# The Restaurant Group plc

Annual Report 2016





# Introduction

**The Restaurant Group operates over 490 restaurants and pub restaurants.** Its principal trading brands are Frankie & Benny's, Chiquito and Coast to Coast. The Group also operates Pub restaurants and a Concessions business which trades principally at UK airports.



**Our brands**

# Financial highlights

The Group have had a very disappointing year with like-for-like sales and profitability in decline:

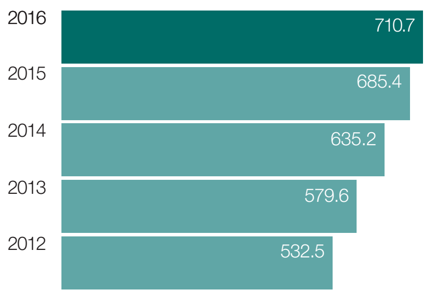
- Revenue increased to £710.7m (like-for-like sales -3.9%)
- Adjusted EBITDA* decreased to £121.0m
- Adjusted profit before tax* decreased to £77.1m
- Adjusted EPS* decreased to 30.0p per share
- Proposed full year dividend maintained at 17.4p per share
- Free cash flow decreased to £78.9m

New sites:

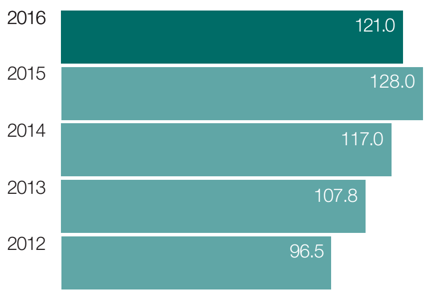
- 24 new sites opened in the period

* Adjusted, pre-exceptional charge.

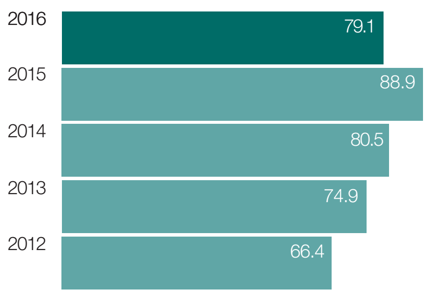
**Total revenue** (£m)



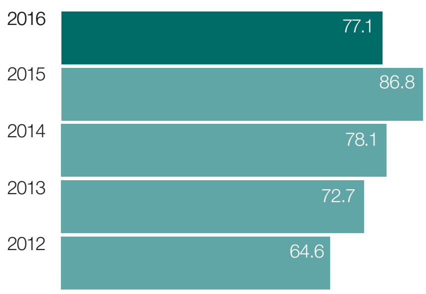

**Adjusted EBITDA** (£m)



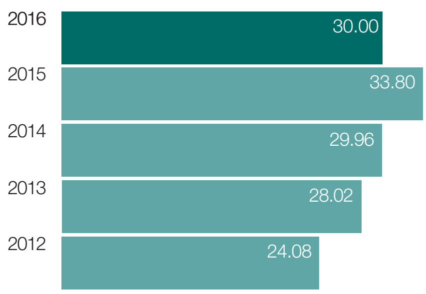

**Operating profit** (£m)



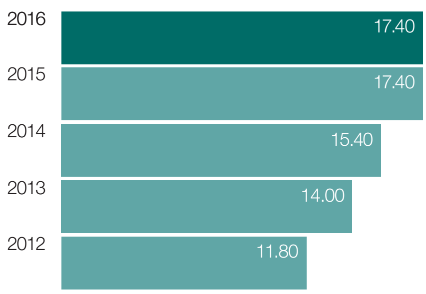

**Profit before tax** (£m)




**EPS** (p)




**Dividend per share** (p)





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# Chairman's statement

**Debbie Hewitt**
Chairman

"We have taken decisive action by implementing a strategy review across all of our leisure brands."

2016 was a challenging year for the Group with a consistently disappointing trading performance exposing fundamental issues across our three main Leisure brands, although we continued to benefit from a strong performance from Pubs and Concessions. Total revenues were up 3.7% to £710.7m with like-for-like sales for the year down 3.9%. Adjusted profit before tax* was down 11.2% to £77.1m and adjusted EPS* was down 11.2% to 30.0p per share. Statutory loss before tax was £39.5m and the statutory loss per share was 20.1p.

We have taken decisive action by implementing a strategy review across all of our Leisure brands. It is clear that we had added an unsustainable premium to pricing in our Leisure businesses and that changes to our menus had been insufficiently tested with our customers. Complex operational processes have added costs and the business operating model had become inefficient.

We have a rigorous plan in place to address these issues. 2017 will be a transitional year during which we will implement measures to restore profitability, growth and ultimately transform the business.

There has been substantial change to the Board and to the Executive leadership team to support this programme. I became Chairman in May 2016 and the Board was refreshed with the appointment of two new non-executive Directors, Mike Tye and Graham Clemett in April and June respectively.

Andy McCue joined us as Chief Executive of the business in September. Andy is the ex CEO of Paddy Power plc and brings substantial experience of managing a turnaround in a multi-site consumer business through a rigorous approach to customer insight, the development of the customer proposition and colleague engagement. Barry Nightingale joined us as Chief Financial Officer in June 2016. He has a broad commercial background and turnaround experience allowing him to make an important contribution to this critical phase in the Company's development.

As I highlighted in our Interim Report in August, the Board has taken measures to ensure that we have a more rigorous and disciplined approach to the allocation of capital. We have slowed down our site roll out plans until we can be sure that the Group's brand and location strategy is sufficiently robust. We continue to take action to close underperforming sites where we do not believe they are capable of generating adequate returns.

# "TRG employs over 15,000 people and they are the life blood of our business."

In spite of our trading challenges, the business continues to generate strong free cash flow, with £78.9m in 2016 and as a sign of confidence in our plan the Board is proposing the payment of a final dividend of 10.6 pence per share to be paid on 7 July 2017 to all shareholders on the register on 16 June 2017 (ex-dividend date 15 June 2017). The total dividend for the year is, therefore, maintained at 17.4 pence per share. During this transitional period the Board will assess the dividend based on progress against the plan. The Board will revisit the previous policy of two times EPS cover at the appropriate time.

During 2017, the Group will face well documented external cost pressures from the increases in the National Living Wage, the National Minimum Wage, the Apprenticeship Levy, the revaluation of business rates, higher energy taxes and increased purchasing costs due to the combined effects of a devalued pound and commodity inflation. We expect the trading performance of the business in the first half of 2017 to remain difficult but anticipate momentum improving towards the end of this transitional year as our initiatives start to take effect.

TRG employs over 15,000 people and they are the life blood of our business. The Board would like to record our thanks and appreciation for their hard work, commitment and dedication.

The Board is confident that we have a robust plan and the team and resources in place to deliver.

**Debbie Hewitt MBE**
Chairman

8 March 2017

# Business review

**Andy McCue**
Chief Executive Officer

"TRG remains a highly cash generative business."

### Strategy update

Despite the poor trading performance of the Group in 2016, TRG remains a highly cash generative business which benefits from significant scale and a diversified portfolio. While the Group's performance has suffered due to weakness in our Leisure businesses, it is clear that these performance issues can be addressed and we are confident in our turnaround plans.

I joined TRG as Chief Executive Officer on 19 September 2016. In recent months we have made good progress in strengthening the team, completing the strategic review of our brands and conducting a comprehensive review of our cost base.

We have a clear plan to turnaround the business which has four key elements:

1. Re-establish competitiveness of our Leisure brands.
2. Serve our customers better and more efficiently.
3. Grow our Pubs and Concessions businesses.
4. Build a leaner, faster and more focused organisation.

We expect 2017 to be a transitional year. We plan to address the competitiveness of our Leisure businesses head-on, requiring investment in both price and proposition, as well as increased marketing spend to re-engage lapsed customers and attract new ones. We are focused on a volume-led turnaround which will take time as customers respond to the improvements we are making. Where initiatives prove successful, we will invest behind them in order to accelerate our progress.

### 1. Re-establish competitiveness of our Leisure brands

Frankie & Benny's

We identified last year the key root causes of our decline: loss of value credentials, poor menu changes and lack of operational discipline which impacted the consistency of our offering.

Initial trials of alternative value options indicate that, while a step in the right direction, simply correcting for past mistakes will be insufficient to recover our market share losses endured since 2013. Since then we have traded price over volume while competitors have improved their offer and consequently, we have lost customers who now need to be persuaded to revisit us and regain trust in an improved proposition.

# “Current trading is in line with our expectations.”



Our initial responses include:

- re-focusing our efforts on the core customer base of ‘families’ and those ‘out & about’;
- developing an improved customer proposition, more closely aligned to the requirements and preferences of these groups;
- launching a new weekday value menu at £9.95, the lowest price for five years, to be competitive during non-peak times, whilst improving the choice and quality of offering;
- reinstating some previously popular dishes;
- re-engineering and testing a new core menu in readiness for launch this month, which will offer our customers substantially better value. This menu is also easier for the guest to navigate and less complex in its delivery, enabling us to improve our consistency; and
- embarking on targeted promotional campaigns, over specific periods, to ensure we are competitive and delivering a compelling offer to the most value-conscious customer segments.

Our improvement focus will be on restoring our value credentials, deepening the distinctiveness of our offer and investing in marketing to attract back lapsed customers.

### Chiquito

Chiquito’s brand positioning in the market is relatively weak. Compared to competitors, a narrow reach of potential customers are attracted to the brand. Customer research indicates Mexican cuisine and particularly its association with spice, can alienate some potential customers. For the customers that do visit us, their frequency of visit is the lowest of our competitor set, due in part to our value positioning as well as a relatively high proportion of visits being oriented around infrequent, special occasions such as celebrations.

Separately Chiquito has, more recently, substantially underperformed the market. This decline has been driven by poor menu changes, a lack of value competitiveness, speed of service issues, as well as a softer market due to weaker cinema attendances.

Taking learnings from recent menu trials, we have made improvements to the offer, having introduced a weekday value menu offering two courses for £10.95 and three courses for £14.95, with encouraging early participation rates. We have also tested a variety of promotional mechanics as we build an understanding of the response rates by campaign type, customer segment and versus competitor activity.

We intend to broaden the appeal of the brand, making it accessible to a wider customer base. This will involve:

- a widened cuisine extending to, for example, Texan and Californian influences;
- providing customers with the option for greater customisation, including of fillings and spice levels;
- better value, delivered via an improved price architecture;
- a menu that is easier to understand and navigate; and
- reducing unnecessary complexity of dishes, facilitating quicker service and improved consistency.

We will roll out the changes in a sample of restaurants to learn and optimise before implementing more widely. Later in the year, once the changes are widespread, we will invest in marketing behind the rejuvenated proposition.

### Coast to Coast

Launched in 2011, Coast to Coast sites showed promising early trading, leading to an acceleration in the opening programme, peaking at 23 restaurants. However, since 2014 the business has suffered extreme declines in like-for-like sales.

The brand positioning has become progressively more premium, which has been at odds with the typical customer missions when visiting out-of-town locations. As with our other Leisure brands, poor price and menu decisions have been made, although the extent of the changes within Coast to Coast have been more pronounced, with a corresponding impact on performance.

We do, however, see an opportunity to re-position the brand towards a focus on steaks and burgers, both of which are growing market segments and yet remain relatively unpenetrated in our current locations. Our offer will be substantially more affordable, with a compelling range and quality ingredients. Inevitably this will result in lower gross margins, which we believe will be offset by increased volume of covers. The more focused offering will also facilitate a stronger brand identity and to maximise its potential, we expect to invest in marketing alongside some capital expenditure to make clear the proposition has changed.

We are developing a plan for how this new proposition will be delivered. In the meantime roll out of further Coast to Coast sites is suspended until we have clear evidence this new proposition is working.

# **Business review** continued

**2. Serve our customers better and more efficiently**
The business lacks rigorous, streamlined processes and systems that would enable us to deliver the right service standards, with the optimal level of resources, on a consistent basis.

We see opportunities to improve our sales forecasting accuracy, to optimise our labour modelling and to deploy resources more accurately which, in turn, will increase our sales by ensuring the right service level is available at the right times, while removing costs from those parts of the day where we operate sub-optimally.

We have plans to reduce non-value adding or customer facing activities throughout the business, some of which are dependent on process, systems and supplier changes.

We are also focused on equipping our servers with the training and tools, tailored to each brand, to showcase our proposition fully, generating higher sales through cross-sell and up-sell.

**3. Grow our Pubs and Concessions businesses**
Our Pubs business is well positioned with a distinctive offering and defensible locations. Strong operational execution, along with locally sourced produce, has attracted a loyal and increasing customer base who rate the offering highly, relative to competitors. We see opportunities to further increase sales in existing sites by optimising our menus and pricing and investing in marketing.

The Pubs deliver consistently good and growing returns, with a relatively modest refurbishment capital requirement compared to our other brands. Our Pubs are concentrated in the North West, North Wales and the Home Counties, presenting opportunities to organically extend our footprint. Over the medium-term we expect to increase the rate of openings as we build and convert a bigger pipeline of prospective sites.

Our Concessions business operates five different food and beverage formats, across 37 brands, within 12 UK airports. The business has grown sales and profits consistently driven by new space from contract wins, strong growth in passengers and continued improvement in sales per head and conversion of passengers.

With our unique capabilities enabling us to consistently deliver high operational standards at high volume and peak-load intensity, along with our format development and partnering skills, we are positioned well for further contract wins in the future.

**4. Build a leaner, faster, more focused organisation**
The business has excess cost driven by complexity and inefficiency. We have undergone a detailed review of the cost base and have identified opportunities to reduce costs by approximately £10m on an annual run-rate basis, delivered in 2019. Implementation has begun and the savings we capture in 2017 and 2018 will be re-invested in price, product and marketing to grow the business. The one-off cost to achieve these efficiencies is expected to be c. £6m.

These efficiencies will include streamlining our processes, reducing overheads, extracting further purchasing benefits from our scale and reducing the number of people we employ. This will involve some difficult decisions but we are confident our colleagues will embrace being part of a more efficient organisation.

We are effecting a culture change towards a more customer focused, insight-led organisation which can operate at pace. To that end, we are pleased to have made some important changes to the leadership team:

- Murray McGowan has been appointed Managing Director, Leisure and will join us on 5 June 2017. Since 2015, Murray has been the Managing Director for Costa Express and prior to that, worked for Yum! Brands, Cadbury and McKinsey.
- Lucinda Woods has joined us as Director of Strategy and Business Development and brings analytical and strategic skills from her experience at Paddy Power Betfair, Investec and KPMG.
- Debbie Moore has joined us as Group HR Director and brings extensive multi-site and large employee company experience from Spirit Pub Company, Royal Mail and Dixons.
- Keith Janes has been promoted to Property Director, having been at TRG for two years and previously rolled out formats for Costa and Nokia.

We are taking a more disciplined approach to capital investment. We have undertaken a comprehensive review of our property pipeline on a site-by-site basis and have refined our selection criteria, resulting in a reduction in the number of viable prospects.

