Another year of growth

Annual Report 2012

the
restaurant
group plc

The Restaurant Group plc ("TRG" or "the Group") operates 422 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 business which trades on over 60 sites, principally at UK airports.

Financial highlights

The Group had a strong performance in 2012:

- Revenue increased to £533m (like-for-like sales +4.5%)
- Adjusted EBITDA increased to £95.5m*
- Adjusted profit before tax increased to £64.6m*
- Adjusted EPS increased 10.2% to 24.1p per share*
- Proposed full year dividend increased 12.4% to 11.8p per share
- Statutory profit before tax of £64.6m
- Statutory EPS of 24.1p

Operations strongly cash generative and net debt further reduced, by £5.6m to £36m

Roll out continues

- 28 new sites opened in the period
- 28-35 new sites targeted for 2013

Over 700 new jobs created in 2012

Strong current trading, with total sales up 14% and like-for-like sales at 6.5% for the eight weeks to 24 February 2013

*Results marked as adjusted are stated excluding non-trading items.

Revenue (£m)

+9%

12	533.0
11	487.1
10	454.0
09	435.7
08	416.5

Adjusted EBITDA (£m)

+6.5%

12	95.5
11	89.7
10	83.4
09	79.6
08	77.5

Adjusted profit before tax (£m)

+7%

12	64.6
11	60.3
10	54.0
09	50.0
08	48.9

Adjusted EPS (p)

+10%

12	24.08
11	21.86
10	19.25
09	17.48
08	16.67

Dividend per share (p)

+12%

12	11.8
11	10.5
10	9.0
09	8.0
08	7.7

At a glance

Scotland – 52
28 Frankie & Benny's
08 Chiquito
08 Garfunkel's
08 TRG Concessions

Northern Ireland – 06
05 Frankie & Benny's
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Wales – 21
13 Frankie & Benny's
03 Chiquito
05 Pub restaurants

South West – 24
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06 Chiquito
01 Garfunkel's
02 TRG Concessions

South East – 102
36 Frankie & Benny's
14 Chiquito
20 Pub restaurants
29 TRG Concessions
03 Coast to Coast

London (inside the M25) – 46
13 Frankie & Benny's
07 Chiquito
16 Garfunkel's
05 Pub restaurants
05 TRG Concessions

East Anglia – 24
13 Frankie & Benny's
03 Chiquito
02 Pub restaurants
06 TRG Concessions

Midlands – 47
35 Frankie & Benny's
09 Chiquito
02 TRG Concessions
01 Coast to Coast

North West – 62
32 Frankie & Benny's
09 Chiquito
08 TRG Concessions
13 Pub restaurants

North East – 38
27 Frankie & Benny's
09 Chiquito
01 TRG Concessions
01 Coast to Coast

217 restaurants

12 new openings in 2012

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, standalone sites and at six airports. The estate comprises of over 215 restaurants spread across the country from Aberdeen to St Austell.

www.frankieandbennys.com

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

American Restaurant & Bar

5 restaurants

4 new openings in 2012

Coast to Coast takes its inspiration from the Lincoln Highway, which spans the United States of America from New York to San Francisco. This is reflected in our great range of authentic food and drinks, all served with superb hospitality and service. We offer the best of classic American food – Aberdeen Angus beef burgers, deep dish style Chicago pizzas, distinctive steaks, amazing seafood dishes, wraps and South-West American specials. Coast to Coast is more than just a restaurant, with a great bar serving speciality cocktails and a wide range of beers, spirits and traditional milkshakes. The music is an eclectic mix of Motown and American Rock, songs you may not have heard in a little while, but are absolutely guaranteed to lift your spirits and make you smile. We currently have five restaurants open and see significant opportunities to grow Coast to Coast into a great brand.

www.c2crestaurants.com

Strong brands focused on the growing casual eating-out market

422
restaurants and pub restaurants

42 million
meals a year

Pub restaurants

45 pub restaurants

4 new openings in 2012

Really great pubs are timeless, familiar and very British. Everybody knows what their perfect pub looks like. Each of ours has its own style and personality, and you'll always find a warm welcome, set against a backdrop of ageless interiors. 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. We serve a wide selection of cask ales which changes frequently and always try to include a local brew or two. We have decent but not over the top wines and the essence of our freshly prepared food is classic British dishes, complemented by more exotic influences from other parts of the world: what we believe is modern British cookery. 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. We were delighted to receive the Good Pub Guide's award for Pub Group of the Year for 2013.

www.trgplc.com/our-restaurants
www.brunningandprice.co.uk

trg concessions

61 sites

6 new sites opened in 2012

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 over 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 exciting sector.

www.trgconcessions.co.uk

GARFUNKEL'S RESTAURANT

25 restaurants

2 new openings in 2012

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 restaurants offer a 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.

www.garfunkels.co.uk

Chairman's statement

"I am delighted to report that the Group delivered another strong performance in 2012, with growth in revenues, profits, cash flow and earnings per share."

10%
increase in earnings per share

Like-for-like sales growth for 2012 was strong, rising 4.5% on the previous year. Building on a good first half performance, the Group saw an acceleration in like-for-like sales growth and roll out activity as we moved through the second half of the year. This momentum has continued with like-for-like sales for the first eight weeks of the year to 24 February 2013 6.5% ahead of the previous year. This represents a strong start and bodes well for 2013.

Although conditions for consumer-facing businesses were again tough in 2012, our consistent focus on our customers, standards of service and value for money meant that the Group has once again delivered a record level of profits and earnings.

Our new development activity was busier than the previous year and, having opened eight new restaurants by the end of the first half, we saw a significant increase in pace during the second half, opening a further 20 new sites. Much of this development took place in the final eight weeks of the year when we opened 12 new restaurants. We are very pleased with the performance of our new restaurants and we are confident that they are set to deliver superb returns.

The performance of our new Coast to Coast restaurants gives us particular pleasure. This brand has a distinct and scaleable offering, and represents the start of what we believe is a significant new leg to our Leisure business.

In 2012, the Group's revenues grew by 9.25% to £533m (2011: £487m), adjusted profit before tax grew by 7% to £64.6m (2011: £60.3m) and adjusted earnings per share increased by 10% to 24.1p (2011: 21.9p). This increase in adjusted earnings per share represents a compound annual growth rate of 10.5% over the five years to December 2012.

A record level of profits and earnings

9.25%
total sales increase

12%
increase in dividend per share

This is a significant achievement, secured during the worst recession for generations, and demonstrates the broad appeal of our brands and the resilience and consistently positive performance of The Restaurant Group.

During 2012 we experienced a continuation of the input cost pressures from the previous year and household incomes also remained pressured. Despite these challenges, our team diligently managed our businesses to ensure that operating margins were maintained at a similar level to 2011 whilst also securing a significant uplift in revenue and profits.

As a result of this strong performance, the Board is recommending a final dividend of 7.3p per share giving a total for the year of 11.8p per share (2011: 10.5p) an increase of 12%. Subject to shareholder approval at the Annual General Meeting to be held on 15 May 2013, the final dividend will be paid on 10 July 2013 and the shares will be marked ex-dividend on 19 June 2013.

In 2013, we expect to open between 28 and 35 new restaurants and the composition and size of our new site pipeline is better than we have seen for a number of years.

TRG has consistently demonstrated the resilient nature of its business model and this is another set of record 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 a product of the hard work, expertise and dedication of our Directors, senior management and staff, under the superb leadership of Andrew Page. On behalf of the Board I would like to record our thanks to all our teams across the country.

During 2013 we will be saying farewell to Trish Corzine and Robert Morgan (Executive Director, Concessions and Company Secretary respectively). Trish joined the Company almost 20 years ago and has served on the Board for nine years. Robert joined 11 years ago and has been Company Secretary for eight years. I would like to thank both of them, to wish Trish a long and happy retirement and Robert success in his next role.

We have had a strong start to the current year, with sales growth of 14% (like-for-like sales up 6.5%) for the first eight weeks of the year and we are looking to build further on this as we move through the year. We have an outstanding business with distinct and leading market positions, our brands are well recognised and we deliver superb 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
27 February 2013

Chief Executive Officer's review of operations

"The Restaurant Group made further profitable progress in 2012, building on the solid growth secured in the previous year."

Introduction

Although consumer-facing businesses continued to be adversely affected by the weak economic backdrop and the squeeze on household finances, the Group traded well with growth accelerating as we moved through the year.

The Group achieved like-for-like sales growth in 11 out of 12 months. The final quarter saw strong growth and this was particularly encouraging against tough prior year comparatives. I am pleased to report that this trend has continued into 2013 with like-for-like sales growth of 6.5% and total sales growth of 14% for the eight weeks to 24 February 2013.

As in 2011, all of the constituent parts of the Group saw growth and, despite having to contend with input cost pressures, the Group achieved strong growth in adjusted profits and margins were maintained at a similar level to the previous year. As in 2011, like-for-like profit growth was also very strong. Total sales in 2012 were £533m which was 9.25% ahead of the prior year (like-for-like sales were 4.5% ahead) and adjusted earnings per share increased by 10%; this represents a good result and augurs well for the future.

Results*

** Results marked as adjusted are stated excluding non-trading items.*

TRG's trading metrics performed well for the 52 week period to 30 December 2012:

- Total sales increased by 9.25%
- Like-for-like sales increased by 4.5%
- 42 million meals sold
- Adjusted EBITDA increased by 6.5% to £95.5m
- Adjusted operating profit increased by 8.6% to £66.4m
- Adjusted operating profit margin was 12.5% (2011: 12.6%)
- Adjusted pre-tax profit increased by 7% to £64.6m
- Adjusted earnings per share increased by 10% to 24.1p
- Cash flow generated from operations increased by £10.2m to £102.0m
- Free cash flow increased by £7.8m to £69.2m
- Net debt, at 0.38x Group adjusted EBITDA, fell by £5.6m to £36m

Our people and our business

Throughout TRG we aim continually to evolve and improve our offering – food, service, facilities and standards.
Our 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. We pay close attention to our children's offerings to ensure that they afford the opportunity to form part of a sensibly balanced diet. We are also committed to support the government's initiatives to encourage healthier lifestyles and, to this end, we have made a number of pledges including salt reduction and encouraging physical activities. As part of our ongoing health and safety assurance processes we conduct testing of products and facilities at our suppliers. We have, for a number of years, retained a firm of specialists to conduct much of this testing. This testing is in addition to our suppliers' own testing. In the light of the recent issues surrounding horsemeat we have, for the foreseeable future, decided to increase the frequency and extent of product testing. To date we have not identified horsemeat contamination in the products supplied at our restaurants.

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, providing the skill sets enabling them to be 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 11,000 people throughout the UK and during 2012 more than 700 new members joined the TRG team. As we continue to open new restaurants, the opportunities for our people to progress and secure promotion increase and this helps TRG to attract and retain high quality team members.

We were delighted when The Good Pub Guide awarded Brunning & Price 'Pub Group of Year' for an unprecedented fourth time in 2013. Brunning & Price were described as "…the doyen of the smaller independent pub groups".

In addition, the Dysart Arms in Bunbury won the Cheshire County Dining Pub of the Year for the fourth time, the Fox in Chetwynd Aston won the Shropshire Dining Pub of the Year for the fourth year in succession and the Hand and Trumpet in Wrinehill was awarded the Staffordshire Dining Pub of the Year, also for the fourth year in succession.

