,662	3,068	**121,727**

Effective from 16 January 2009 the Group entered into an interest rate swap for a notional amount of £20m for two years. The fixed rate for the duration of the two years was 2.70%. On 17 January 2011 the interest rate swap expired.

Effective from 16 January 2009 the Group entered into an interest rate swap for a notional amount of £20m for three years. The fixed rate for the duration of the three years was 2.975%. On 9 February 2011 the interest rate swap was terminated on payment of £0.4m.

Fair value of financial assets and liabilities

At 1 January 2012, the Group had no derivative financial instruments relating to interest rate swaps. At 2 January 2011 the Group had two interest rate swaps in place which were held at fair value.

All financial assets and liabilities, excluding any interest rate swaps, are accounted for at cost and the Directors consider the carrying value to approximate their fair value.

23 Financial instruments and derivatives continued

(b) Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial losses to the Group. Counterparties for cash and derivative balances are with large established financial institutions. The Group is exposed to credit related losses in the event of non-performance by the financial institutions but does not expect them to fail to meet their obligations.

As a retail business with trading receipts settled either by cash or credit and debit cards, there is very limited exposure from customer transactions. The Group is exposed to credit risk in respect of retrospective discounts receivable from suppliers but the Directors believe adequate provision has been made in respect of doubtful debts and there are no material amounts past due that have not been provided against.

The Group has an outstanding long-term receivable of £10.4m plus interest due from LV Finance Limited, a subsidiary of the Group's associate company Living Ventures Restaurants Group Limited. This debt is secured on the assets of Living Ventures Restaurants Group Limited, but is subject to a prior ranking behind LV Finance Limited's bank. In 2007, following a detailed review of the carrying value of the business including the loan note receivable, the Board made full provision against the loan note due (further details are provided in note 12).

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represent the Group's maximum exposure to credit risk.

(c) Liquidity risk
The Group has built an appropriate mechanism to manage liquidity risk of the short, medium and long-term funding and liquidity management requirements. Liquidity risk is managed through the maintenance of adequate cash reserves and bank facility by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group's loan facility, which matures in October 2016 (as set out in note (a) above) ensures continuity of funding, provided the Group continues to meet its covenant requirements (as detailed in the report of the Directors on pages 24 and 25).

(d) Foreign currency risk
The Group is not materially exposed to changes in foreign currency rates and does not use foreign exchange forward contracts.

Following the closure of the Group's three restaurants in Spain in the 52 weeks to 1 January 2012, any transactional or translational exposure to changes in foreign exchange rate is marginal and relates to the outstanding transactions in relation to the termination of the Spanish business.

(e) Interest rate risk
Exposure to interest rate movements has been controlled historically through the use of floating rate debt and interest rate swaps to achieve a balanced interest rate profile. The Group no longer has an interest rate swap, following the early repayment of the swap scheduled to terminate in 2012, as the reduction in the level of debt combined with current market conditions results in a low level of exposure. The Group's exposure will continue to be monitored and the use of interest rate swaps may be considered in the future.

24 Lease commitments

Future lease payments in respect of finance leases are due as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Within one year	**326**	296	**326**	296
Within two to five years	**1,303**	1,184	**998**	907
After five years	**6,148**	6,016	**1,808**	1,865
	7,777	7,496		
Less: Future interest payments	**(4,645)**	(4,428)		
Present value of lease obligations	**3,132**	3,068	**3,132**	3,068
Analysed as:				
Amount due for settlement within one year			**326**	296
Amount due for settlement after one year			**2,806**	2,772
Present value of lease obligations			**3,132**	3,068

Lease commitments are in respect of property leases where the initial term of the lease is in excess of 25 years and the conditions of the lease are in keeping with a finance lease. There are no finance leases where the Group itself is the lessor. The interest rate applied in calculating the present value of the payments is the incremental borrowing cost of the Group in relation to each lease. The fair value of the lease payments is estimated as £3.1m (2010: £3.1m).

The total future minimum rentals payable and receivable under operating leases over the remaining lives of the leases are:

Payments due:	**Payable 2011 £'000**	**Receivable 2011 £'000**	Payable 2010 £'000	Receivable 2010 £'000
Within one year	**51,558**	**3,401**	47,719	3,399
Within two to five years	**179,517**	**10,248**	170,417	11,124
After five years	**384,059**	**26,673**	372,325	28,682
	615,134	**40,322**	590,461	43,205

The Group has entered into a number of property leases on standard commercial terms, both as lessee and lessor. There are no restrictions imposed by the Group's operating lease arrangements, either in the current or prior year.

Included within the minimum rentals are amounts payable on properties where the rental payment is based on turnover. For these properties, primarily in the Group's Concession business, the amount included above is the minimum guaranteed rent as detailed in the concession agreement. Where there is no minimum guaranteed rent, the amount included is based on the estimated amount payable.