## Overview of the year

2016 was a disappointing year. Turnover was up 3.7%, benefitting from a 53rd week, with like-for-like sales down 3.9%. The underperformance was driven by each of our three major Leisure brands, Frankie & Benny's, Chiquito and Coast to Coast. Our Pubs and Concessions businesses performed well, benefiting from good operational execution.

## Brands

### Frankie & Benny's (258 units)

The brand had a difficult trading year, with declining like-for-like sales and operating margins, substantially underperforming the market. Operational leadership was changed in June and following the strategic review of the brands at the end of the summer, a series of price and menu trials were launched to test and learn the most effective way to arrest trading performance. 10 sites were opened and 15 sites closed during the year.

### Chiquito (79 units)

Chiquito traded poorly in 2016, with declining like-for-like sales and operating margins. While a drop in cinema attendances contributed to some of this decline, the main drivers were poor proposition changes and operational issues affecting speed of service. Five sites were opened and 12 sites closed during the year.

### Coast to Coast (21 units)

Coast to Coast had a difficult year. The brand is relatively young and while lower sales are to be expected from new units after their opening year, sales have continued to decline thereafter. A radical change to the menu in January was received poorly and progressive price changes in recent years have also contributed to significant declines in like-for-like sales. Two sites were opened and two sites closed during the year.

### Pub restaurants (57 units)

Our Pub business traded well during the year, growing like-for-like sales and profits. The strong and stable team continued to develop the business, improving the menus and successfully trialling new booking technology to accommodate more covers. Four sites were opened and one closed during the year.

### Concessions (59 units)

Our Concessions business had another strong year. While benefitting from strong passenger growth across our UK airport sites, we added to this by successfully driving incremental covers and spend per head. We opened one site during the year, a new pub in Gatwick North terminal which has its own gin distillery and closed two due to airport configuration changes.

## Current trading and outlook

Current trading is in line with our expectations.

2017 will be a transitional year for the business, given the significant change underway and the substantial investment in price and marketing. We anticipate momentum improving towards the end of the year as our initiatives start to take effect.

We expect to open between 16 and 20 units in 2017 with associated capital expenditure of between £16m and £20m. Refurbishment and maintenance capital expenditure will range from £20m to £25m.

**Andy McCue**
Chief Executive Officer

8 March 2017

# Financial review

**Barry Nightingale**
Chief Financial Officer

"Total revenue increased by 3.7%."

### Results

TRG had a disappointing year: revenue was up 3.7% to £710.7m but, following the exceptional charges, the Group incurred a loss before tax of £39.5m (2015: profit before tax of £86.8m). The adjusted measures are summarised in the table below:

| | **53 weeks ended 1 January 2017 £m** | 52 weeks ended 27 December 2015 £m | % change |
|---|---|---|---|
| **Revenue** | **710.7** | 685.4 | +3.7% |
| **EBITDA*** | **121.0** | 128.0 | (5.5%) |
| **Operating profit*** | **79.2** | 88.9 | (11.0%) |
| Operating margin* | **11.1%** | 13.0% | |
| **Profit before tax*** | **77.1** | 86.8 | (11.2%) |
| Tax* | **(17.0)** | (19.4) | |
| **Profit after tax*** | **60.1** | 67.4 | (10.8%) |
| EPS (pence)* | **30.02** | 33.80 | (11.2%) |

* Excludes the impact of the exceptional charge of £116.7m.

Reflects the trading performance vs. the statutory 52 week period in 2015. In 2016, the full year comprised 53 weeks.

Total revenue increased by 3.7%, mainly due to the impact of the 53rd week. Total adjusted EBITDA* for the year was £121.0m, a decrease of 5.5% on the prior year and adjusted operating profit* decreased by 11.0% to £79.2m. Adjusted Group operating margin* for the year was 11.1%, a decrease of 190 basis points on the prior year. Within this, our administration cost base decreased as a percentage of turnover by 80 basis points, reflecting cost saving initiatives implemented in many of our central support functions during the latter half of 2016.

Interest costs were a little lower this year, partly due to a lower level of average net debt during the year and partly due to the annualisation of improved terms under the new financing arrangements, which were completed in June 2015. This was partially offset by an increase in non-cash interest as a result of increased onerous lease interest charges.

Overall, this resulted in adjusted total profit before tax* of £77.1m, an 11.2% decrease on the prior year. The average tax rate in the year was 22.1%, a little lower than the prior year, resulting in adjusted EPS* of 30.0p, a decrease of 11.2% on the prior year.

## Restructuring and exceptional charge

A total exceptional charge of £116.7m has been made in the year, £59.1m in the first half and a further £57.6m in the second half. The total cash element of this charge is £43.2m.

We have closed 33 sites and intend to close a further eight underperforming units which we do not believe are capable of generating adequate returns. We have made an exceptional charge in respect of these closures of £58.4m in the period relating to impairment of fixed assets, provision for onerous leases and other associated costs as a result of these decisions.

We have impaired a total of 66 sites. The total charge of £51.4m in respect of these sites includes fixed asset write downs and contractual cost provisions.

The exceptional charge also includes further costs incurred in the year relating to the Board and management restructuring as well as redundancy and consultancy fees.

The first half 2016 exceptional charge results in 2017 incremental operating profit benefit of £7m; the second half charge results in an incremental operating profit benefit of £3m in 2017. The difference relates primarily to a lower number of loss-making sites closed in the second half of the year. The operating profit benefit comes from lower depreciation following the impairment charge, onerous leases having been provided for and other efficiencies offset by an increased onerous lease interest cost.

## Cash flow

The Group continued to be strongly cash generative, generating £78.9m of free cash flow. After development capital expenditure of £28.8m, £34.9m of dividend payments and other non-trading items, net debt reduced by £0.1m in the year to £28.3m at the year end. Set out below is a summary cash flow for the year.

| | **2016 £m** | 2015 £m |
|---|---|---|
| Adjusted operating profit* | **79.2** | 88.9 |
| Working capital and non-cash adjustments | **1.1** | 5.6 |
| Depreciation | **41.8** | 39.1 |
| Operating cash flow | **122.1** | 133.6 |
| Net interest paid | **(0.8)** | (1.0) |
| Tax paid | **(16.2)** | (17.6) |
| Maintenance capital expenditure | **(26.2)** | (19.7) |
| Free cash flow | **78.9** | 95.3 |
| Development capital expenditure | **(28.8)** | (55.1) |
| Movement in capital creditors | **(10.3)** | 1.9 |
| Dividends | **(34.9)** | (32.1) |
| Purchase of shares | **–** | (1.7) |
| Other items | **(4.8)** | 1.9 |
| Net cash flow | **0.1** | 10.2 |
| Net bank debt brought forward | **(28.4)** | (38.6) |
| Net bank debt carried forward | **(28.3)** | (28.4) |

## Cost inflation

Food cost inflation pressures were managed well in 2016. This was due to the benefit of contracted supply agreements which shielded the Group from the immediate impact of cost rises observed in the second half of the year. However, the outlook for food and beverage inflation in 2017 is more difficult, with both direct purchase cost inflation and the impact of foreign exchange increasing our input costs. We will continue to take advantage of our highly effective buying function to minimise the impact of these headwinds.

During 2016 we experienced the first National Living Wage increase which resulted in many of our employees benefiting from above inflation wage rises. We expect this trend to continue given the Government's stated aim is to continue to increase the National Living Wage until at least 2020. 2017 also sees the introduction of the Apprentice Levy which will be 0.5% of our annual gross wage bill.

# Financial review continued

Our other two largest cost items are occupancy and utility costs. The revaluation of business rates, which comes into effect in April 2017, will add approximately £3m to the Group's rates bill. Rental inflation continues to increase at c.2% per annum. We expect that our utility costs will increase in 2017 as the Group's current fixed price contracts expire in the third quarter of the year.

### Capital expenditure

During the year the Group invested a total of £55.0m in capital expenditure compared to £74.8m in the prior year. We invested £26.2m in maintenance and refurbishment expenditure which included £7.0m spent on a Frankie & Benny's bar reduction programme and £28.8m in new site development expenditure. During the year we opened a total of 24 new sites. In addition to the 33 closed sites highlighted above, four further sites closed in the year including two concessions which had reached the end of their contractual life and two leisure sites which we declined to renew at the end of their lease. The table below summarises openings and closures during the year.

| | Year end 2015 | Opened | Closed | Transfers | **Year end 2016** |
|---|---|---|---|---|---|
| Frankie & Benny's | 261 | 10 | (15) | 2 | **258** |
| Coast to Coast/ Filling Station | 28 | 3 | (3) | – | **28** |
| Chiquito | 86 | 5 | (12) | – | **79** |
| Garfunkel's | 13 | – | (2) | (3) | **8** |
| Joe's Kitchen | 3 | 1 | (2) | 2 | **4** |
| Pub restaurants | 54 | 4 | (1) | – | **57** |
| Concessions | 61 | 1 | (2) | (1) | **59** |
| Total | 506 | 24 | (37) | – | **493** |

### Financial and key financial ratios

The Group continues to maintain considerable headroom against the covenant tests of its £140m revolving credit facility, which is in place until June 2020.

| | Banking covenant | **2016** | 2015 |
|---|---|---|---|
| Banking covenant ratios: | | | |
| EBITDA/Interest cover | >4x | **60x** | 63x |
| Net debt/EBITDA | <3x | **0.2x** | 0.2x |
| Other ratios: | | | |
| Fixed charge cover | n/a | **2.4x** | 2.7x |
| Balance sheet gearing | n/a | **14%** | 10% |

### Tax

The total trading tax charge for the year was £17.0m, summarised as follows:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Corporation tax | **16.9** | 19.1 |
| Deferred tax | **0.1** | 0.3 |
| Total | **17.0** | 19.4 |
| Effective tax rate | **22.1%** | 22.4% |

The effective trading tax rate for the year was 22.1% compared to 22.4% in the prior year. The lower tax rate reflects the ongoing reduction in the corporation tax rate. As noted in previous reports the Group's effective tax rate will continue to be higher than the headline UK tax rate primarily due to our capital expenditure programme and the significant levels of disallowable capital expenditure therein.

### Principal risk factors

The Board regularly identify, monitor and manage potential risks and uncertainties to the Group and during the year the Board carried out a robust assessment of the principal risks. Set out below is a list of what the Directors consider to be the current principal risks and uncertainties of the Group together with the mitigation process. This list is not presumed to be exhaustive and is, by its very nature, subject to change.

| | Risks and uncertainties | Mitigation process |
|---|---|---|
| 1 | Adverse economic conditions and a decline in consumer confidence and spend in the UK | Regular monitoring of performance and appropriate action plans |
| 2 | 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 |
| 3 | Lack of new site opportunities and risks to existing Concession agreements | Dedicated property department focusing on new site development; strong relationships with Concessions partners |
| 4 | 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 |
| 5 | Major failure of key suppliers to deliver products into restaurants | Contingency planning for supply chain and suppliers |
| 6 | 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 |
| 7 | 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 |
| 8 | 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 |
| 9 | 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; 3rd party security reviews |
| 10 | Cyber security failure leading to data loss, disruption of services and trading or reputational damage | Continuing investment in security controls, processes and systems; improving data controls, processes and awareness and education including General Data Protection Regulations; third party systems and controls aligned to our risk appetite |

We have also considered the implications of Brexit in the principal risks above. We note, in particular, the potential risk from Brexit on the economic conditions in the UK (risk 1) and how that will impact demand and input costs. We also note the potential risk of Brexit on both the availability and cost of labour (risks 7 and 8).

# **Financial review** continued

### Long-term viability statement

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code (Code), the Directors have assessed the viability of the Group over a three-year period to December 2019.

The Directors believe that three years is currently the appropriate horizon over which to evaluate longer-term viability as this is consistent with Group and Brand development plans and with the visibility of new site development opportunities.

The Group's longer-term financing is provided by its £140m revolving credit facility which is in place until 2020. The Group also utilises a repayable on demand overdraft facility which it uses to manage its day to day working capital requirements. Despite a challenging trading performance in 2016, the Group remains strongly cash generative.

Evaluation of the Group's longer-term viability has taken into account the Group's current position and the potential impact of the principal risks documented in the Strategic report on page 11. The resilience of the Group to the impact of these risks has been evaluated by subjecting, where appropriate, a three-year forecast (based on the approved budget for 2017) which was reviewed by the Board in March 2017, to severe but reasonable scenario analysis. This includes modelling the effect of the business failing to address customer value for money and service level requirements, the impact of disruption in our supply chain, food safety issues, the impact of price increases in key raw materials and a breakdown of the Group's IT systems.

The Directors have considered the impact of the principal risks on free cash flow, headroom in available bank facilities and bank covenant hurdles as well as the security of available long-term funding.

Taking into account the Group's current position, principal risks and the modelled sensitivity analysis described above, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2019.

### Key performance indicators

The Board 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. There is no accounting standard or consistent definition of 'like-for-like sales' across the industry. Group like-for-like sales are calculated by comparing the performance of all mature sites in the current period vs. the comparable period in the prior year.

#### New sites opened

The expansion of our brands is a key driver of the Group's profitability. 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.

#### 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 adjusted EBITDA as operating profit before depreciation, amortisation and exceptional items. Adjusted EBITDA serves as a useful proxy for cash flows generated by operations and is closely monitored.

#### Operating profit margin

The Board and management closely monitor profit margins as an indicator of operating efficiency within restaurants and across the Group.

#### Return on invested capital

The Group closely scrutinises the returns on invested capital from new site openings and the performance of new sites is subject to periodic post completion reviews which are reported to and considered by the Board.

### People

As at 1 January 2017, 50% of the Group's total workforce of over 15,700 were women. Two (29%) members of the Board are female. Four (33%) of the senior executive team (excluding Directors) are female. The Board's approach to gender diversity is covered in more detail in the report of the Directors.

The Group's operations are located wholly within the UK and the Company respects all relevant human rights legislation. Further information on the Group's social and community engagement can be found in the corporate responsibility report on page 14.

### Greenhouse gas emissions

The disclosures concerning greenhouse gas emissions required by law are included in the corporate responsibility report on page 20.

Approved by the Board of Directors and signed on its behalf by:

**Barry Nightingale**
Chief Financial Officer

8 March 2017

# Corporate social responsibility

We are committed to doing business responsibly and acknowledge that The Restaurant Group has a significant role to play in the communities and the wider environment in which we operate. This report sets out the principal areas of focus and activity for 2016 in the areas of nutrition, sustainable and ethical sourcing, nurturing and developing our employees, engaging with our communities and reducing the environmental impact of the Group on the wider environment.

### Sustainable and ethical sourcing

The Group practices responsible sourcing throughout its supply chain ensuring its customers get food that is great quality, high welfare and sustainable.

All of our suppliers must be certified to the British Retail Consortium Food standard or equivalent as a minimum and we conduct routine supplier audits ourselves to ensure our suppliers are operating to our high standards.