Our brands

Frankie & Benny's (217 units)

Frankie & Benny's performed superbly in 2012, with strong performances across all the key metrics – like-for-like sales, revenues, margins and profits. We opened 12 new restaurants of which six were on cinema sites. Trade at the new openings has been strong and they are on track to deliver excellent returns. We anticipate opening between 13 and 17 new Frankie & Benny's restaurants in 2013. The enduring appeal and consistent success of the Frankie & Benny's brand gives us a great deal of confidence that the ongoing roll out potential for this brand is significant.

Coast to Coast (5 units)

The performance of our new brand, Coast to Coast, has been outstanding. Our first Coast to Coast restaurant opened alongside an existing Frankie & Benny's restaurant in Brighton at the end of 2011. During 2012 we opened four new Coast to Coast restaurants in Stevenage, Newcastle, Solihull and Gunwharf Quays in Portsmouth and four of our Coast to Coast restaurants now trade alongside existing TRG restaurants. We are very encouraged by the fact that not only are our Coast to Coast restaurants trading very well, and are set to deliver strong returns, but also that there has been no detrimental impact upon the adjacent existing TRG restaurants. We are planning to open four to six new Coast to Coast restaurants in 2013. We believe that the Coast to Coast brand could have significant roll out potential – it has broad appeal and is distinct from TRG's other brands meaning that it complements both Frankie & Benny's and Chiquito. We have identified several dozen locations where we are confident that a Coast to Coast restaurant would trade well and the process of building a new site pipeline is well in hand.

Chiquito (69 units)

Chiquito delivered a good performance in 2012 with sizeable increases in revenues, profits and margins. No new Chiquito restaurants opened during 2012, although we anticipate opening between four and six new restaurants in 2013.

Garfunkel's (25 units)

Garfunkel's traded well during 2012. Although the impact of the Olympic Games upon Garfunkel's trade was adverse, from late summer onwards the pick-up in trade was significant and this meant that the brand delivered like-for-like sales growth for the full year and a good level of profits. We opened two new Garfunkel's in 2012 which are expected to deliver good returns.

Pub restaurants (45 units)

Our Pub restaurants business enjoyed a good year in 2012. With the conclusion of the programme of ex-Blubeckers site conversions behind them, the team has been able to capitalise on the opportunities to grow the business and this has produced a very good level of performance. Turnover, margins and profits were well ahead on the previous year and the four new openings are performing significantly ahead of our expectations and are set to deliver strong returns. We expect to open three to five new Pub restaurants this year and, looking forward, we believe that this business has the potential to grow significantly. This strong performance was capped off with the news that we had won the Good Pub Guide's "Pub Group of the Year" award for 2013 – a fitting testament to a dedicated crew.

Concessions (61 units)

Our Concessions business traded superbly during 2012 with good increases in revenues and profits. Although passenger numbers at UK airports were barely above 2011 levels our business delivered strong like-for-like sales growth as it increased market share and improved spend per passenger. During the year we opened six new units and these are set to deliver strong returns. We expect to open two to four new Concessions restaurants in 2013.

Chief Executive Officer's review of operations
continued

+4.5%
like-for-like sales growth

Over
700
new jobs created

The TRG business model

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. 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 has a consistent record of converting profits into cash at a very healthy rate and delivering increasing cash flows each year, and in 2012 this was again the case.

In 2012 the Group generated £102m of operating cash flow and having paid a corporation tax bill of £16.1m, interest payments of £0.9m and spending £15.8m on capital improvements to our existing estate the Group's free cash flow amounted to almost £70m. This was £8m ahead of the previous year and continued the Group's record of growing cash flow each year.

This cash is put to good use – in 2012 we spent almost £40m on opening new restaurants and acquiring the freeholds of four of our existing Pub restaurants which will, in turn, contribute to the continuing growth in the Group's profits and cash flows; we returned almost £22m to our shareholders by way of dividends and we reduced our bank debt by £5.6m.

This virtuous circle of rising profits being converted into higher levels of cash flow which is then invested in new restaurants which, in turn, deliver high levels of return on invested capital represents a highly efficacious and value-accretive model. TRG's business model enables the Group to grow in a predominantly organic and highly value-accretive way, funded from its internally generated funds. Our model delivers high returns, growth and of course, income in the form of dividends. The model is robust, resilient and rewarding for our shareholders.

TRG's capital structure

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 profitably;
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 reduce its levels of debt significantly. In the five years since 2007, net debt has reduced from £77m to £36m. During this period the Group has invested £146m in opening 137 new restaurants and acquiring freeholds of our existing Pub restaurants, £63m (maintenance capex) has been invested in maintaining the existing estate and £89m 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.

Our touchstones are cash flow and return on investment

28
new restaurants opened

7%
increase in adjusted profit before tax

Although economic conditions have stabilised over the past 12 months the outlook, particularly in the UK, remains opaque. Forecasts for GDP growth have been subject to regular downward revisions over the past year and it is unclear whether 2013 will be a year of “low” or “no” growth. Whilst these economic conditions prevail, we intend to maintain our very prudent approach to capital structure. We will however keep this under regular review and, taking into account the key considerations set out above, determine what, if any, adjustments to the Group’s capital structure are appropriate. Any changes which are made would be in line with our policy of maintaining a sensible and prudent capital structure, appropriate for a business which is characterised by operational gearing and financial gearing (primarily by virtue of our lease–based business model), whilst also continuing to grow shareholder value.

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 recent 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. There are a significant number of new schemes in developers’ pipelines and, at some point, these are likely to be activated. We are now starting to see projects which had been kept on the “back burner” by developers, coming on stream. Although these are mainly the smaller, edge of town, schemes we view this as a positive development and this suggests an improving trend in new development activity.

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. Over the past three years, many of our new restaurant opportunities have been secured from a variety of differing sources and the work that we are doing in this regard has had the benefit of widening the potential paths to further roll out growth for the Group.

During 2013 we are expecting to open between 28 and 35 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 levels of 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 quite tough. Selling goods and services to the UK consumer remains quite a challenge.

Chief Executive Officer's review of operations
continued

£102m
cashflow from operations

11,000
people employed throughout the UK

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.

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) 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 still are. Our Group has adopted a different approach, focusing on value, choice and consistency of service and standards. Last year, the proportion of TRG's revenues which were driven by promotions was, as in the previous year, very modest. We have also increasingly harnessed digital media to broaden awareness of our brands and what we can offer. These tactics have 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.

Growth in eating out is a secular trend, driven largely by socio-economic factors (ageing population, busy lifestyles, more women in the workplace etc.) and this is set to continue over the longer term. Despite the current climate TRG has been able to secure good levels of like-for-like sales growth in both 2011 and 2012 and, as conditions improve and particularly when people feel more confident about their jobs and incomes, this is likely to accelerate.

Economic conditions over the past 12 months have continued to be tough with periods of significant uncertainty. The first six months of 2012 were characterised by significant swings in confidence which in part were driven by the recognition that the correction of countries' imbalances was likely to require radical and potentially very severe actions. This was particularly apparent within the Eurozone which, for much of the first half of 2012, was subject to considerable volatility.

In July 2012, the President of the ECB, Mario Draghi, announced that the ECB was ready to "do whatever it takes" to preserve the Euro. This had a rapid and sustained positive impact upon confidence within the Eurozone; together with subsequent US and developing economies' initiatives this seems to have illuminated a way forward. Although much remains to be done, this willingness to acknowledge and adapt presents an opportunity to rebalance and provides a foundation towards improving global prosperity.

Well positioned to deliver further profitable progress

The UK has benefited from these developments and, although sustained economic growth remains elusive, there are some positive signs. In particular, levels of employment are holding up well and this is very encouraging against the challenge of replacing public sector jobs with jobs in the private sector. Inflation has abated a little from the high levels seen in recent years and although pressures on household finances remain significant, the benefits of ongoing low interest rates should have a positive impact upon households' finances, consumer confidence and the propensity to spend.

Currently, the outlook for UK GDP growth in 2013 remains uninspiring and regular downward revisions in recent months indicate that a measure of caution is appropriate. At this stage, we anticipate that the economic backdrop is likely to remain similar to that experienced over recent months and accordingly we will look to manage our business to continue to deliver profitable growth against this backdrop.

Future prospects

Over the past five years, our business has experienced some difficult trading conditions and during that period sales, profits and cash flow increased every year. Also within that period we have devised and developed our new brand, Coast to Coast, and executed its initial roll out very effectively, further widening TRG's roll out path.

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 2012, during 2013 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;

→ Add high quality new restaurants that meet our investment criteria to our portfolio; and

→ Focus on cash flow, returns and growing shareholder value.

Our aim is to continue to strengthen our market positions, to judiciously roll out our brands and deliver long-term and sustainable profitable growth. The Group has demonstrated its resilience and we expect to benefit significantly from the upturn in consumer confidence that will, in due course, prevail.

2012 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 2013. The first two months of 2013 have started well with total sales 14% ahead of last year (like-for-like sales up 6.5%), and we will be looking to build further on this as we move through the year.

Andrew Page
Chief Executive Officer
27 February 2013

Group Finance Director's report

"Total revenues increased by 9.25% reflecting a 4.5% increase in like-for-like sales and a strong contribution from new openings."

Results*

**Results marked as adjusted are stated excluding non-trading items.*

2012 turned out to be another challenging year for consumer-facing businesses. Notwithstanding this, The Restaurant Group plc delivered another record set of financial results as follows:

£million	2012	2011	% change
Revenue	**532.5**	487.1	+9.3%
Adjusted operating profit	**66.4**	61.2	+8.6%
Margin %	**12.5%**	12.6%	
Adjusted interest	**(1.8)**	(0.9)	
Adjusted profit before tax	**64.6**	60.3	+7.1%
Adjusted EPS (pence)	**24.08**	21.86	+10.2%

Total revenues increased by 9.25% reflecting a 4.5% increase in like-for-like sales and a strong contribution from new openings. Total adjusted EBITDA for the year was £95.5m, and Group adjusted operating profit was £66.4m, an increase of 8.6% on the prior year. Group adjusted operating profit margin of 12.5% was marginally down on the prior year by 10 basis points. This was as a result of inflationary cost pressures and the large number of new units which opened in the final weeks of the financial year.

Adjusted net interest costs were £1.8m (2011: £0.9m). In 2011 the Group benefitted from a £0.8m payment of historical interest in respect of an outstanding loan note from Living Ventures Limited. This accounted for most of the outstanding amount and the historical loan note interest received from Living Ventures Limited during 2012 was significantly less. This, combined with the slightly higher funding costs under the new banking facility put in place at the end of 2011, account for the increased level of net interest charges.

Adjusted profit before tax of £64.6m showed an increase of over 7% compared to the prior year. Adjusted post-tax profits of £48.2m showed a 10% increase on the prior year resulting in adjusted earnings per share of 24.08p, also up 10% compared to the prior year.

Statutory profit before tax of £64.6m (2011: £48.6m) was 33% higher than the prior year and statutory earnings per share of 24.08p (2011: 17.19p) was 40% higher than the prior year.