25 Capital commitments

	2011 £'000	2010 £'000
Authorised and contracted for:	**13,975**	13,251

26 Contingent liabilities

The Group has assigned a number of leases to third parties that were originally completed prior to 1 January 1996 and are therefore unaffected by the Landlord and Tenant (Covenants) Act 1995 and also a number of leases completed after this date that were the subject of an Authorised Guarantee Agreement. Consequently, should the current tenant default, the landlord has a right of recourse to The Restaurant Group plc, or its subsidiaries, for future rental payments. As and when any liability arises, the Group will take whatever steps necessary to mitigate the costs.

27 Related party transactions

Living Ventures Restaurants Group Limited is a related party to The Restaurant Group plc through the Group's 38% holding. A loan note of £10.4m is due from LV Finance, a subsidiary of Living Ventures Restaurants Group Limited, which attracts interest at the rate of LIBOR. During the year ended 1 January 2012, £0.2m of interest was accrued of which the Group recognised £0.1m (2010: £0.1m of which the Group recognised £nil). In the 52 weeks ended 1 January 2012 a further £0.8m of interest was received as part payment of the accrued interest, all of which was recognised in the income statement. Consequently in addition to the loan note of £10.4m, at 1 January 2012 £0.5m of interest receivable was still outstanding, of which, under the terms of the agreement, all was overdue. Further details are provided in note 12.

Alan Jackson was a non-executive director of Charles Wells Limited, an independent brewing, pub and distribution company, until January 2012 when he retired from the board. During 2005, The Restaurant Group plc entered into a lease for a site owned by Charles Wells Limited and subsequently this site was converted into a Frankie & Benny's restaurant. No premium was paid by the Group to Charles Wells Limited. The Group has entered into the lease with Charles Wells Limited, on an arm's length basis, with an annual rent of £73,850 per annum. In addition, the Group purchased products with a value totalling £0.03m (2010: £0.7m) from Charles Wells Limited during the year, on an arm's length basis. No balance was directly outstanding at the year end. Alan Jackson received no remuneration or compensation in respect of these transactions.

Remuneration in respect of key management personnel, defined as the Directors for this purpose, is disclosed in note 5. Further information concerning the Directors' remuneration is provided in the Directors' remuneration report on pages 30 to 35, of which pages 33 to 35 are audited.

Independent auditor's report

to the members of The Restaurant Group plc

We have audited the parent company financial statements of The Restaurant Group plc for the 52 week period ended 1 January 2012 which comprise the Company balance sheet and the related notes (i) to (v). The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 1 January 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the report of the Directors for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of The Restaurant Group plc for the 52 week period ended 1 January 2012.

Timothy Steel (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
29 February 2012

Company financial statements – under UK GAAP

Company balance sheet	Note	At 1 January 2012 £'000	At 2 January 2011 £'000
Fixed assets			
Investments in subsidiary undertakings	i	**131,354**	129,117
		131,354	129,117
Current assets			
Debtors			
Amounts falling due within one year from Group undertakings		**181,353**	150,636
		181,353	150,636
Creditors			
Amounts falling due within one year to Group undertakings	ii	**(161,213)**	(136,792)
Net current liabilities		**20,140**	13,844
Total assets less current liabilities		**151,494**	142,961
Net assets		**151,494**	142,961
Capital and reserves			
Called up share capital	v	**56,319**	56,101
Share premium account	v	**23,982**	23,234
Other reserves	v	**(7,115)**	(6,302)
Profit and loss account	v	**78,308**	69,928
Shareholders' funds		**151,494**	142,961

The financial statements of The Restaurant Group plc (company registration number SC030343) on pages 68 to 70 were approved by the Board of Directors and authorised for issue on 29 February 2012 and were signed on its behalf by:

Alan Jackson
Stephen Critoph ACA

Accounting policies and basis of preparation

Basis of accounting
The accounts for the Company have been prepared under UK Generally Accepted Accounting Practice, whilst the Group accounts have been prepared under International Financial Reporting Standards. The Company accounts have been prepared under the historical cost convention in accordance with applicable UK accounting standards and on a going concern basis.

Investments
Investments are valued at cost less any provision for impairment.

Dividends
In accordance with FRS 21 "Events after the Balance Sheet Date", dividends declared after the balance sheet date are not recognised as a liability at that balance sheet date, and are recognised in the financial statements when they have received approval by shareholders.

Share-based payment transactions
The share options have been accounted for as an expense in the company in which the employees are employed, using a valuation based on the Stochastic simulation model.

In accordance with an available election in FRS 20 "Share-based payments", awards granted before 7 November 2002 have not been subject to a charge. An increase in the investment held by the Company in the subsidiary in which the employees are employed, with a corresponding increase in equity, is recognised in the accounts of the Company. Information in respect of the Company's share-based payment schemes is provided in note 20 to the consolidated financial statements.