We are committed to sourcing sustainable fish and as such introduced a detailed policy in 2016, within which we commit to source Marine Stewardship Council certified fish where available. We also work with our suppliers and farmers (both UK and non-UK) to provide further emphasis and guidance on farm-antibiotic use. We commit to sourcing all our shell eggs and mayonnaise from cage-free and/or free-range sources by the end of 2017 and furthermore we commit that eggs used as an ingredient in our supply chain will be cage-free and/or free-range by the end of 2023. Work is already underway to achieve this goal.

> "All of our suppliers must be certified to the British Retail Consortium Food standard or equivalent"

The Group is a member of the Supplier Ethical Data Exchange (SEDEX), which enables us to measure and improve upon our ethical business practices across our supply chain. We require all of our suppliers to be registered and risk assessed with SEDEX. All suppliers must also meet the requirements of our Responsible Sourcing Policy which has been introduced to our direct suppliers and disseminated throughout each supply chain.

As in previous years, no genetically modified foods or artificial trans fats are used in any of our products and we have banned colours that cause hyperactivity in children from our children's menus.

### Responsibility Deal partnership

Since 2011 the Company has been a partner of the Public Health Responsibility Deal (the Responsibility Deal), launched by the Department of Health. As a result of the Responsibility Deal we have made many positive changes from tackling underage alcohol sales and salt reduction to supporting physical activity amongst children. 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. Being a Responsibility Deal partner means that the Company 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 each pledge.

The Company has eight pledges within the Responsibility Deal:

- we have achieved the 2012 salt targets for the products we procure;
- we are now working towards the 2017 salt targets, further reducing the salt levels at ingredient level;
- we have achieved our pledge to procure over 50% of the volume of products within the guidelines by 2017. By December 2016 91% of our products were within the guidelines;
- we removed all artificial trans fats from our products in 2008 and continue to monitor all new products to ensure ongoing compliance;
- we commit to offering a healthy choice for our customers and offer a free side of vegetables with all kids meals in most of our restaurants;

- we commit to tackling underage alcohol sales by operating Challenge 21 in all our establishments and Challenge 25 in Scotland;
- we commit to foster a culture of responsible drinking. We offer very low alcohol beer and a wide range of alcohol free mocktails, soft drinks and milkshakes. Many of our Concessions restaurants also offer a low alcohol wine option; and
- Frankie & Benny's have a long history of sponsoring local junior sports teams providing kits for the teams and support at matches.

### Healthier options

The nutritional balance of menus is incorporated into the design process and we are committed to increasing the number of lower calorie, salt and sugar options available on all future menus. Our nutrition policy challenges us to always have a number of healthy choices on our menus. Healthy eating is a personal responsibility but the Group acknowledges that as a provider of food and drink we have a role to play in providing appropriate options from which our guests may choose when they eat out.

The Company strongly believes that we should offer our guests menu choices. 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 normal restrictions which may be applied to healthy eating on a day-to-day basis may be waived in favour of their enjoyment and experience. In Frankie & Benny's we highlight a range of lighter options for our customers which are under 350 calories for starters and under 600 calories for mains and, although not necessarily calorie marked on the menu, we always try to offer healthy choices in all of our brands.

### Salt

We have reduced the amount of salt in our bespoke products purchased directly from suppliers in-line with the Department of Health's Public Health Responsibility Deal for 2017. In 2016 we removed one tonne of salt from our food by reformulating the recipes whilst ensuring we keep our food flavoursome. There are some products where we are unable to reduce the salt further. Our bacon, for example, requires salt from a food safety perspective.

### Children's menus

Many of our brands are family-friendly and we want to ensure eating out at our restaurants is enjoyable for both adults and children. All of our brands offer children's menus, excluding a few bar-focused Concessions brands. We always offer a free side of vegetables, salad or baked beans with our kids meals which help them on their way to five a day. In 2016 we created our nutrition framework which is based on the guideline daily amounts of calorie, salt and sugar for children. The aim of the framework is to ensure that our menus are balanced, offering indulgent and healthier options.

### Physical activity and nutrition

Frankie & Benny's sponsors local junior sports teams across the UK. Sponsorship takes the form of funding for sports kit, programmes and other equipment, support at events and team meals throughout the year. Our restaurants regularly host events for the teams and their families and supporters. This initiative forms a core part of the Frankie & Benny's community engagement strategy.

As part of this strategy we also run free pizza-making visits for schools. We aim to get kids excited about cooking, whilst learning some useful skills and covering topics in the KS1 and KS2 syllabus. We are passionate about our food and learning about where it comes from and we want to inspire the same enthusiasm in kids when they come to visit us.

### Allergens

Frankie & Benny's and Chiquito offer a Coeliac UK accredited Gluten Free menu to cater for those with a gluten allergy or intolerance. In 2017 Frankie & Benny's will be offering its first gluten free burgers and pizzas.

Our allergen information is available online on our brand websites which allows us to provide accurate information to our guests and can be updated daily. It allows guests to create their own bespoke menu based on their particular allergies, intolerances or vegetarian and vegan preferences. This goes above and beyond the minimum requirement for legislation and we hope makes the experience of eating out easier for our guests.

# Corporate social responsibility continued

## Serving alcohol responsibly

We operate Challenge 25 in Scotland and Challenge 21 in England, Wales and Northern Ireland. In 2016 we became the first casual dining business to support Drinkaware and all leisure menus launched after August 2016 display the Drinkaware logo to promote responsible drinking. We offer very low alcohol beer and a wide range of alcohol free mocktails, soft drinks and milkshakes across all our brands. Many of our Concessions restaurants also offer a low alcohol wine option.

## Food safety

The health and safety of our customers and employees is of paramount importance to us. The Group has extensive procedures to ensure we mitigate risks to our guests and teams as far as possible. We have very clear procedures and standards in place and to enforce these we employ external auditors from NSF International UK Ltd to perform a rolling programme of independent safety audits and carry out benchmarking of our restaurants.

As at 31 December 2016, over 96% of our restaurants scored 4 stars or above (including pass in Scotland) under the Food Hygiene Rating Scheme, a sign of excellence in both food safety and hygiene with 86% at 5 stars or a pass in Scotland. We have invested significant time and resources in health and safety matters across the Group to further enhance the clean, safe environment for our customers and staff.

## Our people

We believe that our most important assets are our people and our team is one of which we are especially proud. With over 15,700 employees (at the end of December 2016) our focus is identifying and growing talent, supporting our managers to develop their own careers within the Group and to build great teams.

During 2016 the Group successfully opened a further 24 restaurants and pubs creating hundreds of new jobs within local communities. Following a review of our estate we also took the difficult decision to close 37 sites. We were, however, able to redeploy and retain many of the employees from these sites with less than 15% being made redundant.

The Restaurant Group is committed to being a fair and inclusive employer. Employment with TRG offers everyone equal rights regardless of age, race, gender, sexual orientation, disability or religion. We ensure as far as possible that the diversity of our teams reflects the diversity of the customers we serve.

Our policies and employee handbook reflect this commitment to equality and human rights which are discussed in the induction for all employees. The various management skills courses offered cover the responsibilities of the management team in upholding these policies to ensure a safe and respectful working environment.

The Group pays all of its employees at least the National Minimum Wage (or for over 25's the National Living Wage) appropriate to their age. Tips are not included in this rate, all gratuities are additional to their hourly rate and are paid directly to the employees. Cash tips are self-declared, only the tips paid by credit card have tax deducted by the Company and, unlike some of our competitors, no card processing administration fee is taken by the Company.

Following feedback from the previous employee engagement survey on the desire for more communication from the business, 2016 saw the introduction of new employee engagement and communication 'apps' across the business. Initial usage levels in terms of the number of employees downloading the app onto their personal devices and then using it to read and comment on business messages has been largely encouraging. We need, however, to ensure the communications remain relevant and interesting to our largely millennial population; there will be further development of the messaging this year, with closer links to marketing campaigns and menu changes and the opportunity to reward our teams for great sales or great suggestions through incentives and competitions.

In 2016, we reported 76 accidents under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013; a reduction on our 2015 figures, with no deaths or dangerous occurrences.

### Nurturing and developing our people

We have a dedicated Learning and Development team whose aim is to ensure all our employees are the best they can be. We have designed a wide range of development tools and activities linked to career paths both front and back of house, thus providing opportunity for everyone to progress their hospitality career with The Restaurant Group.

We have a great track record of promoting from within and of building great careers for our people. During 2016, 350 of our employees were promoted internally which is more than half of all managerial recruitment, the internal promotion rate is already as high as 75% for General Manager roles in our pub business. We hope that with our new career pathways and a pipeline of apprentices that we can increase internal promotions across TRG.

### Online learning and workshops

Everyone in the Company has access to our FLOW eLearning centre which holds a host of learning materials that support employees from the first day with the Company. There is a comprehensive induction programme as well as career development options. We cover topics ranging from health and safety and allergens through to how to be a great coach and leader. 45,000 eLearning modules are completed each year on the FLOW system.

We also recognise the importance of face-to-face learning and we facilitate over 180 workshops a year which are run by our in-house teams. This gives our management teams from across the different brands the chance to learn from each other, share best practice and build on their development plans.

For our Senior Leaders, we are members of the Henley Business School Partnership which provides access to the latest thinking on a wide range of Leadership topics, facilitated by some innovative thinkers from across all industries.

### Managers in Training

All new managers into our restaurants are enrolled on an MIT (Manager in Training) programme. This gives them a structured pathway to be a successful manager with us. It covers all aspects of operational management and hospitality, as well as leading and developing a great team and is designed to reflect the culture and values of the business.

New managers work in specifically approved training centres and are supported by their line manager and the Learning and Development team through on the job learning, regular feedback and eLearning and workshops.

### Team member development

We know that one of the best ways to learn many things is to get hands on and experience it for yourself. On the job learning is critical for the development of our people. To help with this informal learning there are workbooks, training documents, and eLearning modules. Our colleagues across the business, as well as the Learning and Development team, are always on hand to guide and support people throughout their careers.

# **Corporate social responsibility** continued

### Apprenticeships

The introduction of the Apprentice Levy from April 2017 has enabled us to increase our commitment to the apprenticeship scheme. We will be offering both level 2 and 3 apprenticeships to individuals who meet the eligibility criteria. These will support the career paths of our chefs as well as individuals looking to move into their first management positions within TRG. This is a great investment in the development of skills and ability in our team and will lead to greater engagement with, and retention of, these key employees. The Pubs division has built strong links with South Cheshire College and use them for delivery of apprenticeships and training and as a source of chef recruitment. They also help to run the Brunning and Price annual junior chef competition.

### Recruitment

Across all our brands we want to attract the most talented individuals who are right for our business. Our in-house recruitment team are instrumental in achieving this and they help the business to directly recruit over 250 managers a year into our restaurants for Assistant, Deputy and General Management roles.

This year we have invested in new systems and partnerships to further enhance our ability to provide a great candidate experience. We will be partnering with LinkedIn to actively recruit some of the hidden talent that is out there in the hospitality sector, as well as creating a better online presence through social media.

We have also invested in a new Applicant Tracking System to enable us to have a seamless recruitment and on boarding process, that will make it more engaging for the candidate and more efficient for us as a business to recruit our future talent.

### Our communities

We are passionate about engaging with our communities and actively support our teams in their fundraising efforts and community engagements. Throughout 2016 we supported a number of local and national charitable events, some of which are detailed below:

*Rays of Sunshine Children's Charity*

During the past two years of their partnership, Frankie & Benny's have raised over £554,000 for Rays of Sunshine Children's Charity. Rays of Sunshine grants 'wishes' for children across the UK living with a serious or life-limiting illness. Money was raised through fundraising weekends in the restaurants, donations from dishes as well as challenges taken on by the teams including sky dives and the Tough Mudder obstacle course.

*Children with Cancer UK*

Chiquito raised over £20,000 for Children with Cancer UK in 2016. Last year, almost 4,000 families were given the devastating news that their child has cancer and sadly, 500 young people lost their battle. The funds have gone towards supporting these families during these difficult times. Chiquito raised money through fundraising, donations for sombreros and a charity recipe booklet.

*The School Club Zambia*

The charity was founded in 2011 to help support community schools become financially self-sufficient, up-scale vocational education and improve employment potential in the community. Donations largely came from a proportion of the sale of selected dishes sold at three of our Concessions brands, Bridge Bar and Eating House, Beardmore Bar and Restaurant and The Nicholas Culpepper Pub and Dining, being donated to the charity. Since our partnership began in December 2013 we have raised £27,000.

*Guide Dogs*
Since 2009, the Concessions team have fundraised for The Guide Dogs for the Blind Association and sponsored Guide Dogs through various fundraising activities and sponsored events. During Guide Dog week in October 2016 they raised £5,000 for the Name a Puppy scheme.

### School and sports partnerships

*Manchester Enterprise Academy*
Our Concessions team at Manchester Airport have been working with the school since 2013 to create curriculum visits which, amongst other things, give students the opportunity to go to our restaurants to practice life skills, broaden their appreciation of culinary styles and try their hand at designing their own smoothies and pizzas.

*The Prince's Trust*
The Prince's Trust is a youth charity that supports 13 to 30 year olds who are unemployed and those struggling at school and at risk of exclusion. Our Concessions team at London Luton Airport support The Prince's Trust programme by enabling 18 to 30 year olds to work within Est Bar at London Luton Airport. We give them an insight into working life for two weeks which, in some cases, has led to participants being employed as permanent team members at Est Bar.

### Charities Aid Foundation Give As You Earn

In early 2014 the Group teamed up with the Charities Aid Foundation to allow our team members the facility to donate to their favourite charities directly from their salary. This enables employees to make a regular donation in a tax efficient way to registered charities and also local clubs, parent teacher associations and even Scout or Brownie groups.

### Our environment

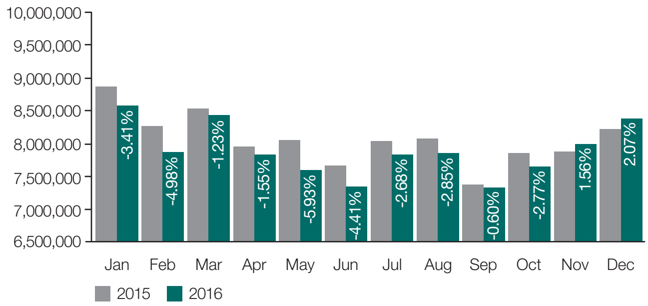
The Group recognises its responsibility to minimise its impact on the natural environment and continues in its commitment to reduce its energy consumption and carbon emissions, water usage and waste.

### Energy consumption and carbon emissions

We continue to promote our energy saving campaign to all restaurants through the timely supply of accurate reporting. Operational managers have the information they need to allow them to monitor and reduce energy consumption levels through an online portal and centralised data resource. The Group has built on the findings from ESOS audits and investigated several new initiatives including moving to conceptual trials which we hope to progress further in 2017.

The Group maintains Carbon Saver Gold Standard accredited, showing seven years commitment to reducing carbon emissions. The Group also became accredited by the Sustainable Restaurant Association, scoring highly in the Environment section. 2016 showed a 7th consecutive year of like-for-like energy consumption reduction as illustrated below. The reduction of over 2,000,000 kWh is equivalent to nearly 1,000 tonnes of carbon. This was achieved by continuing to use low energy lighting, completing our voltage optimisation roll out, benefits of heat recovery and through managing data and exceptions to drive behavioral change.