Cash flow

Cash generation was once again extremely strong. Net cash flow from operations increased to £102.0m (2011: £91.8m). After tax, interest and maintenance capital expenditure, free cash flow was £69.2m, an increase of 13% compared to the prior year. This free cash flow generation financed all of the Group's development capital expenditure and dividend payments. Net debt fell by £5.6m to £36.0m. Set out below is a summary cash flow statement for the full year:

	2012 £m	2011 £m
Adjusted operating profit	**66.4**	61.2
Working capital and non-cash adjustments	**6.5**	2.1
Depreciation	**29.1**	28.5
Cash flow from operations	**102.0**	91.8
Net interest paid	**(0.9)**	(0.3)
Tax paid	**(16.1)**	(15.7)
Maintenance capital expenditure	**(15.8)**	(14.4)
Free cash flow	**69.2**	61.4
Development capital expenditure	**(39.2)**	(29.3)
Dividends	**(21.7)**	(22.3)
Disposals	**0.1**	(2.8)
Net cash flow from share issues	**0.1**	1.0
SWAP termination payment	**–**	(0.4)
Purchase of shares for employee benefit trust	**(2.9)**	(3.1)
Other	**–**	0.8
Reduction in net debt	**5.6**	5.3
Net bank debt at start of year	**(41.6)**	(46.9)
Net bank debt at end of year	**(36.0)**	(41.6)

Cost inflation

Input cost inflation continues to be an issue. As has been widely commented on, food and utility costs in particular increased well ahead of the general rate of UK inflation in 2012. Although we take sensible steps to mitigate the impact of inflation (e.g. with fixed or capped price contracts on many of our key inputs), we are not immune to these pressures.

Looking forward we do not anticipate any abatement in the inflationary pressures on food input costs. Most of our key utility contracts are fixed through until October 2013.

A very strong financial position

Over the next few months we expect to enter into further forward contracts on utilities.

On labour costs the key driver is the national minimum wage which increased by 1.8% in October 2012. This is one area of cost where inflationary pressures remain at relatively benign levels compared to earlier years. Rental cost inflation has also been running at lower levels compared to the situation up until 2008. We are now starting to see some small increase in the level of rent reviews, although this continues to be at low levels compared to those experienced prior to 2009.

Capital expenditure

During the year the Group invested a total of £55.0m in capital expenditure (2011: £43.7m). £15.8m of this was spent on refurbishment and maintenance expenditure (2011: £14.4m).

Development capital expenditure in the year was £39.2m (2011: £29.3m). This includes the 28 new sites opened in the year (three of which were freeholds). In addition we acquired the freeholds of four pubs which we previously operated as tenancies from Enterprise Inns. The 28 sites opened during the year are performing very satisfactorily, generating average levels of turnover and financial return significantly ahead of our feasibility requirements.

We continue to be 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. This process includes detailed financial modelling, sensitivity analysis, demographic analysis, a detailed review of competitors and a review of planned or 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 ahead of our high hurdle rates.

The table below summarises opening and closures in the year:

	Year end 2011	Opened	Closed	**Year end 2012**
Frankie & Benny's	207	12	(2)	**217**
Coast to Coast	1	4	–	**5**
Chiquito	69	–	–	**69**
Garfunkel's	23	2	–	**25**
Pub restaurants	42	4	(1)	**45**
Concessions	58	6	(3)	**61**
Total	**400**	**28**	**(6)**	**422**

Financing and key financial ratios

As detailed in last year's Annual Report we have a £140m five year facility in place which runs until October 2016. There are two covenants under this facility which are summarised in the table below, together with other financial ratios:

	Banking covenant	**2012**	2011
Banking covenant ratios			
EBITDA / interest cover	>4x	**41x**	47x
Net debt / EBITDA	<3x	**0.38x**	0.48x
Other ratios			
Fixed charge cover	n/a	**2.6x**	2.6x
Balance sheet gearing	n/a	**20%**	26%

As can be seen from this table the Group has substantial headroom against both of the banking covenants and is in a very strong financial position. This strong financial position means that we are able to accelerate the new openings programme while at the same time investing in the existing estate, a very important factor in maintaining a strong and successful business going forward.

Tax

The total tax charge in the year was £16.3m, analysed as follows:

	2012			2011		
	Trading £m	**Non-trading £m**	**Total £m**	Trading £m	Non trading £m	Total £m
Corporation tax	**18.1**	**–**	**18.1**	18.0	(1.1)	16.9
Deferred tax	**(1.8)**	**–**	**(1.8)**	(1.4)	(1.3)	(2.7)
Total	**16.3**	**–**	**16.3**	16.6	(2.4)	14.2
Effective tax rate	**25.3%**			27.5%		

The effective tax rate of 25.3% has reduced compared to the prior year, primarily reflecting the reduction in UK headline corporation tax rates. We expect our effective tax rate to continue to fall in 2013 and 2014 in line with the government's planned reduction in corporation tax rates. The Group's effective tax rate will continue to be higher than the headline UK tax rate, primarily due to significant levels of disallowable expenditure in our capital expenditure investments.

Stephen Critoph
Group Finance Director
27 February 2013

Board of Directors

Alan Jackson
Non-executive Chairman

Aged 69, 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 54, 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.

Stephen Critoph
Group Finance Director

Aged 52, 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, Concessions

Aged 55, 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 64, 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 45, 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.

Report of the Directors

The Directors present their Annual Report and the Group Accounts for the year ended 30 December 2012.

Results and dividends

The results for the year ended 30 December 2012 are presented under International Financial Reporting Standards ("IFRSs"). The Report and Accounts are drawn up on a 52 week reporting basis ending on 30 December 2012 (2011: 52 week reporting basis ending on 1 January 2012). The results for the year are set out in the consolidated income statement on page 41. This shows a Group profit after tax of £48.2m (2011: £34.4m). An interim dividend of 4.5p per share was paid on 10 October 2012. The Directors propose a final dividend of 7.3p per share, which is subject to approval at the Company's Annual General Meeting to be held on 15 May 2013. Should this be approved, the final dividend will be paid on 10 July 2013, bringing the ordinary dividend per share payable in respect of 2012 to 11.8p (2011: 10.5p), an increase of 12% on the prior year.

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 6 to 13, which are incorporated in this report by reference.

Directors

Full details of the Directors of the Company are given on pages 14 and 15. The Directors who held office during 2012 were as follows:

Executive Directors

- Andrew Page
- Stephen Critoph
- Trish Corzine

Non-executive Directors

- Alan Jackson
- Tony Hughes
- Simon Cloke

In respect of 2012, 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. Ms Corzine has advised the Board that she wishes to retire from her role as an executive Director of the Company, and, consequently, she will not seek re-election at the Annual General Meeting to be held on 15 May 2013. Ms Corzine will therefore cease to be a Director of the Company with effect from the end of the Annual General Meeting to be held on 15 May 2013.

In accordance with the Code, the other Directors will be subject to re-election at the Annual General Meeting to be held on 15 May 2013.

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 28 to 33.

Directors' shareholdings

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

	At 26 February 2013	At 30 December 2012	At 1 January 2012
Executive Directors			
Andrew Page	681,486	681,486	631,486
Stephen Critoph	358,197	358,197	283,197
Trish Corzine	325,830	325,830	274,705
Non-executive Directors			
Alan Jackson	400,191	400,191	400,191
Tony Hughes	400,000	400,000	400,000
Simon Cloke	15,000	15,000	15,000

Details of the Directors' share options are disclosed in the Directors' remuneration report on pages 32 and 33. The closing mid-market price of the ordinary shares on 30 December 2012 was 382.9p and the range during the financial year was 269.2p to 391.7p.

Share capital structure

The Company has one class of shares, ordinary shares of 28⅛p. As at 30 December 2012, the issued, called up and fully paid number of shares in issue was 200,298,132 shares. There are no preference shares or special rights pertaining to any of the shares in issue.

Following the 2012 Annual General Meeting the Directors have had the authority to allot shares up to an aggregate nominal amount of £18,773,553 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 15 May 2013 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 2012 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 £2,816,033 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 15 May 2013 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 2012 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 20,025,123 ordinary shares (which represented 10% of the Company's issued ordinary share capital at the time of the Notice of the 2012 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 13 February 2013 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 issue share capital
BlackRock Inc.	13,864,261	6.92%
M&G Investment Management Ltd	10,932,888	5.46%
Legal & General Investment Management Ltd	9,930,358	4.96%
Aviva Investors	9,054,168	4.52%
Standard Life	8,050,502	4.02%
Lloyds Banking Group	7,720,227	3.85%
F&C Asset Management plc	6,605,215	3.30%
Old Mutual Asset Managers	6,154,628	3.07%
New Smith Asset Management LLP	6,153,386	3.07%
Ameriprise Financial Inc.	6,025,158	3.01%

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.

The Directors note the requirements of the Revised Corporate Governance Code and the Guidance on Audit Committees. The Board will consider the requirements in detail during the year and adopt in line with the requirements for the year ended 29 December 2013.

Statement of compliance with the UK Corporate Governance Code

Throughout the year ended 30 December 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.

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 14 and 15 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 2012 there were seven 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 13 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 three Remuneration Committee meetings held during 2012. 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 28 to 33.

Nominations Committee

The Nominations Committee consists of the non-executive Directors, the non-executive Chairman and the Chief Executive Officer. It met once during 2012 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 2012 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 34 and 35. Shareholders of the Company have the opportunity to re-appoint Deloitte LLP as the external auditor of the Company at the Annual General Meeting to be held on 15 May 2013.

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, Coast to Coast, 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 business.

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 13.

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 2012, the Group like-for-like sales increased by 4.5% which followed a 3.25% increase in 2011.

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 2012 the Group opened 28 new sites (2011: 25) and plans to open 28 to 35 new restaurants during 2013.

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 2012 the Group generated £95.5m EBITDA, an increase of 6.5% on the 2011 level of £89.7m.

Operating profit margin

The Board and management closely monitor profit margins as an indicator of operating efficiency within restaurants and across the Group. For 2012 the Group adjusted operating margin was 12.5% (2011: 12.6%).

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 a monthly executive management meeting where the three executive Directors, senior operational managers and heads 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;

Report of the Directors
continued

- 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 auditor 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, given the nature of the business, it generally does not give credit to its customers. During 2011 the Group renegotiated its banking facility and a new £140m rolling facility was entered into. This facility expires in October 2016. At 30 December 2012 the Group had net debt of £36.0m (1 January 2012: £41.6m).

Based on the Group's plans for 2013 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 2012. Further information concerning the Group's capital risk management is set out in the Chief Executive's review of operations and the Group Finance Director's report.

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.

The average rate of interest charged during the year on the Group's debt was 2.64% (2011: 1.87%), and the average year-end rate was 1.75% (2011: 2.02%). On 2012 results, net interest was covered 35.4 times (2011: 35.8 times) by profit before tax, interest and non-trading items. Based on year end debt and profits for 2012, a 1% rise in interest rates would reduce profits before tax and non-trading items by 0.8% (2011: 0.9%) and interest cover would reduce to 28.0 times (2011: 27.3 times).

At 30 December 2012 the Group had gross borrowings attracting interest (including overdraft) of £50.0m (2011: £53.0m) and cash balances of £12.9m (2011: £10.2m).

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 30 December 2012 the Company had no trade creditors. The Group had an average of 33 days (2011: 39 days) purchases outstanding in trade creditors.