The value is accounted for as a capital contribution in relevant Group subsidiaries that employ the staff members to whom awards of share options have been made.

i) Investment in subsidiary undertakings

	Shares £'000	Loans and other £'000	**Total £'000**
Cost			
At 3 January 2011	90,587	39,952	130,539
Additions – share-based payment schemes	–	2,237	2,237
At 1 January 2012	**90,587**	**42,189**	**132,776**
Amounts written off			
At 3 January 2011 and 1 January 2012	**888**	**534**	**1,422**
Net book value at 3 January 2011	89,699	39,418	129,117
Net book value at 1 January 2012	**89,699**	**41,655**	**131,354**

Company financial statements – under UK GAAP
(continued)

i) Investment in subsidiary undertakings continued

The Company's operating subsidiaries, listed below, are held by an intermediate holding company (TRG (Holdings) Limited):

	Holding	Proportion of voting rights and shares held at 1 January 2012
The Restaurant Group (UK) Limited*	Ordinary shares	100%
Chiquito Limited	Ordinary shares	100%
Blubeckers Limited	Ordinary shares	100%
Brunning and Price Limited	Ordinary shares	100%
Frankie & Benny's S.L.	Ordinary shares	100%
DPP Restaurants Limited	Ordinary shares	100%

* City Centre Restaurants (UK) Limited was renamed The Restaurant Group (UK) Limited on 10 November 2011.

Other than Frankie & Benny's S.L., the Company's principal operating subsidiaries are registered in England and Wales, and operate restaurants in the United Kingdom. Frankie and Benny's S.L. is registered in Spain and until June 2011, operated three restaurants in that country. For more information, see note 4 of the consolidated accounts.

All other subsidiary undertakings are wholly owned by the Company or one of its subsidiaries and are dormant.

ii) Creditors – amounts falling due within one year
In accordance with FRS 21, the proposed final dividend in respect of 2011 is not recorded as a liability in these financial statements as it was declared after the balance sheet date and is subject to approval by shareholders.

iii) Profit attributable to members of the holding Company
As permitted by section 408 of the Companies Act 2006, a separate profit and loss account has not been presented for the holding Company. During the year the Company recorded a profit of £30.7m, representing paid and accrued internal preference dividend income (2010: £48.6m representing paid and accrued internal preference dividend income, of which £17.9m related to the year ended 27 December 2009). Remuneration of the auditors is borne by a subsidiary undertaking (refer to note 3 in the consolidated accounts).

iv) Employee costs and numbers
All costs of employees and Directors are borne by a subsidiary undertaking. At 1 January 2012 the Company employed three persons (2 January 2011: three persons).

v) Share capital and reserves

	Share capital £'000	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
As at 3 January 2011	**56,101**	**23,234**	**(6,302)**	**69,928**	**142,961**
Issue of shares	218	748	–	–	966
Employee share-based payment schemes	–	–	2,237	–	2,237
Employee benefit trust – purchase of shares	–	–	(3,050)	–	(3,050)
Profit for the year	–	–	–	30,717	30,717
Dividends	–	–	–	(22,337)	(22,337)
As at 1 January 2012	**56,319**	**23,982**	**(7,115)**	**78,308**	**151,494**

Details of share issues during the year are given in note 20 of the consolidated accounts and details of the dividends paid and proposed during the year are given in note 9 of the consolidated accounts.

Group financial record

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Revenue	**487,114**	465,704	435,743	416,530	366,710
Adjusted operating profit	**61,185**	58,556	53,360	54,231	48,207
Underlying interest	**(902)**	(2,674)	(3,331)	(5,306)	(3,978)
Share of post-tax result in associated undertaking	**–**	–	–	–	(749)
Adjusted profit before tax	**60,283**	55,882	50,029	48,925	43,480
Non-trading (charges) / credits	**(11,675)**	596	(1,695)	(1,794)	(660)
Profit on ordinary activities before tax	**48,608**	56,478	48,334	47,131	42,820
Tax	**(14,231)**	(16,353)	(11,062)	(14,914)	(13,644)
Profit for the year	**34,377**	40,125	37,272	32,217	29,176
Basic earnings per share	**17.19p**	20.16p	18.90p	16.38p	14.90p
Adjusted earnings per share	**21.86p**	19.95p	17.48p	16.67p	14.64p
Proposed total dividend per share for the year	**10.50p**	9.00p	8.00p	7.70p	7.25p
Dividend cover (excluding non-trading items)	**2.08**	2.22	2.19	2.16	2.02
Employment of finance					
Property, plant and equipment	**269,141**	259,583	254,841	250,722	228,757
Other non-current assets	**26,433**	26,433	26,241	26,241	26,516
Net current liabilities	**(62,641)**	(66,518)	(68,124)	(66,092)	(67,524)
Long-term liabilities	**(75,651)**	(74,785)	(97,026)	(117,265)	(110,595)
	157,282	144,713	115,932	93,606	77,154
Financed by:					
Equity shareholders' funds	**157,282**	144,713	115,932	93,606	77,154
Net debt	**(41,593)**	(46,924)	(66,684)	(78,884)	(76,573)
Gearing	**26.4%**	32.4%	57.5%	84.3%	99.2%

Shareholder information

Directors
Alan Jackson
Non-executive Chairman

Andrew Page
Chief Executive Officer

Stephen Critoph
Group Finance Director

Trish Corzine
Executive Director, Concessions

Tony Hughes
Non-executive

Simon Cloke
Non-executive

Company Secretary
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Financial calendar
Annual General Meeting
17 May 2012

Proposed final dividend – 2011
Announcement – 29 February 2012
Ex-dividend – 27 June 2012
Record date – 29 June 2012
Payment date – 19 July 2012

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