**YTD monthly electricity consumption 2015 v 2016** (KWh)




2015 vs. 2016 % Change: -2.25%
Number of sites included: 349 (like-for-like period)

## Greenhouse gas emissions

We report Scope 1 and 2 emissions defined by the Greenhouse Gas Protocol as follows:

- Scope 1 (Direct emissions): combustion of fuel and operation of facilities; and
- Scope 2 (Indirect emissions): consumption of purchased electricity, heat or steam.

## Greenhouse gas emissions data:

Emissions data in respect of the 2016 reporting period, on the financial control reporting basis, is as follows:

| | $CO_2e$ tonnes (location-based method) | |
|---|---|---|
| Emission Type | **2016** | 2015 |
| Scope 1: | | |
| Operation of Facilities | **930** | 287 |
| Combustion | **19,667** | 19,587 |
| Total Scope 1 Emissions | **20,597** | 19,874 |
| Scope 2: | | |
| Purchased Energy (UK) | **55,349** | 59,290 |
| Total Scope 2 Emissions | **55,349** | 59,290 |
| **Total Emissions** | **75,946** | 79,164 |

## Greenhouse gas emissions intensity ratio:

| | **2016** | 2015 | Year-on-Year Variance |
|---|---|---|---|
| **Total Footprint (Scope 1 and Scope 2) – $CO_2e$** | **75,946** | 79,164 | -3,218 |
| Turnover (£) | **710.7m** | 685.4m | 3.69% |
| Intensity Ratio – Scope 2 location based method ($tCO_2e$/£100,000) | **0.107** | 0.116 | -7.88% |

Scope and methodology:

- Our methodology has been based on the principals of the Greenhouse Gas Protocol, taking account of the 2015 amendment which sets out a 'dual reporting' methodology for the reporting of Scope 2 emissions.
- We have reported on all the measured emissions sources required under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, except where stated.
- The period of our report is the calendar year 2016.
- This includes emissions under Scope 1 and 2, except where stated, but excludes any emissions from Scope 3.
- Conversion factors for UK electricity (location-based methodology), gas and other emissions are those published by the Department for Environment, Food and Rural Affairs for 2016.

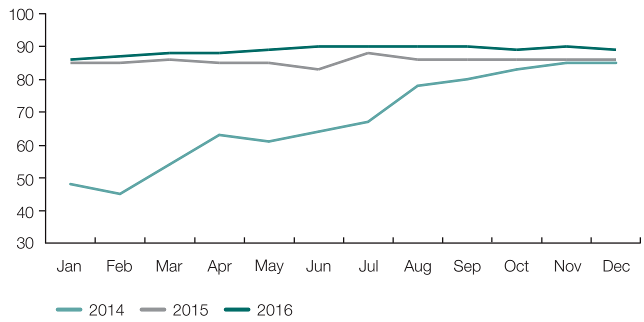
## Water

For water the Group benchmark restaurants and pubs by brand daily usage and use data validation to highlight high or anomaly users. Where usage increases or is marked as high, the restaurant or pub is surveyed for reduction initiatives and leak fixes, ensuring that we prevent water wastage and remain commercially controlled in this area. During 2016 we implemented ongoing savings of over £82,000.

## Waste

The Group has further improved its diversion from landfill to 90%; up from 87% in 2015. A significant number of sites divert 100% of their waste from landfill. Year on year progress in this area is illustrated below:

### Current month waste diversion (%)



# Corporate Governance

**Debbie Hewitt MBE**

The Board has a wide range of responsibilities and my overall objective is to ensure that we have the right mix of skills and experience to leverage the opportunities and overcome the challenges that the Company faces and that it works effectively as a team to identify, prioritise, communicate and review the delivery of our goals. With the skills and experience in place, my specific role is to ensure that there is the right mix of enquiry and support to the executive Directors from the non-executives and that it is done in the context of a culture that reflects strong levels of corporate governance.

The non-executive Directors discuss and agree the strategy with the executive Directors and hold the executives accountable for its execution; we ensure that we have the most talented team to execute this strategy and we set the tone for governance.

The Board is committed to creating and maintaining a culture where these strong levels of governance thrive throughout the organisation, specifically ensuring that we send out consistent messages on the core values of the Company and acceptable behaviours from our people, our suppliers and our advisers. We have made good progress in moving towards best practice and we will regularly review the context, progress and maintenance of these standards, for the benefit of all of our stakeholders.

**Debbie Hewitt MBE**
Chairman

# **Corporate Governance** continued

2016 has been a significant year of change for the Board, with a number of new executive and non-executive Director appointments. Debbie Hewitt became Chairman of the Board in May 2016. Mike Tye was appointed as non-executive Director and Chairman of the Remuneration Committee in April 2016, followed by Graham Clemett as non-executive Director and Chairman of the Audit Committee in June 2016. All three have added substantial executive experience in a listed environment, as well as industry and/or adjacent industry experience.

Barry Nightingale was appointed as Chief Financial Officer in June 2016, bringing substantial executive turnaround experience. Andy McCue was appointed in September 2016, bringing proven experience as a listed company Chief Executive Officer who has successfully grown shareholder value in a multi-site consumer business.

Following Andy's appointment, the business has been working hard to identify and communicate our strategic priorities, to ensure a stronger focus on the customer and the proposition of our various brands and to strengthen the leadership and to instil a more effective capital management programme. The executive team have also instigated a streamlining of IT and operational processes. The Board recognises and embraces its role in challenging and supporting senior management through this transitional phase.

During the year, the Board strengthened the corporate governance structures around risk management with the introduction of a senior management Risk Committee in October 2016. Further information on the Risk Committee and its role, responsibilities and activities in 2016 can be found on page 54.

### Statement of compliance with the UK Corporate Governance Code

The Company is required to measure itself against the UK Corporate Governance Code 2014 (Code) which is available on the Financial Reporting Council website (www.frc.org.uk).

From June 2016 to 1 January 2017 the Company complied with the principles set out in the Code, but for the decision that an independent committee evaluation would be deferred until the Board has had time to form and establish norms and that, instead, an internal one would be completed for the year ending 1 January 2017. As noted in last year's Directors' report, from January to May 2016, the Company complied with the code except for the independence of the Chairman; who was previously executive Chairman before being appointed to the role of non-executive Chairman in January 2006. Further explanations of how the Main Principles of the Code have been applied are set out below and also in the Directors' remuneration report and the Audit Committee report.

## Leadership

### Role of the Board

The Board's role is to provide strong value-based leadership of the Company, within a framework of prudent and effective controls, which enable risk to be assessed and appropriately 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 in their delivery.

The Board sets the tone of the Company's values and ethical standards and manages the business in a manner to meet its obligations to shareholders and other stakeholders. The Board is responsible for reviewing, challenging and approving the strategic direction of the Group.

The Directors who held office during 2016 were as follows:

| Director | Role | Details |
|---|---|---|
| Debbie Hewitt | Chairman | Appointed Chairman May 2016, non-executive Director from May 2015 |
| Andy McCue | Chief Executive Officer | Appointed September 2016 |
| Barry Nightingale | Chief Financial Officer | Appointed June 2016 |
| Simon Cloke | Senior independent Director | Appointed March 2010, previously Chairman of the Audit Committee |
| Sally Cowdry | Non-executive Director | Appointed March 2014 |
| Mike Tye | Non-executive Director and Chairman of the Remuneration Committee | Appointed April 2016 |
| Graham Clemett | Non-executive Director and Chairman of the Audit Committee | Appointed June 2016 |
| Stephen Critoph | Chief Financial Officer | Resigned April 2016 |
| Alan Jackson | Chairman | Resigned May 2016 |
| Tony Hughes | Senior independent Director and Chairman of the Remuneration Committee | Resigned May 2016 |
| Danny Breithaupt | Chief Executive Officer | Resigned August 2016 |

The Board considers each of the non-executive Directors to be independent, including the Chairman of the Board, as set out in the Code. Each Director demonstrates the skills and experience the Board requires for the success of the Group. Biographies of the current Directors are set out on pages 28 and 29.

### Division of responsibilities

Andy McCue, Chief Executive Officer, together with the senior management team, is responsible for the day-to-day running of the Group and regularly provide reports on performance to the Board.

Non-executive Directors maintain an ongoing dialogue with the executive Directors which includes constructive challenge of performance and the Group's strategy. The non-executive Directors are provided with insightful and appropriate information to allow them to monitor, assess and challenge the executive management of the Group.

The senior independent non-executive Director, Simon Cloke, is available to liaise with shareholders who have concerns that they feel have not been addressed through the normal channels of the Chairman, Chief Executive Officer and Chief Financial Officer.

The Board has a formal schedule of matters specifically reserved for its consideration which includes items such as: the approval of the annual budget and business plan; approval of the Groups' interim and year-end reports; review and approval of significant capital expenditure; significant disposals of assets; and acquisitions or disposals of businesses. The Board have reviewed this schedule during the year and added specific matters where they feel it is critical to the ongoing success of the business, for example an annual review of pricing.

## Meetings and attendance

A summary of each Director's attendance at meetings that they were eligible to attend of the Board and its Committees during 2016 is shown below. Unless otherwise indicated, all Directors held office throughout the year:

| | Committee appointments | Board | Audit Committee | Nomination Committee | Remuneration Committee |
|---|---|---|---|---|---|
| Debbie Hewitt | Nom/Rem | 11/11 | 1/1 | 6/6 | 5/5 |
| Andy McCue[1] | n/a | 2/2 | n/a | n/a | n/a |
| Barry Nightingale[2] | n/a | 6/6 | n/a | n/a | n/a |
| Simon Cloke | Audit/Nom | 11/11 | 3/3 | 7/7 | n/a |
| Sally Cowdry[3] | Nom/Rem | 10/11 | 1/1 | 6/7 | 4/5 |
| Mike Tye[4] | Audit/Nom/Rem | 9/9 | 2/2 | 4/4 | 3/3 |
| Graham Clemett[5] | Audit/Nom/Rem | 6/6 | 2/2 | 3/3 | 3/3 |

1 Appointed Chief Executive Officer in September 2016.
2 Appointed Chief Financial Officer in June 2016.
3 Sally Cowdry missed one Board, one Remuneration Committee and one Nomination Committee meeting (which were held on the same day) due to the short notice on which they were called.
4 Mike Tye was appointed independent non-executive Director and Chairman of the Remuneration Committee in April 2016.
5 Graham Clemett was appointed independent non-executive Director and Chairman of the Audit Committee in June 2016.

Comprehensive Board papers are provided to the Directors prior to Board meetings and updates on progress towards financial KPIs are provided on a weekly basis. The non-executive Directors have the opportunity to meet without the executive Directors to examine, among other matters, targets set and performance achieved by management.

## Independent advice

All Directors have access to the advice and services of the Company Secretary and it has been agreed that in the furtherance of their duties, Directors are entitled to take independent professional advice if necessary, at the expense of the Company.

## Conflicts of interest and independence

The Board reviews potential conflicts of interest and independence at each meeting as a standing item. Directors have continuing obligations to update the Board on any changes to these conflicts or matters which may impinge upon their independence.

In 2016 Debbie Hewitt sought to invest in a small business venture, Corazon, led by an entrepreneur starting up a Mexican counter service restaurant based in London. Before investing, Debbie Hewitt declared the potential conflict to the Board and this was noted and the ability for her to invest if she desired was approved on the basis that the scale, proposition and the nature of her involvement was not considered a conflict.

In 2016 Mike Tye sought to become the Chairman of Moto Motorway Services. Before accepting the role, Mike Tye declared the potential conflict to the Board and this was noted and his eligibility to accept the role was approved on the basis that the role was not considered a conflict with the current strategy of the Company.

## Directors and Officers' liability (D&O) insurance

The Company maintain D&O insurance to cover the cost of defending civil proceedings brought against them in their capacity as a Director or Officer of the Company (including those who served as Directors or Officers during 2016).

# Effectiveness

## Board composition

As required by the Code at least 50% of the Board, excluding the Chairman, are independent non-executive Directors; the Board is comprised of two executive Directors, four independent non-executive Directors and the non-executive Chairman, in compliance with the Code. The Board has debated and considers that all of the non-executive Directors, including the Chairman, are independent.

The principle of Board diversity is strongly supported by the Board. It is the Board's policy that appointments to the Board will always be based on merit so that the Board has the right individuals in place, recognising that diversity of thought, approach and experience is seen as an important consideration as part of the selective criteria used to assess candidates to achieve a balanced Board.

The table below sets out the current position of the Company on a gender basis:

| | Female | Male |
|---|---|---|
| Main Board | 2 (29%) | 5 (71%) |
| Executive Committee[1] | 4 (33%) | 8 (67%) |
| Direct reports to Executive Committee | 25 (36%) | 44 (64%) |
| TRG employees at December 2016 | 7,897 (50%) | 7,812 (50%) |

1 Excluding the executive Directors.

Details of the Directors' respective experience is set out in their biographical profiles on pages 28 and 29. The Board considers that each Director is able to allocate sufficient time to the Company to discharge their responsibilities effectively.

## Annual re-election

In accordance with the Code the Directors appointed in 2016 are subject to election by shareholders at the Annual General Meeting (AGM) in May 2017 and all others are subject to re-election annually.

## Board committees

The Board is supported by three committees: Audit, Nomination and Remuneration. In 2016 the terms of reference of these committees were reviewed and updated, copies are available at www.trgplc.com/investors/corporate-governance. Full reports for each of the committees are set out on pages 30 to 51.

## Director induction

Andy McCue, Barry Nightingale, Graham Clemett and Mike Tye joined the Board in 2016 and were provided with an induction on appointment, which included visits to the Group's operations and meetings with operational and executive management. Each Director's induction is tailored to their experience and background with the aim of enhancing their understanding of the Group's business, its brands, employees and processes and the Board role in setting the tone of the culture and governance standards.

## Director training and development

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 to acquire additional skills and experience to enhance their contribution to the ongoing progress of the Group. There are also sessions on governance, which all Directors attend.

## Board effectiveness review

The performance of the Board and its committees are appraised annually and in 2016, it was scheduled for an independent review to be completed. However, due to the number of Director changes in the year, it was agreed that an independent committee evaluation would be deferred until the Board has had time to form and establish norms and that instead an internal one would be completed for the year ending 1 January 2017.

The following process was adopted:

### Process

The Board evaluation was led by the Chairman through individual Director feedback questionnaires on all aspects of the Board, its committees and individual Directors. The questionnaires were completed by all Directors and sent to the Chairman. All Directors, except the Chairman, completed a specific questionnaire on the Chairman and these were sent to the senior independent Director.

# Corporate Governance continued

### Results

The evaluation identified changes which would improve the working of the Board, including:

- Board succession and the need to manage non-executive Director succession over the coming year, including the enhancement of the Board with additional industry and multi-site consumer marketing skills.
- Changes to the organisation of the Company Secretarial function.
- Enhancement to the Board management information pack, to more closely align with the strategy, customer and operational metrics of the business.