Donations

No donations for political purposes have been directly made by the Company during the year. During the year, £69,758 was donated by the Group to the Caudwell Children's Charity as part of the "Help Susanna Walk" appeal, with a further £75,000 raised through fundraising activities for this charity. Other charitable events, fund raising and sponsorship are organised by restaurants for organisations in their locality as described in the corporate responsibility report on pages 24 to 27.

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 on 15 May 2013.

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
27 February 2013

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 11,000 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.

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 may be 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

We have taken significant steps to reduce our "food miles" and this process will continue in 2013, 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; 147 of our food suppliers and 30 other (non-food) suppliers provide information describing their procedures and practices to the Group via SEDEX.

For customers with dietary requirements, we will shortly be providing allergen information via our website for ease of access prior to or even during their visit (via free guest Wi-Fi).

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 on-going focus during 2013.

Drink aware
All our restaurants operate a "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 in our teams has the opportunity to develop within the Group 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. This scheme is a key feature of the Group's succession planning strategy and is designed to equip managers and staff 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.

We employ over 11,000 people and continue to increase this number as we expand our business. The Group opened a further 28 restaurants during 2012 and created over 700 jobs for local communities in the process. Our policies ensure that we provide 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.

The diversity of our people means we are 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 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. Our training team is fully qualified and delivers high quality courses to all of our staff, as well as guiding new and established team members throughout their development. Training begins on the first day and is an on-going process of development and support throughout their career.

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 comprehensive 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 invested significant time and resources in health and safety matters across the Group in recent years to maintain and enhance a clean, safe environment for our customers and staff.

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 marketing, whether this is for Frankie & Benny's, with over 200 restaurants, or the individual pub at the heart of the community. TRG supports staff fundraising activities at a brand and local level.

Corporate responsibility report
continued

During 2012 we engaged in a number of local and national charitable events:

- Frankie & Benny's have helped to raise in excess of £300,000 for multiple charities. Our support for CHAS (Children's Hospice Association Scotland) alongside Real Radio, saw £100,000 raised over Easter this year following the annual CHAS Easter Bash event in Glasgow.
- During 2012, Frankie & Benny's were made aware that the daughter of one of our employees suffers from cerebral palsy. The family were going to great lengths to raise the money for five year old Susanna to have an operation in the United States that would enable her to walk unaided. A weekend of fundraising in July 2012, including a donation by the company of almost £70,000 saw Frankie & Benny's raise over £144,000; more than double the amount required for Susanna's operation. The remaining funds were donated to Caudwell Children's Charity to help assist other children in a similar situation to Susanna. Susanna had her operation in Missouri in late October 2012 and is recovering well. She took her first steps unaided just one day after surgery.
- Each year we also support BBC Children in Need and in 2012 we raised £55,000 following fundraising activity over Halloween, the October half term and the evening of the live Telethon.
- In addition to the large fundraising drives above there any many other charities that have benefitted from our support this year. We regularly host charity breakfasts whereby we offer free breakfasts in return for a donation to local charities. Coast to Coast teamed up with the Teenage Cancer Trust in 2012 raising money at various events during the year.

Junior Sports Team Sponsorship

Frankie & Benny's have a long history of sponsoring local junior sports. During 2012, we have sponsored a total of 196 junior teams across the country playing football, rugby, hockey, swimming, gymnastics, netball and much more. Not only do we provide kits for the teams, but we also take an active role during the season and invite them to enjoy end of season celebration dinners at Frankie & Benny's.

Schools visit programme

The Frankie & Benny's schools visit programme has been in place for more than four years now and continues to grow in popularity with over 1,200 visits taking place in 2012, 200 more than in 2011. Schoolchildren, accompanied by their teachers, are given the opportunity to visit our restaurants to bring curriculum based subjects such as maths, science and food hygiene to life. The children also get to make their own pizzas by choosing their toppings. Whilst we leave the cooking to the chefs, school children are given an educational activity book to complete – a pack that has been designed by educational experts. In 2012 alone, 30,000 children enjoyed the programme up and down the country and continued expansion of the scheme is expected in 2013.

Our environment

2012 has seen further work in pursuit of the Group's commitment to minimising its impact on the environment. 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 also being introduced that may in future create a direct link between environmental outcomes and financial benefits or penalties.

Following successful trials in 2011, 2012 saw the roll out of energy efficient lighting systems to almost 300 TRG sites which we estimate will save upwards of four million kilowatt hours of energy on an annual basis.

TRG is proud to have achieved the Carbon Saver Gold Standard in January 2012 in recognition of the Group's sustained reductions in energy. Through on-going investment in energy efficient equipment, energy control systems and the active involvement of our staff we aim to reduce energy consumption by 2.5% a year for five years to further reduce carbon dioxide emissions and minimise our impact on the environment.

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 and implemented in association with our energy consultants which allows us to target more inefficient sites and challenge our teams through league tables to improve their energy efficiency.

We continue to promote our energy saving campaign to all restaurants. Through the timely supply of accurate information, area managers and operational managers have access to monthly reporting designed around their needs to enable them to monitor and improve consumption. By February 2013 we had installed automated meter readers to supplement half-hourly monitoring of electricity supplies at over 99% of our eligible restaurants in Frankie & Benny's, Chiquito and Garfunkel's, and 97% of available sites for gas supplies.

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 new restaurants.

Reducing the resources we use and the waste we generate is also a key objective for the Group. In 2012:

- We recycled over 830,000 litres of used cooking oil (an increase of around 80,000 litres from 2011); waste oil is re-used at a bio-diesel production facility;
- We diverted over 7,000 tons of waste from landfill following the further implementation of mixed recycling, an increase of over 60% on the prior year; and
- Food recycling trials have proven successful and will be implemented across the estate at sites where we control the collection. We are now able to recycle food, glass, oil and also have facilities for mixed recycling.

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 in edge and out of town leisure locations, rural and semi-rural pubs and our Concessions business, which operates principally on airports. The Group has maintained a progressive dividend policy and has 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 2012 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 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 2012.

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 21 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.

Set out below is a summary of the four main elements of the remuneration package for executive Directors, together with further information on how these aspects of remuneration operate:

- → Basic annual salary and benefits;
- → Pension arrangements;
- → Annual bonus payments; and
- → Long-Term Incentive Plan ("LTIP") awards.

Key elements of remuneration

	Purpose and link to strategy	Operation	Opportunity	Performance metrics	Change in year
Basic salary	Attract and retain key personnel Reflects individual responsibilities, skills and achievement of objectives	Reviewed annually from 1 January. Increases based on role, experience, performance and consideration of the broader workforce pay review and competitor pay levels		None	Directors' salaries increased by 2% for 2013
Benefits	Health care, life assurance, car etc.	Contractual entitlement	Full maximum cost of annual policies c. £45,000 per Director	None	No change
Pension	Rewards sustained contribution	Personal pension plans (no defined benefit schemes)	Up to 20% of basic salary	None	No change
Annual bonus	Rewards the achievement of annual financial targets and other key performance indicators, depending on job responsibilities	Targets renewed annually and relate to areas of the business which the executive has particular control as well as Group performance. Bonus level is determined by the Committee after the year end, based on performance conditions drawn up before the financial year commences	Maximum of 165% for CEO, 137.5% for Group Finance Director. Not pensionable. A claw back mechanism operates	Individual and Company performance, determined by job responsibilities	No change to scheme
LTIP	Promote achievement of strategic objectives over the longer term	Annual awards granted under 2005 Plan. Award consists of Conditional and Matching Award; Matching Award requires a level of investment from the Director or employee	CEO: Maximum of 200% of base salary (150% Conditional Award, 50% Matching Award) Other Directors: 150% of base salary (100% Conditional Award, 50% Matching Award)	TSR vs comparator group, EPS	No change

Basic salary

Executive Directors' basic salaries are determined by the Committee prior to the beginning of each year or 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 Committee awarded the executive Directors a 2% increase in December 2012 in respect of salaries for 2013. The average increase for managerial and administrative employees across the Group was 3% for the 2013 pay review.

Basic salary	2013 £	2012 £
Andrew Page	602,000	590,000
Stephen Critoph	283,500	278,000
Trish Corzine	252,500	247,500

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.

Mr Page's salary reflects his outstanding leadership and ongoing contribution to the successful development of the Group and recognises the importance of continuity and retention of a highly regarded CEO in a competitive and challenging market.

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.

For the financial year ending 30 December 2012, the Remuneration Committee determined that, for 15 senior managers (including executive Directors) within the Group, an additional 10% of maximum bonus may be payable providing the Group achieved a very challenging additional stretch target. The Group achieved record profits in respect of 2012, with Group profit before tax at a level ahead of the stretch target. Consequently the Group element of the bonus target for the Directors was met in full.

The Remuneration Committee has determined that for 2013 a similar bonus structure, but with higher profit targets, will be applied. Therefore, as for 2012, an additional 10% of maximum bonus may be payable for 13 senior managers (including executive Directors) providing the Group achieves a very challenging additional stretch target, significantly ahead of the record profit delivered in 2012.

Bonuses payable in excess of 100% of salary are to be deferred into shares (in accordance with the terms of the Matching Award of the Long-Term Incentive Plan, as described below).

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. Both of these schemes have received approval from the Company's shareholders.

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 2012, 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 2013, the level of Conditional Awards and Matching Awards will be calculated on a consistent basis to that applied in 2012 in respect of Mr Page and Mr Critoph. Following her decision to retire from her role at the conclusion of the 2013 Annual General Meeting, no award will be made to Ms Corzine in 2013.

The performance conditions for those awards made in 2013 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.

This is on a consistent basis to the awards made in 2012. 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 2012, the base EPS was 21.86p (being the audited adjusted EPS for the year ending 1 January 2012). Assuming RPI for the three years is 4% per annum this will require EPS of 31.8p in 2014 in order for the EPS element of the award made in March 2012 to vest in full. This represents an increase of over 45% in the three year performance measurement period from the base start period. For awards made in 2013, the EPS component will be based off an all-time high of 24.08p.

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, eligible employees are able to purchase shares under a three year savings contract. Awards under the SAYE scheme were made in 2010 and 2012 to eligible employees and Directors. A new SAYE scheme will be put to shareholders for approval at the Annual General Meeting to be held on 15 May 2013.

Clawback

Clawback provisions operate within both the annual bonus and the LTIP schemes.

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.

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 guidelines 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. As highlighted in the report of the Directors, as at 30 December 2012 Mr Page held 681,486 shares, Mr Critoph held 358,197 shares and Ms Corzine held 325,830 shares, all in excess of the shareholding guidelines.

Leaver provisions

The Remuneration Committee has formalised a policy for senior management (including executive Directors) who retire from full time employment or leave the Group as a "good leaver". Under the terms of this policy, a good leaver will be entitled to their salary until the last day of employment together with any accrued holiday pay. Bonuses will be paid on a pro-rata basis up to their last day of full time employment, dependent on performance conditions being met.