### Individual Director appraisals process

This has been reviewed as part of the 2016 refresh of the Board and internal performance evaluations of members of the Board are carried out by the following individuals:

| Director being appraised | Appraiser |
|---|---|
| Chairman | Reviewed by the non-executive Directors excluding the Chairman and feedback facilitated by the senior independent non-executive Director. |
| Chief Executive Officer | Reviewed by all of the non-executive Directors and Chief Financial Officer and feedback facilitated by the Chairman. |
| Chief Financial Officer | Reviewed by all of the non-executive Directors and feedback facilitated by the Chief Executive Officer and Chairman. |
| Non-executive Directors | Reviewed by the executive Directors and by their non-executive Director peers and feedback collated and given by the Chairman. |

## Accountability

### Risk management

The Board has ultimate responsibility for ensuring the business risks are effectively managed. The Board has delegated regular review of the risk management procedures to the Audit Committee and collectively reviews the overall risk environment on an annual basis. The day-to-day management of business risks are the responsibility of the senior management team together with the senior management Risk Committee, which was established in October 2016. For the report of the Risk Committee see page 54.

### Internal controls

The Group has a system of internal controls which aim to support the delivery of strategy by managing the risk of failing to achieve business objectives and the protection of assets. As such the Group can only provide reasonable and not absolute assurance.

The Group insures against risks, but certain risks remain difficult to insure, due to the breadth and cost of cover. In some cases, external insurance is not available at all, or not at an economical price. The Group regularly reviews both the type and amount of external insurance that it buys and in 2016 retendered the Group's insurance policies. There were no meaningful changes to the policy undertaken in 2016.

### Risk map

The Board annually review the Group's risk map, which includes the principal risks and mitigation processes as set out on page 11.

## Remuneration

For information on remuneration see the Remuneration Committee report on pages 37 to 51.

# Relations with shareholders

## Share capital structure

The Company's issued share capital at 1 January 2017 consisted of 201,063,045 ordinary shares of 28⅛ pence each. There are no special control rights or restrictions on share transfer or special rights pertaining to any of the shares in issue and the Company does not have preference shares. During the year 112,373 new shares were issued under the company's all employee Save As You Earn scheme.

As far as is reasonably known to management, the Company is not directly or indirectly owned or controlled by another company or by any government.

## Board engagement with shareholders

Communications with shareholders are given high priority. There is a regular dialogue with institutional investors including presentations after the Company's year-end and interim results announcements. A programme of meetings take place throughout the year with major institutional shareholders and private shareholders have the opportunity to meet the Board face-to-face and ask questions at the AGM.

In addition to the Board's regular engagement with shareholders in 2016, the newly appointed Chairman consulted with major shareholders on the appointment of key executives and the Remuneration Committee wrote to substantial shareholders in October 2016 to arrange meetings to discuss the future remuneration policy.

## Board shareholder updates

Feedback from major institutional shareholders is provided to the Board on a regular basis and, where appropriate, the Board takes steps to address their concerns and recommendations.

## Re-engaging with 'gone away' shareholders

We have engaged ProSearch to locate shareholders with unclaimed dividends. To date, the programme has been successful at reunifying both lost shares and unclaimed dividends.

## Substantial shareholdings

As at 14 February 2017, the Company had been notified of the following interests of 3% or more in the issued share capital of the Company under the UK Disclosure and Transparency Rules:

| | Number of shares | % of issue share capital |
|---|---|---|
| FMR LLC | 17,864,887 | 8.89 |
| Schroders Investment Management Ltd | 12,792,484 | 6.36 |
| Royal London Asset Management | 12,533,814 | 6.23 |
| Arberforth Partners LLP | 12,209,472 | 6.07 |
| M&G Investment Management Ltd | 11,921,242 | 5.93 |
| Columbia Threadneedle Investments | 9,680,355 | 4.81 |
| Rathbones | 7,928,909 | 3.94 |
| Vanguard Group | 7,702,693 | 3.83 |
| BlackRock Inc | 6,994,854 | 3.48 |

## Directors' shareholdings

For details of Directors' shareholdings, remuneration and interests in the Company's shares and options, together with information on service contracts, see pages 37 to 51 of the Directors' remuneration report.

## Annual General Meeting

The AGM is an opportunity for shareholders to vote on certain aspects of Group business and provides a useful forum for one-to-one communication with private shareholders. At the AGM shareholders receive presentations on the Company's performance and may ask questions of the Board. The Chairman seeks to ensure that the Chairmen of the Audit, Remuneration and Nomination Committees are available at the meeting to answer questions and for all Directors to attend.

The 2017 AGM will be held at 10am on Friday 26 May 2017 at the offices of Instinctif Partners, 65 Gresham Street, London, EC2V 7NQ. The notice convening this meeting has been sent to shareholders at the same time as publication of this Annual Report and Accounts and is available at www.trg.com/investors/reports-and-presentations.

By order of the Board

**Debbie Hewitt MBE**
Chairman

8 March 2017

# Board of Directors as at 8 March 2017

**Debbie Hewitt MBE**
Non-executive Chairman
N R

Debbie was appointed as a non-executive Director on 1 May 2015 and Chairman on 12 May 2016. She is currently non-executive Chair of Moss Bros Group plc, White Stuff Ltd, Visa UK Ltd and senior non-executive director of Redrow plc, NCC Group plc, BGL Ltd and non-executive director of Domestic and General Ltd.

Her executive career was spent at RAC plc where she was latterly Group Managing Director and prior to that she was in retail management with Marks and Spencer. She is a Fellow of the Chartered Institute of Personnel Development and was awarded the MBE for services to Business and the Public Sector in 2011.

**Andy McCue**
Chief Executive Officer

Andy joined the Company as Chief Executive Officer on 19 September 2016. He was previously Chief Executive of Paddy Power plc, where he embedded a new growth strategy which delivered record revenues and profits, as well as playing a pivotal role in the merger with Betfair plc. Prior to that, he led the Paddy Power UK and Irish retail businesses, transforming profitability and overseeing its growth for eight years. Andy joined Paddy Power from OC&C Strategy Consultants where he was a Principal.

Andy is currently also a non-executive director and chairman of the remuneration committee of Hostelworld Group plc.

**Barry Nightingale**
Chief Financial Officer

Barry was appointed Chief Financial Officer on 20 June 2016. Previously Chief Financial Officer at Monarch Airlines, he played a key role in securing the company's return to profitability. Prior to that, as Finance Director of Betfred, he led the successful acquisition and integration of the Tote. He has previously held senior finance roles at UK Car Group, easyEverything and Airtours, having qualified as a chartered accountant with Deloitte.

A Member of the Audit Committee
N Member of the Nomination Committee
R Member of the Remuneration Committee
Committee Chairman

**Simon Cloke**
Senior independent non-executive Director
A N

Simon 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 UK corporate clients.

**Sally Cowdry**
Independent non-executive Director
N R

Sally was appointed as a non-executive Director of the Company in March 2014. Currently she is Consumer and Retail Director at Camelot Lotteries UK Ltd, accountable for the strategic development and commercial performance of the National Lottery and its portfolio of games. Prior to joining Camelot in 2013, Sally was Marketing and Consumer Director at O2.

**Mike Tye**
Independent non-executive Director
A N R

Mike was appointed as a non-executive Director on 4 April 2016. He has extensive experience of the retail, leisure and hospitality sectors and was, until 2015, Chief Executive of Spirit Pub Company plc, where he led its successful establishment as a public company following the demerger from Punch Taverns and the subsequent turnaround and sale of the business. Prior to that, he held a number of senior executive roles in Whitbread, including Managing Director of David Lloyd Leisure, Premier Inn and Costa Coffee. Mike is currently also Chairman of Moto (the motorway services operator), non-executive Director and Trustee of The Consumer Association (Which?), non-executive Director and Trustee of Prostate Cancer UK, and non-executive Director of Haulfryn Group Ltd (the holiday resort and residential parks owner).

**Graham Clemett**
Independent non-executive Director
A N R

Graham was appointed as a non-executive Director on 1 June 2016. Graham is currently Chief Financial Officer of Workspace Group PLC. He was previously Finance Director for UK Corporate Banking at RBS Group PLC where he worked for five years. Prior to RBS, Graham spent eight years at Reuters Group PLC, latterly as Group Financial Controller. He qualified as a chartered accountant with KPMG.

# Audit Committee report

**Graham Clemett**

### Membership

- Graham Clemett (appointed June 2016)
- Simon Cloke (stepped down as Chairman in June 2016)
- Mike Tye (appointed April 2016)
- Sally Cowdry (stepped down from the Committee in April 2016)
- Debbie Hewitt (stepped down from the Committee in April 2016)

| Director | Attendance |
|---|---|
| Graham Clemett | 2/2 |
| Simon Cloke | 3/3 |
| Sally Cowdry | 1/1 |
| Mike Tye | 2/2 |
| Debbie Hewitt | 1/1 |

The Committee is appointed by the Board and comprises of three independent non-executive Directors chaired by Graham Clemett.

In accordance with the UK Corporate Governance Code (Code) the Board considers that Graham Clemett has significant, recent and relevant financial experience. Biographies of all Committee members, including a summary of their experience, appear on pages 28 and 29.

On an ongoing basis the Board reviews the composition of the 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 audit lead partner, the external audit senior manager, the Chairman of the Board, the Chief Executive Officer and the Chief Financial Officer to its meetings. The Committee meets privately with the external auditor at least twice a year and liaises with Company management in considering areas for review.

### Role of the Audit Committee

The principal role of the Committee is to monitor and review the integrity of the Company's financial results in advance of their consideration by the Board, to review the Company's internal controls and risk management systems and to make recommendations to the Board in relation to the external auditor.

## Key responsibilities

The Committee discharges its responsibilities through Committee meetings during the year at which detailed reports are presented for review. From time to time, the Committee commissions reports from external advisors or Company management in relation to the Company's major risks or in response to developing issues.

The Committee's key responsibilities are to:

- provide additional assurance regarding 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 on control and compliance for 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 external audit process, review their independence, review the provision of non-audit services they provide and review and approve their remuneration;
- review the whistleblowing arrangements whereby employees may, in confidence, raise concerns about possible improprieties in financial reporting or other matters, to ensure there are proportionate and independent procedures in place; and
- consider any other matter that is brought to its attention by the Board or the external auditor.

## 2016 Committee activities

As required by its terms of reference three formal meetings of the Committee were held during 2016 to discharge its responsibilities. The Committee considered the following matters:

### Financial and narrative reporting:

- reviewed the full year and interim results and associated announcements;
- considered whether taken as a whole the Annual Report and Accounts were fair, balanced and understandable and whether they provided the necessary information for shareholders to assess the Company's position, performance, business model and strategy;
- reviewed the suitability of the Group's accounting policies and practices; and
- discussed the Group's long-term viability and going concern statements.

### External audit:

- conducted an audit tendering process;
- received the external auditor review report on the Annual Report and Accounts and Interim Report process and discussed the 2015 year-end audit;
- considered the scope and cost of the external audit;
- considered the effectiveness of the external audit process ;
- considered the appropriateness of the Group's accounting policies and practices;
- discussed the non-audit work carried out by the external auditor and its impact on safeguarding audit independence; and
- considered the adequacy of the Group's non-audit policy and procedures to safeguard the objectivity and independence of the external auditor.

### Internal control and risk management:

- reviewed the Group's principal risk factors (see page 11);
- reviewed risk management and internal controls;
- established an executive senior management Risk Committee (see page 54) and approved its terms of reference; and
- received updates and the minutes from the executive senior management Risk Committee.

### Committee governance:

- reviewed and updated the Committee terms of reference; and
- conducted the annual Committee effectiveness review.

# Audit Committee report continued

### Financial and narrative reporting

Specific accounting policy issues considered by the Committee include:

| Matter considered | Significance | Action taken by the Committee |
|---|---|---|
| Impairment of tangible fixed assets | The most quantitatively significant item on the balance sheet | The Committee reviewed the proposals prepared by management setting out their approach and challenged the key judgements made relating to impairment as well as reviewing this topic in discussion with the external auditor. |
| Onerous contracts and other site closure related provisions | A key area of focus for the Board and Committee | The provision requires judgement and assessment of the facts across a range of likely outcomes. The Committee considered management's approach to the calculation of the provision. Additionally, this topic was reviewed and discussed at length with the external auditor. |
| Recognition and timing of commercial discounts | A key area of focus for the Board and Committee | The Committee reviewed the analysis undertaken by the external auditor on this topic and assessed the strength of management controls in this area. |

Other areas considered included:

- management override of controls and consideration of bias underlying key estimates or judgements;
- whether the goodwill relating to the Pubs business was impaired; and
- the key judgements supporting the share-based payments charge and tax.

No issues arose from consideration of these matters.

#### Fair, balanced and understandable

The Committee carried out an assessment of whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy. This assessment included a review for consistency of the narrative reporting and the financial statements and forms the basis of the advice given by the Committee to the Board to assist them in making this statement.

#### Long-term viability and going concern statements

The Committee considered, with reference to a detailed management paper, the Group's going concern and long-term viability statements. The factors used when assessing the Group's viability for the next three years, together with the statement, are set out on page 12 and the Group's going concern statement on page 53.

### External audit

The Committee has primary responsibility for overseeing the relationship with, and performance of, the external auditor. Annually the Committee undertakes a review of the objectivity and effectiveness of the audit process.

#### Auditor effectiveness

When considering the suitability of the external auditor for re-appointment, the Committee takes account of:

- the findings set out in the Financial Reporting Council's (FRC's) Audit Quality Review team's public report on Deloitte and their reports on other auditors in its sample;
- the ability of the external auditor to add value through observations from the audit process and interactions with the Company's management;
- the arrangements for ensuring the independence and objectivity of the external auditor;
- the external auditor's fulfilment of the agreed audit plan;
- the robustness and perceptiveness of the auditor in their handling of the key accounting and audit judgements; and
- the external auditor's conclusions with regard to existing management and control processes.

### Auditor independence

To ensure the external auditor remains independent upon re-election the Committee takes into account the following:

- the external auditor's plan for the current year, noting the role of the external audit lead partner and their length of tenure;
- the arrangements for day-to-day management of the external 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 external auditor.

### Non-audit work and pre-approval policy

The Company has an audit engagement policy in place which is reviewed annually and adhered to. Where non-audit work is carried out by the external auditor, robust processes are put in place to prevent auditor objectivity and independence being compromised. Pre-approved services within the policy can be summarised as follows:

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

The Company is committed to keeping non-audit fees low and in 2016, spend fell to £151,000, a ratio of 1:0.8 (2015: 1:1.7). In 2016 non-audit fees were incurred for the liquidation of a historic Spanish subsidiary of which Deloitte knew the history and were therefore best placed to carry out the work.

To safeguard objectivity and independence the Committee also assesses whether the fees are appropriate to enable an effective, high quality audit to be conducted and independence maintained. Further details on non-audit services can be found in note 3 on page 76.