In line with the scheme rules of the Long-Term Incentive Plan, good leavers will be eligible to exercise awards on a time pro-rata basis up to the date on which their employment terminates, subject to performance conditions being met. In determining to what extent such performance conditions have been met, the following apply:

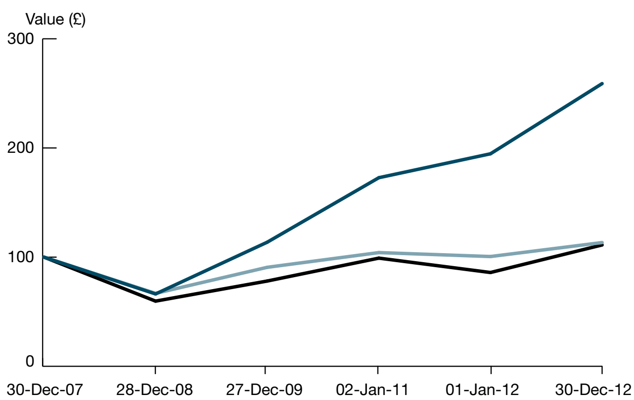
1. For EPS conditions the most recent set of audited results will be used to determine the level of achievement of the performance conditions; and
2. For the TSR element the relevant time period will be used, as determined by the Committee.

Performance graph

As required by the Regulations, the graph below compares the Company's TSR performance with the FTSE 350 Travel and Leisure Index for each of the past five years. The FTSE 350 Travel & Leisure 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 30 December 2012, of £100 invested in The Restaurant Group plc on 31 December 2007 compared with the value of £100 invested in the FTSE All-Share Index and the FTSE 350 Travel and Leisure Index. On this basis the value, as at 30 December 2012, of £100 invested is as follows:

The Restaurant Group plc (dividends re-invested)	£259
FTSE All-Share Index	£113
FTSE 350 Travel & Leisure Index	£111

This demonstrates the very significant outperformance of The Restaurant Group plc; a 129% outperformance against the FTSE All-Share Index and a 133% outperformance against the FTSE 350 Travel & Leisure Index.



Source: Thomson Reuters

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 was a non-executive director of Arena Leisure plc until 31 March 2012 and received fees as a non-executive director of Arena Leisure plc of £25,500 in respect of 2012 (2011: £51,000).

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 £51,500 (2011: £50,000) (pro-rated by tenure of service). Alan Jackson's fee, which is set by the Remuneration Committee, was £309,000 (2011: £300,000). For 2013, fees to the non-executive Directors have been increased by 2%, in line with the average salary increase to executive Directors. Alan Jackson will receive a fee of £315,000 per annum and Tony Hughes and Simon Cloke will receive a fee of £52,500 per annum.

Directors' remuneration report
continued

Voting at the Annual General Meeting

The Directors' remuneration report for the financial year ending 1 January 2012 was put to shareholders at the Annual General Meeting held on 17 May 2012, on an advisory basis. The resolution received 91% approval from shareholders. A resolution to approve this Directors' remuneration report will be put to shareholders at the Annual General Meeting to be held on 15 May 2013.

Audited information

Aggregated Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2012					2011
	Basic salary/fee £'000	Bonus £'000	Benefits in kind £'000	Pensions £'000	Total £'000	Total £'000
Executive Directors						
Andrew Page	**590**	**974**	**27**	**118**	**1,709**	1,417
Stephen Critoph	**278**	**358**	**14**	**56**	**706**	625
Trish Corzine	**248**	**252**	**12**	**25**	**537**	482
Non-executive Directors						
Alan Jackson	**309**	**–**	**46**	**–**	**355**	329
Tony Hughes	**52**	**–**	**1**	**–**	**53**	51
Simon Cloke	**52**	**–**	**–**	**–**	**52**	51
	1,529	**1,584**	**100**	**199**	**3,412**	2,955

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 1 January 2012	Granted	Exercised	Lapsed	At 30 December 2012	Exercise price	Date from which exercisable	Expiry date
Andrew Page	2003	100,000	–	–	–	100,000	134.4p	4.4.2008	4.4.2015
	LTIP (1)	780,208	–	(780,208)	–	–	–	5.3.2012	5.9.2012
	LTIP (2)	111,457	–	(111,457)	–	–	–	5.3.2012	5.9.2012
	LTIP (3)	264,878	–	–	–	264,878	–	4.3.2013	4.9.2013
	LTIP (4)	97,865	–	–	–	97,865	–	4.3.2013	4.9.2013
	LTIP (5)	284,790	–	–	–	284,790	–	Publication of 2013 results	6 months after vesting
	LTIP (6)	94,930	–	–	–	94,930	–	Publication of 2013 results	6 months after vesting
	LTIP (7)	–	318,804	–	–	318,804	–	Publication of 2014 results	6 months after vesting
	LTIP (8)	–	100,504	–	–	100,504	–	Publication of 2014 results	6 months after vesting
	2012 SAYE	–	3,180	–	–	3,180	283.0p	1.12.2015	1.6.2016
Stephen Critoph	LTIP (1)	300,000	–	(300,000)	–	–	–	5.3.2012	5.9.2012
	LTIP (2)	75,000	–	(75,000)	–	–	–	5.3.2012	5.9.2012
	LTIP (3)	118,780	–	–	–	118,780	–	4.3.2013	4.9.2013
	LTIP (4)	43,902	–	–	–	43,902	–	4.3.2013	4.9.2013
	2010 SAYE	4,932	–	–	–	4,932	184.0p	1.6.2013	1.12.2013
	LTIP (5)	91,867	–	–	–	91,867	–	Publication of 2013 results	6 months after vesting
	LTIP (6)	45,933	–	–	–	45,933	–	Publication of 2013 results	6 months after vesting
	LTIP (7)	–	100,144	–	–	100,144	–	Publication of 2014 results	6 months after vesting
	LTIP (8)	–	48,631	–	–	48,631	–	Publication of 2014 results	6 months after vesting

Name of Director	Scheme	At 1 January 2012	Granted	Exercised	Lapsed	At 30 December 2012	Exercise price	Date from which exercisable	Expiry date
Trish Corzine	LTIP (1)	287,500	–	(287,500)	–	–	–	5.3.2012	5.9.2012
	LTIP (2)	71,874	–	(71,874)	–	–	–	5.3.2012	5.9.2012
	LTIP (3)	113,902	–	–	–	113,902	–	4.3.2013	4.9.2013
	LTIP (4)	42,073	–	–	–	42,073	–	4.3.2013	4.9.2013
	LTIP (5)	81,660	–	–	–	81,660	–	Publication of 2013 results	6 months after vesting
	LTIP (6)	40,830	–	–	–	40,830	–	Publication of 2013 results	6 months after vesting
	LTIP (7)	–	89,157	–	–	89,157	–	Publication of 2014 results	6 months after vesting
	LTIP (8)	–	43,227	–	–	43,227	–	Publication of 2014 results	6 months after vesting

LTIP (1) and LTIP (2) – Conditional and Matching Awards: Vesting of these awards was dependent on the TSR performance of the Group against a comparator group comprising the FTSE 350 Travel and Leisure sector (excluding airlines) over a three year period from 1 March 2009 to 1 March 2012. 30% of the awards would vest for median performance and for 100% vesting, the Group needed to be in the upper quartile. The Restaurant Group plc was the highest ranked company against its comparator group for the relevant period and consequently the awards vested in full.

LTIP participants also received a cash sum as payment for the dividends that would have been paid on the vested shares between the grant and vesting dates in accordance with the LTIP scheme rules. This included the following Directors: Andrew Page received £243,425, Stephen Critoph received £102,375 and Trish Corzine received £98,109.

LTIP (3) – 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 upper 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.. For the TSR element of the award, The Restaurant Group plc was the highest ranked company against its comparator group (for the second year running) and consequently the TSR element of the award will vest in full.

In respect of the EPS element of the award the growth in EPS was between RPI +4% and RPI +10% and 71.9% of this part of the award will vest.

LTIP (4) – 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.. As noted above, based on the 2012 results this equates to 71.9% of the award vesting.

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 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 upper 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 (6) – 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..

LTIP (7) and (8) – Conditional Awards and Matching 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 2011 to 2014, with 30% of this part of the award vesting at median performance and full vesting of this part of the award for upper quartile performance. The remaining 50% of the award is based on EPS growth of the 2014 results compared with the 2011 results, with a requirement for average annual growth of between RPI+4% and RPI+10% p.a..

During 2012 certain Directors exercised options under the Long-Term Incentive Plan that had vested. Details of these transactions during 2012 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)
Andrew Page	LTIP	891,665	–	283.75p	2,575
Stephen Critoph	LTIP	375,000	–	283.75p	1,085
Trish Corzine	LTIP	359,374	–	283.75p	1,038

For comparative information, during 2011 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	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

Approval
This report was approved by the Board of Directors on 27 February 2013 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 issued 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 2012 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 the external auditor, 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 Audit Committee also reviews the arrangements whereby staff of the company may, in confidence, raise concerns about possible improprieties in financial reporting or other matters to ensure there are proportionate and independent procedures in place for such an occurrence.

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 2012 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 Report;
- 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;
- the change in senior statutory audit partner following the rotation from the audit of the previous incumbent who held office for five years;
- the effectiveness of the external auditor and consideration of its 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 auditor

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 which 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 its handling of the key accounting and audit judgements.

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 15 May 2013.

On behalf of the Audit Committee,

Simon Cloke
27 February 2013

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 30 December 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 30 December 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 matters 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 30 December 2012 and on the information in the Directors' remuneration report that is described as having been audited.

Mark Lee-Amies, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
27 February 2013

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 30 December 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 16 to 23.

(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.

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)	Government Loans
→ IFRS 7 (amended)	Disclosures – Offsetting Financial Assets and Financial Liabilities
→ Annual Improvements to IFRSs	(2009 – 2011) Cycle
→ IFRS 9	Financial Instruments
→ IFRS 10	Consolidated Financial Statements
→ IFRS 10, IFRS 12 and IAS 27 (amended)	Investment entities
→ IFRS 11	Joint Arrangements
→ IFRS 12	Disclosure of Interests in Other Entities
→ IFRS 13	Fair Value Measurement
→ IAS 27 (revised)	Separate Financial Statements
→ IAS 28 (revised)	Investments in Associates and Joint Ventures
→ IAS 32 (amended)	Offsetting Financial Assets and Financial Liabilities
→ IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

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, except as follows:

- → IFRS 7 (amended) will increase the disclosure requirements where netting arrangements are in place for financial assets and financial liabilities;
- → IFRS 9 will impact both the measurement and disclosures of Financial Instruments;
- → IFRS 12 will impact the disclosure of interests the Group has in other entities; and
- → IFRS 13 will impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

Accounting policies for the consolidated accounts continued

(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.

(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 lease 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 is 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.

Accounting policies for the consolidated accounts
continued

(q) Onerous contracts
Provisions for onerous contracts are 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.

(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 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 30 December 2012 for all CGU was based on the Group's weighted average cost of capital of 8.6% (year ended 1 January 2012: 8.4%) as the Directors believe there are broadly equal risks associated with each CGU. No impairment is required in the year ended 30 December 2012.