### Audit tender

Deloitte was first appointed as external auditor in 2007 and in October 2016 the audit was retendered. Four audit firms were invited to tender, this included one mid-tier firm and Deloitte, the incumbent auditor. The prospective auditors were provided with extensive information, through an online data room, to enable them to understand the Group's business and the key risk areas. This ensured that Deloitte was not at an advantage. The four prospective audit firms were then invited to attend face-to-face presentation and interview sessions with a panel of two members of the Committee; the Committee Chairman and Simon Cloke, together with the Chief Financial Officer and Director of Finance.

Following the presentations the panel, chaired by the Committee Chairman, assessed the strengths of each audit firm and made a recommendation to the Board. The Board discussed the recommendation and is proposing the reappointment of Deloitte by shareholders at the AGM to be held on 26 May 2017.

The Company continues to adopt a policy of tendering the external audit contract at least every 10 years and the rotation of the external audit lead partner every five years. This will mean that in 2017 the Deloitte audit lead partner will change to Georgina Robb.

## Internal controls and risk management

### Internal audit function

The Committee keeps under regular review the decision not to have an internal audit function. Currently it considers that the responsibilities are being adequately discharged. If an issue were to arise, the appropriate internal individuals and external advisers with the requisite skills would form a working group to discharge these responsibilities.

### Senior management Risk Committee

In October 2016 the senior management Risk Committee was established and the Committee approved its terms of reference. As set out in the Risk Committee's terms of reference, the Committee Chairman received regular reports on its activities. For further details on the membership, roles and responsibilities and Committee activities during 2016 see page 54.

# Audit Committee report continued

## Committee governance

### Committee terms of reference

In November 2016 the Committee terms of reference were updated and approved by the Board. The full terms of reference are available on the Company's website at www.trgplc.com/investors/corporate-governance.

### Committee effectiveness review

Due to a number of Director changes including the appointment of a new Audit Chairman in the year, it was agreed that Committee evaluation would be completed internally. This was carried out by way of a questionnaire in January 2017.

On behalf of the Audit Committee

**Graham Clemett**
Chairman of the Audit Committee

8 March 2017

# Nomination Committee report

**Debbie Hewitt MBE**

## Membership

- Debbie Hewitt (appointed Committee Chairman May 2016)
- Simon Cloke
- Sally Cowdry
- Mike Tye (appointed April 2016)
- Graham Clemett (appointed June 2016)

| Director | Attendance |
|---|---|
| Debbie Hewitt | 6/6 |
| Simon Cloke | 7/7 |
| Sally Cowdry | 6/7[1] |
| Mike Tye | 4/4 |
| Graham Clemett | 3/3 |

1 Sally Cowdry missed one meeting due to the short notice on which it was called.

The Committee is appointed by the Board and comprises of at least three independent non-executive Directors. In May 2016 Alan Jackson retired as Board and Committee Chairman and Debbie Hewitt was appointed.

Biographies of all Committee members, including a summary of their experience, appear on pages 28 and 29.

## Role of the Nomination Committee

The principal role of the Committee is to identify, evaluate and recommend candidates for appointment to the Board, to review the structure, size and composition of the Board and its committees, to keep under review the Group's executive leadership needs together with Board succession planning and Executive Committee succession planning.

## Key responsibilities

The Committee discharges its responsibilities through regular meetings during the year.

The Committee's key responsibilities are to:

- review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations of any changes;
- give full consideration to succession planning for Directors and the executive leadership and executive succession needs of the Group;
- recommend to the Board, Directors for annual re-election and keep under review Directors being re-elected for a term exceeding six years; and
- make recommendations for new Director appointments to the Board.

# Nomination Committee report continued

### 2016 Committee activities

The Committee is required to hold two meetings as set out in its terms of reference, however in 2016 seven formal meetings were held. The Committee considered the following matters:

- appointment of a new Chairman;
- appointment of a new Chief Executive Officer;
- appointment of a new Chief Financial Officer;
- appointment of two new non-executive Directors;
- review of the Board size, structure and composition, with a view to increasing the number of non-executive Directors by one;
- review of Executive Committee succession planning;
- re-election of Directors at the AGM;
- review and update of the Committee terms of reference; and
- conducted the annual Committee effectiveness review.

### Board changes during the year

During 2016, the Board saw the appointment of a new Chairman, Debbie Hewitt, in May 2016 and was refreshed with the appointment of two new non-executive Directors, Mike Tye and Graham Clemett, in April and June respectively and the retirement of Tony Hughes and Alan Jackson at the 2016 AGM in May. In April and August respectively Stephen Critoph, Chief Financial Officer and Danny Breithaupt, Chief Executive Officer resigned and in June and September respectively, Barry Nightingale was appointed as Chief Financial Officer and Andy McCue as Chief Executive Officer.

### Board diversity

On an ongoing basis, the Committee keeps under review the tenure and qualifications of the executive and non-executive Directors to ensure it has an appropriate and diverse mix of skills, experience, knowledge and diversity.

The Committee is aware of, and embraces, the Hampton-Alexander Review on Improving Gender Balance in FTSE Leadership and its new targets of 33% female representation on the executive committee and in their direct reports by 2020. Although these recommendations do not apply to the Group, as it sits outside the FTSE 100, the Board is aligned on these ambitions. The Board reflects 29% female representation and the Executive Committee (excluding the executive Directors) reflects 33% female representation.

### Director induction

On joining the Board, Directors receive an induction on the business, its strategy, the Board's role in setting the tone of the Group's culture and the Director's role and requirements in influencing behaviour. A series of meetings take place with key executive personnel and Board colleagues and non-executive Directors are actively encouraged to meet with operational management and to visit the Group's restaurants to enhance their understanding of the business, its brands, employees and processes.

### Training and development

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 to acquire additional skills and experience to enhance their contribution to the business. The Board also has collective training sessions on relevant topics from time to time.

### Succession planning

The Committee keeps under review Executive Committee succession planning to ensure the Company has a strong leadership pipeline. The Committee also monitors the tenure of non-executive Directors to ensure their independence is maintained. The Board currently has one Director (14%) who has Board tenure of more than six years.

### Annual re-election of Directors

As required by the Code, all Directors are subject to annual re-election and as such, details setting out why each Director is deemed to be suitable for reappointment will be included with the AGM papers circulated to shareholders.

### Committee governance

#### Terms of reference

In November 2016 the Committee terms of reference were updated and approved by the Board. The full terms of reference are available on the Company's website at www.trgplc.com/investors/corporate-governance.

#### Annual effectiveness review

In 2016, due to the number of Director changes in the year, it was agreed that Committee evaluation would be completed internally, alongside the general Board review. A questionnaire format was used.

On behalf of the Nomination Committee

**Debbie Hewitt MBE**
Chairman of the Nomination Committee

8 March 2017

# Directors' remuneration report

**Mike Tye**

## Dear Shareholder,

I am pleased to provide the Directors' remuneration report for the year ended 1 January 2017, my first as Chairman of the Remuneration Committee (Committee). This was a busy and challenging year for the Committee, particularly with the number of changes on the Board. The current Directors' Remuneration Policy was adopted at the 2015 Annual General Meeting (AGM), so although there will be no need for a vote on the Policy at the forthcoming AGM, the Committee has spent considerable time reviewing how the Policy is applied and has tightened its implementation, bringing it more in line with best practice. A full review of the Policy will be undertaken in 2017, in advance of the 2018 AGM and shareholder resolution on the Policy.

The annual statement and annual report on remuneration, which provide details of the remuneration earned by Directors in the year to 1 January 2017 and how the Policy will be implemented for the 2017 financial year will be subject to an advisory shareholder vote at this year's AGM.

### Board changes

For the year under review, the most notable remuneration related decisions concerned the changes to the executive team. In agreeing the exit and joining terms the Remuneration Committee was conscious of the approved Policy and further decided that where appropriate the terms would be revised in line with market best practice, which is a more demanding position than the current published Policy. As a result, the new executive Directors will be required to defer 50% of any bonus earned as opposed to any bonus in excess of 100% of salary. A two year post-vesting holding period applies to all net of tax shares earned under the long-term incentive plan (LTIP) and executive Directors are required to retain all net of tax shares until the shareholding guideline is met.

The Committee re-considered the appropriate length of notice periods and in the current context concluded that six months provides both the Company and the individual with sufficient notice for a newly appointed Director. However, over time the Committee may increase notice periods to one year in line with the current approved policy.

The Committee also decided to reduce the quantum of shares vesting at threshold in the LTIP issued to the new executive Directors from 25% to 10%, thus ensuring that the executive Directors were fully aligned in sharing restoration of value to shareholders as the turnaround of the business progresses.

For both departing executive Directors, they will receive their 12 month contractual payment in lieu of notice by way of monthly instalments, subject to mitigation. No payment will be made in lieu of annual bonus during the notice period. There is no entitlement to a bonus in respect of the financial year ending 2016. All LTIP awards held lapsed on cessation of employment.

# Directors' remuneration report continued

### Remuneration in 2016

2016 was a challenging year for the Group and the Committee spent a significant amount of time considering the annual bonus arrangements of the new executive Directors. Balancing the performance of the Company in the first half of the year with the need to incentivise and reward the new executive Directors, the Committee determined that it would limit maximum bonus entitlement for this year to 50% of the maximum bonus, and that any payment would be pro-rated to reflect full months of service. The Committee set challenging underlying profit before tax (PBT) targets with, for the first time, a stretching like-for-like (LFL) covers target. As a result annual bonuses of 30% of maximum for the Chief Executive Officer and 24% for the Chief Financial Officer were awarded, which have then been pro-rated down to reflect full months of service with the Company. 50% of the award will be deferred in shares for three years. No LTIP awards vested for executive Directors during 2016. In line with the remuneration policy on recruitment, as soon as practicable following appointment LTIP awards were granted to the new Chief Executive Officer and Chief Financial Officer of 200% and 130% of salary respectively, based on stretching total shareholder return (TSR) and earnings per share (EPS) targets.

Both the Chief Executive Officer and the Chief Financial Officer bought shares that qualify towards their personal shareholding guideline.

### Remuneration for 2017

The Remuneration Committee continually reviews the Directors' Remuneration Policy to ensure it promotes the attraction, retention and incentivisation of high calibre executives to deliver the Group's strategy. It is equally important that the Policy reflects shareholders' views and the changing landscape in which the Group operates.

For 2017, the maximum annual bonus for the Chief Executive Officer and Chief Financial Officer will be 150% and 120% of salary respectively. 50% of any bonus will be deferred for three years. The Committee intends to grant LTIP awards of 175% and 130% of salary respectively, based on stretching TSR and EPS targets.

No salary increases were awarded to the executive Directors for 2017. This is consistent with the rest of the workforce with the exception of those on the National Living Wage who, will in April 2017, receive the increase prescribed by the government depending on their age. For those employees over 25 this equates to a 4% increase to £7.50 per hour.

In light of last year's voting outcome and the major board changes in the year, the Committee consulted major shareholders and those we have spoken with have responded positively to the changes to the implementation of the Policy. Given the context of these changes, we hope that you will be supportive of the resolution to approve the annual statement and the annual report on remuneration at this year's AGM.

Yours faithfully,

**Mike Tye**
Chairman of the Remuneration Committee

# Directors' Remuneration Policy report

## Policy overview

The objective of our Remuneration Policy is 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.

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 bonus and LTIP awards) are set at a level to incentivise executive Directors and senior management to deliver outstanding performance in line with the Group's strategic objectives.

## Consideration of shareholders' views

The Committee considers feedback from shareholders received at each AGM and any feedback from additional meetings as part of any review of executive remuneration. In addition, the Committee engages pro-actively with shareholders and ensures that they are consulted in advance where any material changes to the Remuneration Policy are proposed.

## Consideration of employment conditions elsewhere in the Group

In determining the remuneration of the Group's Directors, the Committee takes into account the pay arrangements and terms and conditions across the Group as a whole. The Committee seeks to ensure that the underlying principles which form the basis for decisions on Directors' pay are consistent with those on which pay decisions for the rest of the workforce are taken.

## Key elements of the current published Remuneration Policy for Directors

Set out below is a summary of the main elements of the current Remuneration Policy for executive Directors and non-executive Directors, together with further information on how these aspects of remuneration operate. Please note that the Remuneration Committee have in some instances applied a more demanding position than this current published policy.

| | Purpose and link to strategy | Operation | Opportunity | Performance metrics |
|---|---|---|---|---|
| **Basic salary** | Attract and retain key personnel.<br><br>Reflects individual responsibilities, skills and achievement of objectives. | Reviewed annually from 1 January or when an individual changes position or responsibility. Increases based on role, experience, performance and consideration of the broader workforce pay review and competitor pay levels. | No prescribed maximum annual increase. The Committee is guided by the general increase for the broader UK employee population but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of the role. | None. |
| **Benefits** | To provide market consistent benefits. | Contractual entitlement. Benefits packages typically comprise a car (or car allowance), health insurance, and life assurance although other benefits may be provided where appropriate. | No maximum limit. | None. |

# Directors' remuneration report continued

| | Purpose and link to strategy | Operation | Opportunity | Performance metrics |
|---|---|---|---|---|
| **Pension** | Rewards sustained contribution. | Contribution to a personal pension plan (no defined benefit schemes operate) and/ or a salary supplement (e.g. where HMRC limits would be exceeded). | Up to 20% of basic salary for the executive Directors. | None. |
| **Annual bonus** | Rewards the achievement of annual financial targets and other key performance indicators, depending on job responsibilities. | Targets renewed annually as part of the budgeting process and primarily related to Group performance.<br><br>Bonus level is determined by the Committee after the year-end based on performance conditions drawn up before the financial year commences.<br><br>In respect of any bonus in excess of 100% of salary, within three months of payment of bonus the executive must invest any such excess, net of tax, in shares (or retain shares vested under the LTIP to an equivalent value) which must be held for not less than three years (deferred bonus shares) or until the executive ceases full time employment, there is a change of control of the Company or other appropriate circumstances.[1]<br><br>Not pensionable.<br><br>A clawback mechanism operates. | Maximum of 150% of basic salary. | Normally based on a one year performance period.<br><br>Majority of the bonus opportunity will be based on Group PBT. |
| **Long-term incentive plan (LTIP)** | Promotes achievement of long-term strategic objectives of increasing shareholder value and delivering sustainable and expanding cash flows. | Annual grant of Conditional Awards in the form of nil cost options.<br><br>Conditional Awards vest three years after grant subject to performance conditions and continued employment.<br><br>Two year post-vesting holding period applies to the net of tax shares for awards under the 2015 LTIP (with the first grant expected to be made in 2016).<br><br>Dividend equivalents may be payable.<br><br>A clawback mechanism operates. | Maximum of 200% of basic salary. | Normally based on a three year performance period.<br><br>TSR vs. comparator group.<br><br>Financial metrics (e.g. EPS).<br><br>25% of an award vests at threshold performance increasing to full vesting at maximum performance. |

1 In respect of bonus earned from 1 January 2016 50% of any bonus earned is deferred into shares for three years.

| | Purpose and link to strategy | Operation | Opportunity | Performance metrics |
|---|---|---|---|---|
| **Save as you earn scheme (SAYE)** | Encourages employee share ownership and therefore increases alignment with shareholders. | HMRC approved plan under which eligible employees are able to purchase shares under a three year savings contract at a discount of up to 20% of market value at grant.<br>Provides tax advantages to UK employees. | Prevailing HMRC limits. | None. |
| **Shareholding guidelines** | Increase alignment with shareholders. | Requirement to retain no fewer than 50%[1] of the net of tax shares vesting under an LTIP award until the required shareholding is achieved. | 200% of basic salary. | None. |
| **Non-executive Directors' fees** | Reflects fees paid by similarly sized companies.<br>Reflects time commitments and responsibilities of each role. | Fees are reviewed annually. Fees paid in cash. | As per executive Directors, there is no prescribed maximum annual increase. The Committee is guided by the general increase in the non-executive director market and for the broader UK employee population but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of the role. | None. |

1 For Andy McCue and Barry Nightingale this requirement has been increased to 100% of the net of tax shares vesting under an LTIP award until the required shareholding is achieved.

Financial performance measures (PBT, EPS and TSR) are used as the key performance indicators (KPIs). The combination of EPS and TSR performance conditions provides a balance between rewarding management for growth in sustainable profitability and stock market outperformance. 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. The EPS target range will require growth in profitability and the TSR condition will be based on recent share price performance. Performance against EPS and TSR targets are reviewed by the Committee.

The Committee operates share plans in accordance with their respective rules and in accordance with the Listing Rules and HMRC where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these plans.

There are no material differences in the structure of remuneration arrangements for the executive Directors and senior management population, aside from quantum, performance metrics and participation rates in incentive schemes, which reflect the fact that a greater emphasis is placed on performance-related pay for executive Directors and the most senior individuals in the management team. Outside of the senior management team, the Company aims to provide remuneration structures for employees which reflect market norms.

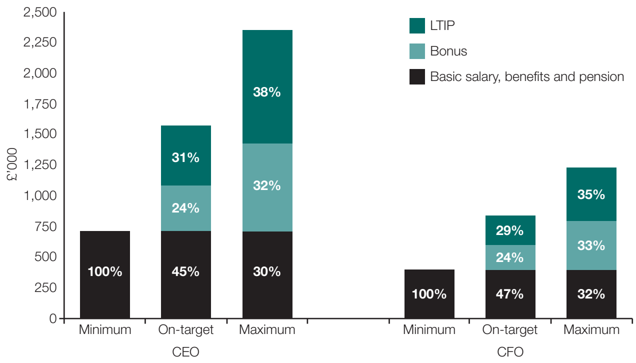
For the avoidance of doubt, in approving this Directors' Remuneration Policy report, authority was given to the Company to honour any prior commitments entered into with current or former Directors.

# Directors' remuneration report continued

## Illustration of application of Remuneration Policy

The chart below shows the value of the executive Directors' packages under three performance scenarios, minimum, on-target and maximum. The charts have been updated to reflect the packages of the new executive Directors.

## Value of remuneration packages at different levels of performance




Notes:

- Salary levels are based on those applying from 2 January 2017.
- The value of benefits receivable in 2017 is estimated and pension is based on 20% of salary for the CEO and 15% for the CFO. Relocation expenses for the CEO have been excluded as these do not form part of his ongoing package.
- The on-target level of bonus is taken to be 50% of the maximum bonus opportunity (150% of salary for the CEO and 120% for the CFO).
- The on-target level of vesting under the LTIP is taken to be 55% of the face value of the intended 2017 LTIP awards at grant and the maximum value is taken to be 100% of the face value of the intended 2017 awards at grant (175% of salary for the CEO and 130% for the CFO).
- No share price appreciation has been assumed for the deferred bonus shares and LTIP awards.

## Approach to recruitment and promotions

The remuneration package for a new executive Director would be set in accordance with the terms of the Company's prevailing approved Remuneration Policy at the time of appointment and take into account the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual.

Salary would be provided at such a level as required to attract the most appropriate candidate and may be set initially at a below mid-market level on the basis that it may progress towards the mid-market level once expertise and performance has been proven and sustained. The annual bonus potential would be limited to 150% of salary and grants under the LTIP would be limited to a maximum of 200% of salary (but normally limited to a maximum of 175%). In addition, the Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an executive leaving a previous employer. It would seek to ensure, where possible, that these awards would be consistent with awards forfeited in terms of vesting periods, expected value and performance conditions.
For an internal executive Director appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms. In addition, any other ongoing remuneration obligations existing prior to appointment may continue.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation and/or incidental expenses as appropriate.

If appropriate, the Committee may agree, on the recruitment of a new executive Director, to a notice period in excess of 12 months but to reduce this to 12 months over a specified period.

## Service contracts and payments for loss of office

### Contractual provisions

It is the Company's policy that any new executive Director appointment should have a service contract with an indefinite term which is subject to up to a year's notice by either party with provision, at the Board's discretion, for early termination by way of a payment in lieu of salary, benefits and pension, with the ability to phase payments and mitigate such payments if alternative employment is obtained. Both newly appointed executive Directors currently have a six month notice period.

There will be no provisions in respect of a change of control.

### Outstanding incentive awards

The annual bonus may be payable with respect to the period of the financial year worked, although it will be pro-rated for time and paid at the normal pay-out date.

Any share-based entitlements granted to an executive Director under the Company's share plans will be determined based on the relevant plan rules. Any outstanding LTIP awards will normally lapse on cessation of employment. However, in certain prescribed circumstances, such as death, ill-health, disability, retirement or other circumstances at the discretion of the Committee, 'good leaver' status may be applied. Awards held by executive Directors will normally vest on their scheduled vesting date, subject to the satisfaction of the relevant performance conditions at that time and reduced pro-rata to reflect the proportion of the performance period actually served. However, the Committee has discretion to determine that awards vest at cessation and/or to dis-apply time pro-rating.

### Non-executive Directors

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

The notice period for the Chairman, Debbie Hewitt, is six months by either party. The notice period for the non-executive Directors is set at three months under arrangements that may generally be terminated at will by either party without compensation.

Fees payable for a new non-executive Director appointment will take into account the experience and calibre of the individual and current fee structure.

## Annual report on remuneration

### Implementation of the Remuneration Policy for the 2017 financial year

Executive Directors salaries for 2016 and applying with effect from 1 January 2017 are:

| Basic salary | 2016 (from date of appointment) | 2017 (from 1 January) | Increase |
|---|---|---|---|
| Andy McCue | **£505,000** | £505,000 | 0% |
| Barry Nightingale | **£335,000** | £335,000 | 0% |

The Committee considered that the relatively short tenure of the executive Directors meant that salaries had already been recently benchmarked and it was appropriate to award no increase.

The average increase for employees across the Group was less than 1% for the 2017 pay review. The Committee is informed of the base pay review budget applicable to other employees and is aware of changes to the National Living Wage and the National Minimum Wage. During 2016, restaurant operation staff pay rates increased to reflect changes in the National Living Wage and the National Minimum Wage.

### Pension and benefits

Pension and benefits will continue to be provided in line with the stated policy. Andy McCue and Barry Nightingale receive salary supplements of 20% and 15% of salary respectively.

### Performance targets for the annual bonus in 2017

For 2017, the annual bonus will be based on Group financial measures (70%) and key strategic KPIs (30%) and capped at 150% of salary for the Chief Executive Officer and 120% of salary for the Chief Financial Officer. The financial measure will be underlying PBT. The key strategic KPIs will focus on growth in guest satisfaction metrics and improvement in like-for-like covers. The Committee has chosen not to disclose, in advance, the performance targets for the forthcoming year as these include items which the Committee considers commercially sensitive. However, retrospective disclosure in respect of the 2017 targets will be provided in next year's report. Following a review by the Committee, executive Directors are required to defer 50% of any bonus earned for three years as opposed to any bonus in excess of 100% of salary.

We have disclosed the 2016 targets relating to the payments of the two new executive Directors on page 46 of this report.

### Performance targets for LTIP awards to be granted in 2017

The LTIP awards intended to be granted to executive Directors in 2017 will be over shares equal to 175% of salary for Andy McCue and 130% of salary for Barry Nightingale, with performance targets based on:

- TSR element (50%) – the Company's TSR vs. the constituents of the FTSE 250 (excluding investment trusts); and
- EPS element (50%) – the Company's EPS growth based on budgeted PBT for 2017, with 10% vesting if growth of 6% p.a. is achieved rising to full vesting if growth of 12% p.a. is achieved. Due to commercial sensitivities the Committee have decided not to declare EPS pence figures at this time. When these cease to be commercially sensitive they will be disclosed.

The Committee decided to reduce the quantum of LTIPs vesting at threshold from 25% to 10%, thus ensuring that the executives were fully aligned in sharing restoration of value to shareholders, as the turnaround of the business progresses.

We have disclosed the 2016 LTIP targets relating to the two awards made to the two new executive Directors on pages 46 and 47 of this report.

### Non-executive Directors

As detailed in the Remuneration Policy, the Company's approach to setting non-executive Directors' fees is by reference to fees paid at similar sized companies and reflects the time commitment and responsibilities of each role. A summary of current fees is as follows:

| | 2016[1] | 2017 (from 1 January 2017) | Increase |
|---|---|---|---|
| Chairman | £215,000 | **£215,000** | 0% |
| Non-executive Directors' base fee | £55,000 | **£55,000** | 0% |
| Non-executive Directors' base fee (appointment prior to April 2016) | £57,900 | **£57,900** | 0% |
| Committee Chairman/senior independent Director fee | £5,000 | **£5,000** | 0% |

1 From 1 January 2016 or date of appointment.

Non-executive Director fees were due to be benchmarked and reviewed by the Board on 1 January 2017. A decision was taken to award no increase to either the Chairman or the non-executive Directors, reflecting the challenging performance of the business throughout 2016.

### Remuneration received by Directors (audited)

The table below sets out the remuneration received by the Directors in relation to performance for the year ended 1 January 2017 (or for performance periods ending in 2016 in respect of long-term incentives) and the year ended 27 December 2015.

| | | | | | | Long-term incentive plan | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| £'000 | Salary & fees | Taxable benefits[1] | Pension[2] | Annual bonus[3] | SAYE vesting | Value of vesting award at grant | Increase in value due to rise in share price | Dividend equivalent | **Value of award** | **Total** |
| Debbie Hewitt[4] | | | | | | | | | | |
| 2016 | 158 | – | – | – | – | – | – | – | **–** | **158** |
| 2015 | 37 | 1 | – | – | – | – | – | – | **–** | **38** |
| Andy McCue[5] | | | | | | | | | | |
| 2016 | 146 | 29 | 29 | 38 | – | – | – | – | **–** | **242** |
| 2015 | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | **n/a** | **n/a** |
| Barry Nightingale[6] | | | | | | | | | | |
| 2016 | 179 | 5 | 27 | 40 | – | – | – | – | **–** | **251** |
| 2015 | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | **n/a** | **n/a** |
| Simon Cloke | | | | | | | | | | |
| 2016 | 58 | – | – | – | – | – | – | – | **–** | **58** |
| 2015 | 56 | – | – | – | – | – | – | – | **–** | **56** |
| Sally Cowdry | | | | | | | | | | |
| 2016 | 58 | – | – | – | – | – | – | – | **–** | **58** |
| 2015 | 56 | 3 | – | – | – | – | – | – | **–** | **59** |
| Mike Tye[7] | | | | | | | | | | |
| 2016 | 45 | – | – | – | – | – | – | – | **–** | **45** |
| 2015 | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | **n/a** | **n/a** |

| £'000 | Salary & fees | Taxable benefits[1] | Pension[2] | Annual bonus[3] | SAYE vesting | Long-term incentive plan: Value of vesting award at grant | Long-term incentive plan: Increase in value due to rise in share price | Long-term incentive plan: Dividend equivalent | **Value of award** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| Graham Clemett[8] | | | | | | | | | | |
| 2016 | 35 | – | – | – | – | – | – | – | **–** | **35** |
| 2015 | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | **n/a** | **n/a** |
| **Former Directors** | | | | | | | | | | |
| Danny Breithaupt[9] | | | | | | | | | | |
| 2016 | 308 | 17 | 62 | – | – | – | – | – | **–** | **387** |
| 2015 | 480 | 27 | 111 | 495 | 8 | 290 | (14) | 32 | **308** | **1,429** |
| Stephen Critoph[10] | | | | | | | | | | |
| 2016 | 136 | 5 | 26 | – | – | – | – | – | **–** | **167** |
| 2015 | 380 | 12 | 76 | 392 | – | 398 | (23) | 45 | **420** | **1,280** |
| Tony Hughes[11] | | | | | | | | | | |
| 2016 | 39 | – | – | – | – | – | – | – | **–** | **39** |
| 2015 | 56 | – | – | – | – | – | – | – | **–** | **56** |
| Alan Jackson[12] | | | | | | | | | | |
| 2016 | 232 | 25 | – | – | – | – | – | – | **–** | **257** |
| 2015 | 338 | 65 | – | – | – | – | – | – | **–** | **403** |

1 Taxable benefits comprise car (or car allowance), health care, life assurance and relocation allowance.
2 This comprises contributions to the Directors' personal pension plans and/or salary supplements.
3 For 2016, this relates to the payment of the annual bonus for the year ended 1 January 2017, pro-rated to the number of full months worked. Further details of this payment are set out on page 46. For bonuses paid in respect of the year ended 27 December 2015, the annual bonus targets were based on underlying PBT. Threshold was set at £84.8m for which 22.6% of maximum bonus was payable, with straight-line vesting up to a maximum at £89.8m. The actual trading PBT of £86.8m meant that threshold of £84.8m was met and as a result 69% of maximum bonus was payable.
4 Debbie Hewitt was appointed as a non-executive Director on 1 May 2015 and as Chairman on 12 May 2016.
5 Andy McCue was appointed as Chief Executive Officer on 19 September 2016.
6 Barry Nightingale was appointed as Chief Financial Officer on 20 June 2016.
7 Mike Tye was appointed as a non-executive Director on 4 April 2016.
8 Graham Clemett was appointed as a non-executive Director on 1 June 2016.
9 Danny Breithaupt resigned as a Director on 12 August 2016.
10 Stephen Critoph resigned as a Director on 29 April 2016. His salary and fees includes a payment in respect of accrued holiday.
11 Tony Hughes resigned as a Director on 12 May 2016.
12 Alan Jackson resigned as a Director on 12 May 2016.

## Annual bonus payments (audited)

The annual bonus for the year under review for the Chief Executive Officer and Chief Financial Officer was based on underlying PBT performance and a like-for-like covers improvement target. The structure of the targets and the actual performance against the targets and the target for the year ended 27 December 2015 are set out in footnote 3 in the table above.