Consolidated income statement

	Note	52 weeks ended 30 December 2012 Trading business £'000	Non-trading £'000	Total £'000	52 weeks ended 1 January 2012 Trading business £'000	Non-trading £'000	Total £'000
Revenue	2	**532,541**	**–**	**532,541**	487,114	–	487,114
Cost of sales:							
Excluding pre-opening costs	3	**(435,276)**	**–**	**(435,276)**	(397,782)	(7,544)	(405,326)
Pre-opening costs	3	**(2,217)**	**–**	**(2,217)**	(1,948)	–	(1,948)
		(437,493)	**–**	**(437,493)**	(399,730)	(7,544)	(407,274)
Gross profit / (loss)		**95,048**	**–**	**95,048**	87,384	(7,544)	79,840
Administration costs		**(28,613)**	**–**	**(28,613)**	(26,199)	(192)	(26,391)
Trading profit / (loss)		**66,435**	**–**	**66,435**	61,185	(7,736)	53,449
Loss on disposal of fixed assets	4	**–**	**–**	**–**	–	(4,169)	(4,169)
Earnings before interest, tax, depreciation and amortisation		**95,540**	**–**	**95,540**	89,741	(8,405)	81,336
Depreciation		**(29,105)**	**–**	**(29,105)**	(28,556)	(3,500)	(32,056)
Operating profit / (loss)		**66,435**	**–**	**66,435**	61,185	(11,905)	49,280
Interest payable	6	**(2,527)**	**–**	**(2,527)**	(1,818)	230	(1,588)
Interest receivable	6	**653**	**–**	**653**	916	–	916
Profit / (loss) on ordinary activities before tax		**64,561**	**–**	**64,561**	60,283	(11,675)	48,608
Tax on profit / (loss) from ordinary activities	7	**(16,334)**	**–**	**(16,334)**	(16,575)	2,344	(14,231)
Profit / (loss) for the year		**48,227**	**–**	**48,227**	43,708	(9,331)	34,377
Earnings per share (pence)							
Basic	8	**24.08**		**24.08**	21.86		17.19
Diluted	8	**24.05**		**24.05**	21.84		17.18

Consolidated statement of comprehensive income

	52 weeks ended 30 December 2012 £'000	52 weeks ended 1 January 2012 £'000
Profit for the year	**48,227**	34,377
Exchange differences on translation of foreign operations	**–**	(488)
Total comprehensive income for the year	**48,227**	33,889

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 2 January 2012	**56,319**	**23,982**	**–**	**(7,115)**	**84,096**	**157,282**
Profit for the year	–	–	–	–	48,227	**48,227**
Exchange differences on translation of foreign operations	–	–	–	–	–	**–**
Total comprehensive income for the year	–	–	–	–	**48,227**	**48,227**
Issue of new shares	15	45	–	–	–	**60**
Dividends	–	–	–	–	(21,682)	**(21,682)**
Share-based payments – credit to equity	–	–	–	2,233	–	**2,233**
Employee benefit trust – purchase of shares	–	–	–	(2,855)	–	**(2,855)**
Current tax on share-based payments taken directly to equity	–	–	–	–	1,354	**1,354**
Deferred tax on share-based payments taken directly to equity	–	–	–	–	(771)	**(771)**
Balance at 30 December 2012	**56,334**	**24,027**	**–**	**(7,737)**	**111,224**	**183,848**
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**

Consolidated balance sheet

	Note	At 30 December 2012 £'000	At 1 January 2012 £'000
Non-current assets			
Intangible assets	10	**26,433**	26,433
Property, plant and equipment	11	**293,785**	269,141
		320,218	295,574
Current assets			
Stock	13	**4,872**	3,925
Trade and other receivables	14	**6,476**	7,382
Prepayments		**15,940**	15,158
Cash and cash equivalents	22	**12,879**	10,242
		40,167	36,707
Total assets		**360,385**	332,281
Current liabilities			
Corporation tax liabilities		**(9,173)**	(8,542)
Trade and other payables	15	**(93,845)**	(87,198)
Other payables – finance lease obligations	24	**(328)**	(326)
Provisions	16	**(2,089)**	(3,282)
		(105,435)	(99,348)
Net current liabilities		**(65,268)**	(62,641)
Non-current liabilities			
Long-term borrowings	22	**(48,853)**	(51,835)
Other payables – finance lease obligations	24	**(2,844)**	(2,806)
Deferred tax liabilities	17	**(15,712)**	(16,733)
Provisions	16	**(3,693)**	(4,277)
		(71,102)	(75,651)
Total liabilities		**(176,537)**	(174,999)
Net assets		**183,848**	157,282
Equity			
Share capital	18	**56,334**	56,319
Share premium		**24,027**	23,982
Other reserves	19, 20	**(7,737)**	(7,115)
Retained earnings		**111,224**	84,096
Total equity		**183,848**	157,282

The financial statements of The Restaurant Group plc (company registration number SC030343) on pages 37 to 62 were approved by the Board of Directors and authorised for issue on 27 February 2013 and were signed on its behalf by:

Alan Jackson
Stephen Critoph ACA

Consolidated cash flow statement

	Note	52 weeks ended 30 December 2012 £'000	52 weeks ended 1 January 2012 £'000
Operating activities			
Cash generated from operations	21	**102,000**	91,745
Interest received		**653**	916
Interest paid		**(1,551)**	(1,612)
Tax paid		**(16,141)**	(15,722)
Net cash flows from operating activities		**84,961**	75,327
Investing activities			
Purchase of property, plant and equipment		**(54,945)**	(43,648)
Disposal of fixed assets		**98**	(2,754)
Net cash flows used in investing activities		**(54,847)**	(46,402)
Financing activities			
Net proceeds from issue of ordinary share capital		**60**	966
Employee benefit trust – purchase of shares	19	**(2,855)**	(3,050)
Net (repayments of) / proceeds from loan draw downs		**(3,000)**	3,000
Dividends paid to shareholders	9	**(21,682)**	(22,337)
Net cash flows used in financing activities		**(27,477)**	(21,421)
Net increase in cash and cash equivalents		**2,637**	7,504
Cash and cash equivalents at the beginning of the year	22	**10,242**	2,738
Cash and cash equivalents at the end of the year	22	**12,879**	10,242

Notes to the accounts
for the year ended 30 December 2012

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

2 Revenue

	2012 £'000	2011 £'000
Income for the year consists of the following:		
Revenue from continuing operations	**532,541**	487,114
Other income not included within revenue in the income statement:		
Rental income	**3,211**	3,583
Interest income	**653**	916
Total income for the year	**536,405**	491,613

3 Profit for the year

	2012 £'000	2011 £'000
Cost of sales consists of the following:		
Continuing business excluding pre-opening costs	**435,276**	397,782
Pre-opening costs	**2,217**	1,948
Non-trading charge	**–**	7,544
Total cost of sales for the year	**437,493**	407,274

	2012 £'000	2011 £'000
Profit for the year has been arrived at after charging / (crediting):		
Depreciation and impairment	**29,105**	32,056
Purchases	**121,898**	111,015
Staff costs (see note 5)	**168,240**	153,048
Minimum lease payments	**54,207**	51,012
Contingent rents	**7,590**	7,034
Total operating lease rentals of land and buildings	**61,797**	58,046
Rental income	**(3,211)**	(3,583)
Net rental costs	**58,586**	54,463

	2012 £'000	2011 £'000
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**71**	68
Fees payable to the Company's auditor and their associates for other services to the Group		
The audit of the Company's subsidiaries	**47**	47
Total audit fees	**118**	115
Audit-related assurance services	**35**	35
Tax services	**47**	69
Corporate finance services	**–**	195
Other services	**35**	37
Total non-audit fees	**117**	336
Total auditor's remuneration	**235**	451

Audit fees included in the above total relating to the Company are borne by a subsidiary undertaking. All of the auditor's remuneration in 2012 and 2011 was expensed as administration costs except the £0.2m relating to corporate finance services in 2011 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	2012 £'000	2011 £'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
Loss on ordinary activities before tax		–	(11,675)
Tax credit on non-trading items	v	–	2,344
Total non-trading items after tax		–	(9,331)

i) During the 52 weeks ended 1 January 2012, the Group recorded a charge of £7.5m for the exit costs of a number of sites which did 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 of fixed asset impairments, £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 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 disposed of various fixed assets including the three restaurants the Group operated in Spain. These closures 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) In the 52 weeks ended 1 January 2012, the Group recognised a credit of £0.2m 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 recognised a non-trading tax credit of £2.3m.

5 Staff costs and numbers

	2012	2011
a) Average staff numbers during the year (including executive Directors)		
Restaurant staff	**11,416**	10,337
Administration staff	**248**	235
	11,664	10,572

	2012 £'000	2011 £'000
b) Staff costs (including Directors) comprise:		
Wages and salaries	**154,993**	140,475
Social security costs	**10,496**	9,847
Share-based payments	**2,233**	2,237
Pension costs	**518**	489
	168,240	153,048
c) Directors' remuneration		
Emoluments	**3,213**	2,769
Money purchase (and other) pension contributions	**199**	186
	3,412	2,955
Charge in respect of share-based payments	**1,173**	1,223
	4,585	4,178

Further details of the Directors' emoluments and the executive pension schemes are given in the Directors' remuneration report on pages 28 to 33, of which the information on pages 32 and 33 has been audited.

6 Net finance charges

	2012 £'000	2011 £'000
Bank interest payable	**1,489**	1,084
Other interest payable	**352**	375
Facility fees	**320**	–
Interest on obligations under finance leases	**366**	359
Change in fair value of interest rate swaps	**–**	(230)
Total borrowing costs	**2,527**	1,588
Bank interest receivable	**(8)**	(3)
Other interest receivable	**(3)**	(10)
Loan note interest receivable (see note 12)	**(642)**	(903)
Total interest receivable	**(653)**	(916)
Net finance charges	**1,874**	672

7 Tax

	2012 £'000	2011 £'000
a) The tax charge comprises:		
Current tax		
UK corporation tax at 24.5% (2011: 26.5%)	**18,046**	17,221
Adjustments in respect of previous years	**80**	(318)
	18,126	16,903
Deferred tax		
Origination and reversal of timing differences	**(464)**	(1,145)
Adjustments in respect of previous years	**118**	(56)
Credit in respect of rate change	**(1,446)**	(1,471)
	(1,792)	(2,672)
Total tax charge for the year	**16,334**	14,231

b) Factors affecting the tax charge for the year

The tax charged for the year varies from the standard UK corporation tax rate of 24.5% (2011: 26.5%) due to the following factors:

	2012 £'000	2011 £'000
Profit on ordinary activities before tax	**64,561**	48,608
Profit on ordinary activities before tax multiplied by the standard UK corporation tax rate of 24.5% (2011: 26.5%)	**15,817**	12,881
Effects of:		
Depreciation on non-qualifying assets	**1,658**	1,616
Expenses not deductible for tax purposes	**107**	113
Loss on disposal of non-qualifying assets	**–**	1,466
Credit in respect of rate change on deferred tax liability	**(1,446)**	(1,471)
Adjustment in respect of previous years	**198**	(374)
Total tax charge for the year	**16,334**	14,231

The Budget 2012 introduced a reduction in the main rate of corporation tax from 1 April 2012 from 26% to 24% resulting in a blended rate of 24.5% being used to calculate the tax liability for the 52 weeks ended 30 December 2012.

The Finance Act 2012 introduced a reduction in the main rate of corporation tax from 24% to 23% effective from 1 April 2013 and this rate is required to be used in calculating deferred tax provisions at the balance sheet date. This has resulted in a deferred tax credit in the income statement of £1.4m.

The Government has also indicated that it intends to enact a further reduction in the main corporation tax rate of 1% reducing the main tax rate to 22% from April 2014. The future 1% main tax rate reduction is expected to have a proportionally similar impact on the underlying trading tax rate as the current year 2% reduction (from the previously announced rate of 25%), however the actual impact will be dependent on the Group's deferred tax position at the time.

Notes to the accounts
continued

8 Earnings per share

	2012	2011
a) Basic earnings per share:		
Weighted average ordinary shares in issue during the year	**200,261,245**	199,956,884
Total profit for the year (£'000)	**48,227**	34,377
Basic earnings per share for the year (pence)	**24.08**	17.19
Total profit for the year (£'000)	**48,227**	34,377
Effect of non-trading items on earnings for the year (£'000)	**–**	9,331
Earnings excluding non-trading items (£'000)	**48,227**	43,708
Adjusted earnings per share (pence)	**24.08**	21.86
b) Diluted earnings per share:		
Weighted average ordinary shares in issue during the year	**200,261,245**	199,956,884
Dilutive shares to be issued in respect of options granted under the share option schemes	**235,567**	189,903
	200,496,812	200,146,787
Diluted earnings per share (pence)	**24.05**	17.18
Adjusted diluted earnings per share (pence)	**24.05**	21.84

The additional non-statutory earnings per share information for 2011 (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 2012 or 2011.

9 Dividend

	2012 £'000	2011 £'000
Amounts recognised as distributions to equity holders during the year:		
Final dividend for the 52 weeks ended 1 January 2012 of 6.50p (2010: 7.46p) per share	**12,812**	14,525
Interim dividend for the 52 weeks ended 30 December 2012 of 4.50p (2011: 4.00p) per share	**8,870**	7,812
Total dividends paid in the year	**21,682**	22,337
Proposed final dividend for the 52 weeks ended 30 December 2012 of 7.30p (2011 actual proposed and paid: 6.50p) per share	**14,392**	12,812

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting to be held on 15 May 2013 and is not recognised as a liability in these financial statements. The proposed final dividend payable reflects the number of shares in issue on 30 December 2012, adjusted for the 3.1m 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 3 January 2011, 1 and 2 January 2012 and 30 December 2012	**26,433**

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 8.6% (2011: 8.4%) 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 (2011: £50.4m). Records for periods prior to this date are not readily available.

11 Property, plant and equipment

	Land and buildings £'000	Fixtures, equipment and vehicles £'000	Total £'000
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**
Cost			
At 2 January 2012	328,852	126,156	455,008
Exchange movement	–	–	–
Additions	36,282	18,663	54,945
Disposals	(6,043)	(4,428)	(10,471)
At 30 December 2012	**359,091**	**140,391**	**499,482**
Accumulated depreciation and impairment			
At 2 January 2012	109,174	76,693	185,867
Exchange movement	–	–	–
Provided during the year	15,565	13,540	29,105
Impairment	–	–	–
Disposals	(4,955)	(4,320)	(9,275)
At 30 December 2012	**119,784**	**85,913**	**205,697**
Net book value as at 1 January 2012	219,678	49,463	269,141
Net book value as at 30 December 2012	**239,307**	**54,478**	**293,785**

Notes to the accounts
continued

11 Property, plant and equipment continued

	2012 £'000	2011 £'000
Net book value of land and buildings:		
Freehold	**74,943**	69,217
Long leasehold	**5,325**	2,683
Short leasehold	**159,039**	147,778
	239,307	219,678

	2012 £'000	2011 £'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	**1,149**	1,124
Provided during the year	**25**	25
At the end of the year	**1,174**	1,149
Net book value at the end of the year	**787**	812

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 30 December 2012 and 1 January 2012.

The Group's share of the post-tax result of Living Ventures Restaurants Group Limited for the 52 weeks ended 30 December 2012 was a profit of £0.005m (2011: profit of £0.12m). 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 30 December 2012 £0.2m of interest accrued of which the Group recognised £0.2m (2011: £0.2m of which the Group recognised £0.1m). In the 52 weeks ended 30 December 2012 a further £0.4m of interest was received as part payment of the accrued interest, all of which was recognised in the income statement (2011: £0.8m was received, all of which was recognised in the income statement). Consequently in addition to the loan note of £10.4m outstanding at that date, £0.1m (2011: £0.5m) 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:

	2012 £'000	2011 £'000
Non-current assets	**8,906**	9,725
Current assets	**2,914**	3,863
Non-current liabilities	**(15,178)**	(17,310)
Current liabilities	**(6,346)**	(5,995)
Equity	**(9,704)**	(9,717)
Revenue	**26,475**	25,546
Net profit	**13**	327

At 30 December 2012 Living Ventures Restaurants Group Limited was contractually committed to £0.02m capital expenditure (1 January 2012: £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 30 December 2012 is not considered by the Directors to be materially different from the balance sheet value. The Group recognised £121.9m of purchases as an expense in 2012 (2011: £111.0m).

14 Trade and other receivables

	2012 £'000	2011 £'000
Amounts falling due within one year:		
Trade debtors	**2,123**	2,110
Other debtors	**4,353**	5,272
	6,476	7,382

15 Trade and other payables

	2012 £'000	2011 £'000
Amounts falling due within one year:		
Trade creditors	**39,996**	40,488
Other tax and social security	**17,256**	14,839
Other creditors	**6,042**	5,497
Accruals	**30,551**	26,374
	93,845	87,198

16 Provisions

	2012 £'000	2011 £'000
Provision for onerous lease contracts and property exit costs:		
Balance at the beginning of the year	**7,559**	3,862
Additional provisions made	**383**	4,107
Amounts utilised	**(2,219)**	(887)
Provisions released	**(293)**	(83)
Adjustment for change in discount rate	**(46)**	195
Unwinding of discount	**398**	365
Balance at the end of the year	**5,782**	7,559
Analysed as:		
Amount due for settlement within one year	**2,089**	3,282
Amount due for settlement after one year	**3,693**	4,277
	5,782	7,559

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 107 years. The provision for property exit costs is anticipated to be short-term and settled within one year.

17 Deferred taxation

	2012 £'000	2011 £'000
Balance at the beginning of the year	**16,733**	19,091
Depreciation in advance of capital allowances credited to the income statement	**(416)**	(1,537)
Other timing differences	**70**	336
Credit in respect of rate change	**(1,446)**	(1,471)
Deferred tax taken directly to the income statement (see note 7)	**(1,792)**	(2,672)
Tax on share-based payments	**691**	179
Credit in respect of rate change	**80**	135
Deferred tax taken through equity	**771**	314
Balance at the end of the year	**15,712**	16,733

	2012 £'000	2011 £'000
Deferred tax consists of:		
Capital allowances in advance of depreciation	**17,561**	19,502
Capital gains rolled over	**446**	485
Other timing differences	**(2,295)**	(3,254)
	15,712	16,733

18 Share capital

	Number	£'000
Issued, called up and fully paid:		
At 3 January 2011	199,470,892	56,101
Exercise of share options	774,196	218
At 1 and 2 January 2012	**200,245,088**	**56,319**
Exercise of share options	53,044	15
At 30 December 2012	**200,298,132**	**56,334**

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 30 December 2012, the Trustees, Appleby Trust (Jersey) Limited, held 3.1m shares in the Company (1 January 2012: 4.9m shares).

Net cash outflow in the 52 weeks ended 30 December 2012 was £2.9m, inclusive of costs (52 weeks ended 1 January 2012: £3.1m, inclusive of costs).

		Number	£'000
At 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 and 2 January 2012		**4,940,068**	
Purchase of shares on 29 May 2012 at an average price of £2.835 per share	1,000,000		2,855
		1,000,000	2,855
Transfer of shares to satisfy the exercise of share awards		(2,792,115)	
At 30 December 2012		**3,147,953**	

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 28 to 33. 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 (2011: £2.2m).

The other reserves 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).

Long-Term Incentive Plan

The Group operates the 2005 Long-Term Incentive Plan ("LTIP"), details of which are provided in the Directors' remuneration report on pages 28 to 33. Awards under the LTIP are granted to executive Directors and senior management.

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
4 March 2010	30 June 2010
16 March 2011	30 June 2011
1 March 2012	30 June 2012

Vesting of share options under the LTIP is dependent on continuing employment or in accordance with "good leaver" properties as set out in the scheme rules. 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 5 March 2009 became exercisable on the publication of the 2011 results. The performance criteria was based on TSR and The Restaurant Group plc was the highest ranked company for TSR in its comparator sector and consequently the award vested in full.

For those awards granted on 4 March 2010 that vest in 2013, the performance criteria were based on TSR and EPS. For the TSR element of the award, The Restaurant Group plc was the highest ranked company against its comparator group (for the second year running) and consequently the TSR element of the award will vest in full. In respect of the EPS element of the award the growth in EPS was between RPI +4% and RPI +10% and 71.9% of this part of the award will vest.

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

20 Share-based payment schemes continued

Year ended 30 December 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
2012	Conditional	89.9p	2,310,641	–	(2,310,641)	–	–	–
2012	Matching	89.9p	482,759	–	(481,474)	(1,285)	–	–
2013	Conditional – TSR element	144.0p	523,411	–	–	(25,637)	497,774	–
2013	Conditional – EPS element	208.9p	523,412	–	–	(25,637)	497,775	–
2013	Matching	208.9p	376,546	–	–	(10,592)	365,954	–
2014	Conditional – TSR element	209.8p	478,146	–	–	(31,382)	446,764	–
2014	Conditional – EPS element	295.5p	478,146	–	–	(31,381)	446,765	–
2014	Matching	295.5p	355,822	–	–	(1,735)	354,087	–
2015	Conditional – TSR element	124.5p	–	537,642	–	(34,679)	502,963	–
2015	Conditional – EPS element	283.5p	–	537,642	–	(34,680)	502,962	–
2015	Matching – TSR element	124.5p	–	212,794	–	(32,075)	180,719	–
2015	Matching – EPS element	283.5p	–	212,794	–	(32,075)	180,719	–
Total number			**5,528,883**	**1,500,872**	**(2,792,115)**	**(261,158)**	**3,976,482**	**–**

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**	**–**

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.

20 Share-based payment schemes continued

Year ended 30 December 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	9,216	–	(6,144)	(3,072)	–	–
2013	184.0p	257,572	–	(545)	(40,978)	216,049	–
2015	283.0p	–	583,647	–	(8,584)	575,063	–
Total number		**266,788**	**583,647**	**(6,689)**	**(52,634)**	**791,112**	**–**

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**

During 2012, the weighted average market price at date of exercise was 292.0p per share (2011: 294.2p).

Executive Share Option Plans ("ESOPs")

Under the 2003 ESOP scheme, the Remuneration Committee may grant options over shares in The Restaurant Group plc to employees of the Group. 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.

Year ended 30 December 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
2006 – 2013	67.4p	7,034	–	–	–	7,034	7,034
2007 – 2014	97.7p	65,355	–	(29,355)	–	36,000	36,000
2008 – 2015	134.4p	176,000	–	(17,000)	–	159,000	159,000
Total number		**248,389**	**–**	**(46,355)**	**–**	**202,034**	**202,034**
Weighted average exercise price		**122.8p**	**–**	**111.2p**	**–**	**125.5p**	**125.5p**

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
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**

During 2012, the weighted average market price at date of exercise was 367.3p per share (2011: 297.3p).

Notes to the accounts
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20 Share-based payment schemes continued

Assumptions used in valuation of share-based payments granted in the year ended 30 December 2012

Scheme	2012 LTIP Conditional Award		2012 LTIP Matching Award		2012 SAYE
	TSR element	EPS element	TSR element	EPS element	
Grant date	01/03/2012	01/03/2012	01/03/2012	01/03/2012	10/10/2012
Share price at grant date	283.5p	283.5p	283.5p	283.5p	362.2
Exercise price	n/a	n/a	n/a	n/a	283.0p
No. of options originally granted	537,642	537,642	212,794	212,794	583,647
Minimum vesting period	3 years	3 years	3 years	3 years	3 years
Expected volatility[1]	25.6%	0.0%	25.6%	0.0%	24.2%
Contractual life	3.5 years	3.5 years	3.5 years	3.5 years	3.5 years
Risk free rate	0.58%	0.00%	0.58%	0.00%	0.39%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%	3.04%
Expected forfeitures	15%	15%	30%	30%	15%
Fair value per option	124.5p	283.5p	124.5p	283.5p	80.4p

[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 and Matching 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. For the discount for the SAYE scheme, the calculated volatility based on the movement in the return index over a period of 3.25 years prior to the grant has been used.

21 Reconciliation of profit before tax to cash generated from operations

	2012 £'000	2011 £'000
Profit before tax	**64,561**	48,608
Net finance charges	**1,874**	672
Loss on disposal of fixed assets	**–**	4,169
Share-based payments	**2,233**	2,237
Depreciation and impairment	**29,105**	32,056
Increase in stocks	**(947)**	(295)
Decrease / (increase) in debtors	**124**	(3,426)
Increase in creditors	**5,050**	7,724
Cash generated from operations	**102,000**	91,745

Major non-cash transactions
There were no major non-cash transactions in the 52 weeks ended 30 December 2012.

In the 52 weeks ended 1 January 2012, the Group 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 disposed of fixed assets with a net book value of £2.0m in 2011. Further details are provided in note 4.

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

	2012 £'000	2011 £'000
Net debt:		
At the beginning of the year	**(41,593)**	(46,924)
Movements in the year:		
Repayments of / (proceeds from) loan draw downs	**3,000**	(3,000)
Non-cash movements in the year	**(18)**	827
Cash inflow	**2,637**	7,504
At the end of the year	**(35,974)**	(41,593)

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

Represented by:	At 3 January 2011 £'000	Cash flow movements in the year £'000	Non-cash movements in the year £'000	At 1 and 2 January 2012 £'000	Cash flow movements in the year £'000	Non-cash movements in the year £'000	At 30 December 2012 £'000
Cash and cash equivalents	**2,738**	7,504	–	**10,242**	2,637	–	**12,879**
Bank loans falling due after one year	**(49,662)**	(3,000)	827	**(51,835)**	3,000	(18)	**(48,853)**
	(46,924)	4,504	827	**(41,593)**	5,637	(18)	**(35,974)**

23 Financial instruments and derivatives

The Group finances its operations through equity and borrowings, with the borrowing interest subject to floating rates. In February 2011, the Directors took 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.

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 16 to 23. 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 pages 12 and 13.

(a) Financial assets and liabilities

Financial assets

The financial assets of the Group comprise:

	2012 £'000	2011 £'000
Cash and cash equivalents – Sterling	**12,784**	10,153
Cash and cash equivalents – Euro	**95**	89
	12,879	10,242
Trade and other receivables	**6,476**	7,382
Total financial assets	**19,355**	17,624

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:

	2012 £'000	2011 £'000
Trade and other payables excluding tax	**76,589**	72,359
Finance lease debt	**328**	326
Short-term financial liabilities	**76,917**	72,685
Long-term borrowings – at floating interest rates *	**48,853**	51,835
Finance lease debt	**2,844**	2,806
Long-term financial liabilities	**51,697**	54,641
Total financial liabilities	**128,614**	127,326

* Total financial liabilities attracting interest were £50.0m (2011: £53.0m). 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 1.75% (2011: 2.02%).

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23 Financial instruments and derivatives 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 termination of the old loan facility arrangement, the Group 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 30 December 2012 the Group has £90.0m of committed borrowing facilities in excess of gross borrowings (1 January 2012: £87.0m) and £10.0m of undrawn overdraft (1 January 2012: £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 30 December 2012

	Trade and other payables excluding tax £'000	Floating rate loan £'000	Finance lease debt £'000	**Total £'000**
Within one year	76,589	19,796	328	**96,713**
Within two to five years	–	34,653	1,310	**35,963**
After five years	–	–	11,651	**11,651**
	76,589	54,449	13,289	**144,327**
Less: Future interest payments	–	(5,596)	(10,117)	**(15,713)**
	76,589	48,853	3,172	**128,614**

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	–	–	11,593	**11,593**
	72,359	58,632	13,222	**144,213**
Less: Future interest payments	–	(6,797)	(10,090)	**(16,887)**
	72,359	51,835	3,132	**127,326**

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 30 December 2012 and 1 January 2012, the Group had no derivative financial instruments relating to interest rate swaps.

All financial assets and liabilities are accounted for at cost and the Directors consider the carrying value to approximate their fair value.

(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.

23 Financial instruments and derivatives continued

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 16 to 23).

(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 2011, 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 does not currently have any interest rate swaps in place 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	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Within one year	**328**	326	**328**	326
Within two to five years	**1,310**	1,303	**1,004**	998
After five years	**11,651**	11,593	**1,840**	1,808
	13,289	13,222		
Less: Future interest payments	**(10,117)**	(10,090)		
Present value of lease obligations	**3,172**	3,132	**3,172**	3,132
Analysed as:				
Amount due for settlement within one year			**328**	326
Amount due for settlement after one year			**2,844**	2,806
Present value of lease obligations			**3,172**	3,132

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 £3.2m (2011: £3.1m).

24 Lease commitments continued

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

Payments due:	Payable 2012 £'000	Receivable 2012 £'000	Payable 2011 £'000	Receivable 2011 £'000
Within one year	**53,695**	**3,101**	51,558	3,401
Within two to five years	**183,809**	**9,974**	179,517	10,248
After five years	**398,112**	**25,511**	384,059	26,673
	635,616	**38,586**	615,134	40,322

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

	2012 £'000	2011 £'000
Authorised and contracted for:	**27,015**	13,975

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 30 December 2012, £0.2m of interest accrued of which the Group recognised £0.2m (2011: £0.2m of which the Group recognised £0.1m). In the 52 weeks ended 30 December 2012 a further £0.4m of interest was received as part payment of the accrued interest, all of which was recognised in the income statement (2011: £0.8m was received, all of which was recognised in the income statement). Consequently, in addition to the loan note of £10.4m at that date, £0.1m (2011: £0.5m) of interest receivable was still outstanding, of which, under the terms of the agreement, all was overdue.

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 £0.01m (2011: £0.03m) 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 28 to 33, of which pages 32 and 33 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 30 December 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 30 December 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 30 December 2012.

Mark Lee-Amies, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
27 February 2013

Company financial statements – under UK GAAP

	Note	At 30 December 2012 £'000	At 1 January 2012 £'000
Fixed assets			
Investments in subsidiary undertakings	i	**134,829**	131,354
		134,829	131,354
Current assets			
Debtors			
Amounts falling due within one year from Group undertakings		**212,070**	181,353
		212,070	181,353
Creditors			
Amounts falling due within one year to Group undertakings	ii	**(185,690)**	(161,213)
Net current liabilities		**26,380**	20,140
Total assets less current liabilities		**161,209**	151,494
Net assets		**161,209**	151,494
Capital and reserves			
Called up share capital	v	**56,334**	56,319
Share premium account	v	**24,027**	23,982
Other reserves	v	**(6,495)**	(7,115)
Profit and loss account	v	**87,343**	78,308
Shareholders' funds		**161,209**	151,494

The financial statements of The Restaurant Group plc (company registration number SC030343) on pages 64 to 66 were approved by the Board of Directors and authorised for issue on 27 February 2013 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 2 January 2012	90,587	42,189	132,776
Additions – share-based payment schemes	1,242	2,233	3,475
At 30 December 2012	**91,829**	**44,422**	**136,251**
Amounts written off			
At 2 January 2012 and 30 December 2012	**888**	**534**	**1,422**
Net book value at 2 January 2012	89,699	41,655	131,354
Net book value at 30 December 2012	**90,941**	**43,888**	**134,829**

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 30 December 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%

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 2012 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 (2011: £30.7m representing paid and accrued internal preference dividend income). 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 30 December 2012 the Company employed three persons (1 January 2012: three persons).

v) Share capital and reserves

	Share capital £'000	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Total
As at 2 January 2012	**56,319**	**23,982**	**(7,115)**	**78,308**	**151,494**
Issue of shares	15	45	–	–	**60**
Employee share-based payment schemes	–	–	3,475	–	**3,475**
Employee benefit trust – purchase of shares	–	–	(2,855)	–	**(2,855)**
Profit for the year	–	–	–	30,717	**30,717**
Dividends	–	–	–	(21,682)	**(21,682)**
As at 30 December 2012	**56,334**	**24,027**	**(6,495)**	**87,343**	**161,209**

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

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Revenue	**532,541**	487,114	465,704	435,743	416,530
Adjusted operating profit	**66,435**	61,185	58,556	53,360	54,231
Underlying interest	**(1,874)**	(902)	(2,674)	(3,331)	(5,306)
Adjusted profit before tax	**64,561**	60,283	55,882	50,029	48,925
Non-trading (charges) / credits	**–**	(11,675)	596	(1,695)	(1,794)
Profit on ordinary activities before tax	**64,561**	48,608	56,478	48,334	47,131
Tax	**(16,334)**	(14,231)	(16,353)	(11,062)	(14,914)
Profit for the year	**48,227**	34,377	40,125	37,272	32,217
Basic earnings per share	**24.08p**	17.19p	20.16p	18.90p	16.38p
Adjusted earnings per share	**24.08p**	21.86p	19.95p	17.48p	16.67p
Proposed total dividend per share for the year	**11.80p**	10.50p	9.00p	8.00p	7.70p
Dividend cover (excluding non-trading items)	**2.04**	2.08	2.22	2.19	2.16
Employment of finance					
Property, plant and equipment	**293,785**	269,141	259,583	254,841	250,722
Other non-current assets	**26,433**	26,433	26,433	26,241	26,241
Net current liabilities	**(65,268)**	(62,641)	(66,518)	(68,124)	(66,092)
Long-term liabilities	**(71,102)**	(75,651)	(74,785)	(97,026)	(117,265)
	183,848	157,282	144,713	115,932	93,606
Financed by:					
Equity shareholders' funds	**183,848**	157,282	144,713	115,932	93,606
Net debt	**(35,974)**	(41,593)	(46,924)	(66,684)	(78,884)
Gearing	**19.6%**	26.4%	32.4%	57.5%	84.3%

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
Until 5 April 2013: Robert Morgan
From 5 April 2013: Stephen Critoph

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London E14 5JP

Panmure Gordon & Co
One New Change
London EC4M 9AF

Financial calendar
Annual General Meeting
15 May 2013

Proposed final dividend – 2012
Announcement – 27 February 2013
Ex-dividend – 19 June 2013
Record date – 21 June 2013
Payment date – 10 July 2013

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