### Annual bonus payments for the year ended 1 January 2017

The annual bonus targets and outturn (based on underlying PBT) and like-for-like covers for the year ended 1 January 2017 were as follows:

| | Group PBT targets | LFL covers improvement | CEO % of salary[1,2] | CFO % of salary[1,2] |
|---|---|---|---|---|
| < Threshold | < £77.1m | Decrease | 0% | 0% |
| Threshold | £77.1m | Maintaining | 30% | 24% |
| | £78.1m | 0.6 percentage points | 60% | 48% |
| Maximum | > or = £79.1m | 1.5 percentage points | 75% | 60% |

1 Pro-rata payout between the targets.
2 The maximum bonus for the year was reduced by 50% from 150% and 120% of salary to 75% and 50% of salary for the CEO and CFO respectively. The bonus earned will be further pro-rated to reflect full months of service in post.

The like-for-like covers measure represents at least maintaining the like-for-like cover run rate at the half year level.

The actual trading PBT of £77.1m and improvement in like-for-like covers of 0.1 percentage points amounted to bonuses of 30% and 24% of salary for the CEO and CFO respectively. These bonus payments will be pro-rated to reflect the length of full months of service during the financial year. 50% of these payments will be deferred for two years and paid as shares.

### Vesting of LTIP awards in year under review (audited)

No LTIP awards vested to executive Directors in the year.

### Outstanding share awards

The table below sets out details of executive Directors' outstanding share awards (which will vest in future years, subject to performance and/or continued service).

| Director | Scheme | At 27 December 2015 | Granted | Exercised | Lapsed | At 1 January 2017 | Exercise price | Date from which exercisable | Expiry date |
|---|---|---|---|---|---|---|---|---|---|
| Andy McCue | 2016 LTIP[1] | – | 282,675 | – | – | 282,675 | – | 14.10.2019[2,3] | 6 months after vesting[3] |
| Barry Nightingale | 2016 LTIP[1] | – | 151,425 | – | – | 151,425 | – | 01.07.2019[2,3] | 6 months after vesting[3] |
| | 2016 SAYE | – | 5,863 | – | – | 5,863 | 307p | 01.12.2019 | 01.06.2020 |

1 2016 Conditional Award: Details of the performance conditions can be found on page 47 of the report.
2 A two year post vesting holding period applies to all net of tax shares together with a 200% of salary share ownership guideline.
3 Date from which first exercisable and expiration of the exercise period may be impacted if the Directors are prohibited from trading in the Company's shares at that time.

### Long-term incentives granted during the year (audited)

During the year, the following LTIPs were granted to executive Directors:

| Director | Type of award | Basis of award granted | Share price at date of grant | Number of shares over which award was granted | Face value of award[1] | % of face value that would vest at threshold performance | Date of award | Date of vesting |
|---|---|---|---|---|---|---|---|---|
| Andy McCue | Conditional Awards – nil cost option | 200% of salary of £505,000 | 359.7p | 282,675 | £1,010,000 | 10% | 14.10.2016 | 14.10.2019 |
| Barry Nightingale | Conditional Awards – nil cost option | 130% of salary of £335,000 | 280.4p | 151,425 | £435,500 | 10% | 01.07.2016 | 01.07.2019 |
| **Past Directors** | | | | | | | | |
| Danny Breithaupt[2] | Conditional Awards – nil cost option | 175% of salary of £500,000 | 395.1p | 227,272 | £875,000 | 25% | 17.03.2016 | 17.03.2019 |
| Stephen Critoph[3] | Conditional Awards – nil cost option | 175% of salary of £393,300 | 395.1p | 178,771 | £688,275 | 25% | 17.03.2016 | 17.03.2019 |

1 Based on an average share price of 357.3p for Andy McCue, 287.6p for Barry Nightingale and 385.0p for Danny Breithaupt and Stephen Critoph immediately prior to grant.
2 Danny Breithaupt resigned as a Director on 12 August 2016 at which time his 2016 LTIP lapsed in full.
3 Stephen Critoph resigned as a Director on 29 April 2016 at which time his 2016 LTIP lapsed in full.

Details of the performance targets are as follows:

| | Weighting (% of total award) | Below threshold (0% vesting) | Threshold (10% vesting) | Maximum (100% vesting) |
|---|---|---|---|---|
| TSR[1] against FTSE 250 (excluding investment trusts) | 50% | Below median | Median | Upper Quartile |
| EPS | 50% | Less than 33p | 33p | 37p |

1 The TSR performance is benchmarked against the base return index averaged over each weekday in the three month period ending 20 June 2016 (aligned to Barry Nightingale's date of appointment) to 2019.
2 Vesting is determined on a straight-line basis between threshold and maximum performance.

# Directors' remuneration report continued

### Payments on cessation of office (audited)

As announced on 29 April 2016, effective immediately, Stephen Critoph ceased to be a Director and employee of the Company. In line with his contractual terms Stephen Critoph is being paid his salary and benefits in lieu of notice for his 12 month notice period. There will be no payment for loss of office and no payment will be made in lieu of annual bonus. The monthly instalments, totalling £484,478 plus private medical insurance, will be reduced by any monies that Stephen Critoph receives from alternative employment during the 12 month period in which the instalments are paid. This excludes a single non-executive Director appointment. All LTIP Awards held by Stephen Critoph (in respect of the 2014, 2015 and 2016 Awards, totalling 349,957 shares under award) lapsed at cessation of employment. No bonus payment was made in respect of the financial year ending 1 January 2017 or future years and his outstanding SAYE awards lapsed at cessation.

As announced on 12 August 2016, effective immediately, Danny Breithaupt ceased to be a Director and employee of the Company. Danny Breithaupt's service agreement contained a 12 month notice period with a payment in lieu of notice provision. He is receiving such payment by monthly instalments equating to 12 months' salary. No payment was made for loss of office in lieu of any annual bonus or other benefits during the 12 month period in which the instalments are paid. The instalments, totalling £500,000, will be reduced by any monies Danny Breithaupt receives from alternative employment during the 12 month period. All LTIP Awards held by Danny Breithaupt (in respect of the 2014, 2015 and 2016 Awards) lapsed on cessation of employment. No bonus payment was made in respect of the financial year ending 1 January 2017 or future years.

### Statement of Directors' shareholdings and share interests (audited)

| Director | Beneficially owned at 27 December 2015 | Beneficially owned at 1 January 2017 | Outstanding LTIP awards at 1 January 2017 | Shareholding % of salary at 1 January 2017 | Guideline met? |
|---|---|---|---|---|---|
| Debbie Hewitt | 11,305 | 35,642 | n/a | n/a | n/a |
| Andy McCue | n/a | 50,000 | 282,675 | 32% | No |
| Barry Nightingale | n/a | 13,617 | 151,425 | 13% | No |
| Simon Cloke | 7,000 | 7,000 | n/a | n/a | n/a |
| Sally Cowdry | 1,000 | 1,000 | n/a | n/a | n/a |
| Mike Tye | n/a | 7,284 | n/a | n/a | n/a |
| Graham Clemett | n/a | 14,218 | n/a | n/a | n/a |
| **Past Directors** | | | | | |
| Alan Jackson | 250,191 | 250,191[1] | n/a | n/a | n/a |
| Danny Breithaupt | 61,898 | 110,015[2] | 0 | n/a | n/a |
| Stephen Critoph | 189,220 | 238,241[3] | 0 | n/a | n/a |
| Tony Hughes | 200,000 | 200,000[4] | n/a | n/a | n/a |

1 As at 12 May 2016, his date of resignation
2 As at 12 August 2016, his date of resignation.
3 As at 29 April 2016, his date of resignation.
4 As at 12 May 2016, his date of resignation.

The Chief Executive Officer and Chief Financial Officer are required to hold shares in the Company worth 200% of salary and must retain no fewer than 100% of the shares, net of taxes, vesting under an LTIP Award until the required shareholding is achieved. Both executive Directors bought shares during the year and continue to build their shareholdings following appointment to the Board during 2016.

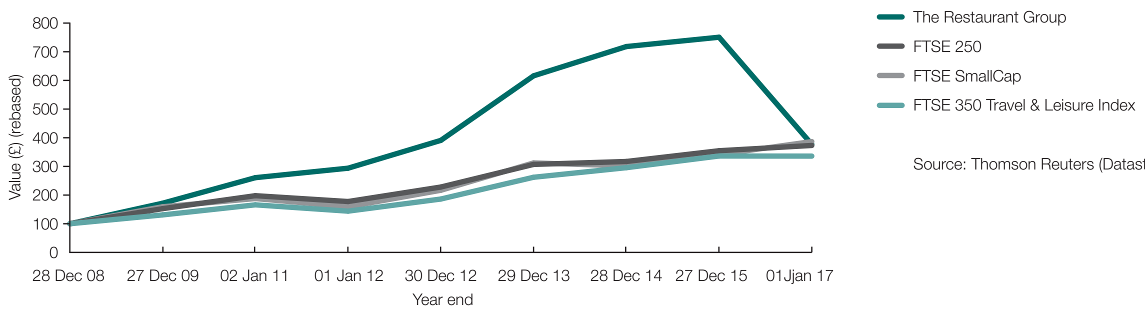
As at the date this report was approved by the Board, there have been no changes in respect of the numbers of shares presented in the table above.

### Performance graph and Chief Executive Officer pay

The graph below compares the Company's TSR performance and that of the FTSE 250 index, the FTSE Small Cap Index and the FTSE 350 Travel and Leisure Index over the past eight years, all rebased from 100. The FTSE 350 Travel and 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 1 January 2017, of £100 invested in The Restaurant Group plc on 28 December 2008 compared with the value of £100 invested in the FTSE 250 Index, the FTSE Small Cap Index and the FTSE 350 Travel and Leisure Index. On this basis the value, as at 1 January 2017, of £100 invested is as follows:

| | |
|---|---|
| The Restaurant Group plc (dividends re-invested) | £377 |
| FTSE 250 Index | £373 |
| FTSE Small Cap Index | £387 |
| FTSE 350 Travel and Leisure Index | £336 |

### Total shareholder return




Source: Thomson Reuters (Datastream)

This graph shows the value, by 01 January 2017, of £100 invested in The Restaurant Group on 28 December 2008, compared with the value of £100 invested in the FTSE 250*, FTSE SmallCap* and FTSE 350 Travel & Leisure Index Indices on the same date. The other plot points plotted are the values at intervening financial year-ends.

* excluding investment trusts

# Directors' remuneration report continued

The table below shows the total remuneration for the Chief Executive Officer for each of the last seven years:

| | Andrew Page | | | | | Danny Breithaupt | | | Andy McCue |
|---|---|---|---|---|---|---|---|---|---|
| £'000 | 2010 | 2011 | 2012 | 2013 | 2014 to 30.08.2014 | 2014 from 01.09.2014 | 2015 | 2016 to 12.08.2016 | 2016 from 19.09.2016 |
| Salary | 543 | 558 | 590 | 602 | 410 | 150 | 480 | 308 | 146 |
| Benefits | 29 | 27 | 27 | 27 | 18 | 5 | 27 | 17 | 29 |
| Pension | 109 | 112 | 118 | 120 | 82 | 15 | 111 | 62 | 29 |
| **Total fixed remuneration** | **681** | **697** | **735** | **749** | **510** | **170** | **618** | **387** | **204** |
| **Annual bonus** | **543** | **720** | **974** | **993** | **509** | **169** | **495** | **–** | **38[1]** |
| **SAYE** | **–** | **13** | **–** | **–** | **–** | **–** | **8** | **n/a** | **n/a** |
| LTIP face value of vested shares at grant | 916 | 1,097 | 623 | 1,042 | 1,808 | 236 | 290 | – | – |
| LTIP increase in value between grant and vest | 1,114 | 1,471 | 647 | 933 | 1,567 | 303 | (14) | – | – |
| Dividend equivalent | 154 | 243 | 91 | 123 | 165 | 35 | 32 | n/a | n/a |
| Total LTIP | 2,184 | 2,811 | 1,361 | 2,098 | 3,540 | 574 | 308 | – | – |
| **Total performance related remuneration** | **2,727** | **3,544** | **2,335** | **3,091** | **4,049** | **743** | **811** | **–** | **38** |
| **Total remuneration** | **3,408** | **4,241** | **3,070** | **3,840** | **4,559** | **913** | **1,429** | **387** | **242** |
| Annual bonus[2] | 100% | 86% | 100% | 100% | 75% | 75% | 69% | 0% | 20% |
| Annual LTIP Vesting | 90% | 100% | 82% | 93% | 100% | 94% | 93% | – | – |

1 Pro-rated to number of full months worked.
2 As a percentage of maximum.

## Percentage change in Chief Executive Officer's remuneration

The table below shows the percentage change in the Chief Executive Officer's salary, benefits and annual bonus between the financial year ending 1 January 2017 and 27 December 2015, compared to all employees of the Group.

| | Salary change | Benefits change | Bonus change |
|---|---|---|---|
| Chief Executive Officer | 1% | 266%[1] | (92%) |
| All employees[2] | 3.4% | (6.6%) | (38.7%) |

1 This increase is due to the relocation benefit, covering travel and accommodation, Andy McCue is contractually entitled to receive. Travel and accommodation benefits will cease after 12 months or upon relocation, whichever is the sooner.
2 This is calculated using an average number of employees of 15,570.

## Relative importance of spend on pay

The following table shows the Company's actual spend on pay (for all employees) relative to dividends.

| £m | 2015 | **2016** | % change |
|---|---|---|---|
| Staff costs | 225.6 | **237.9** | 5.45% |
| Dividends[1] | 32.1 | **34.8** | 8.41% |
| Retained profits[1] | 67.4 | **60.1** | (10.83%) |

1 Dividends and retained profits are as reported for the trading business and exclude the exceptional items.

### 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. Currently, Andy McCue is a non-executive director of Hostelworld Group plc and is paid fees of €67,000, which he is allowed to keep. Barry Nightingale does not hold any external appointments.

### Additional information

The following relocation and temporary accommodation arrangements are in place in respect of the Chief Executive Officer; for the first year of employment (September 2016 to September 2017) the Company will pay an annual temporary living allowance equivalent to £100,000 per annum paid monthly and subject to the usual deductions for tax and NI. The Company will also book and pay directly weekly return travel costs between Ireland and England.

The Company will pay the Chief Executive Officer a sum of £300,000 (less appropriate deductions for tax and NI) in respect of the cost of a permanent relocation from his home in Ireland and the purchase of a property within reasonable commuting distance from the TRG Head Office.

The temporary living allowance and travel cost payment will cease after September 2017 or when the Chief Executive Officer is paid the full relocation allowance, whichever is earlier.

The Chief Executive Officer and the Chief Financial Officer have service contracts with an indefinite term which are subject to six months' notice by either party. Over time the Committee may determine to increase this to one year, subject to the consent of the individual Director.

In respect of the Chief Executive Officer, in the event of early termination by the Company, the Company shall make a payment in lieu of notice equivalent to six months of base salary only. If the full relocation allowance of £300,000 gross, as detailed above, has been paid, it is to be reimbursed by Andy McCue on a straight line basis if he resigns or is dismissed without notice within three years of the payment.

Under the Chief Financial Officer's contract, the Company shall make a payment in lieu of notice equivalent to six months of base salary only.

There are no provisions in respect of change of control within either contract.

### Consideration by the Directors of matters relating to Directors' remuneration

The Committee is constituted in accordance with the recommendations of the UK Corporate Governance Code and comprises three independent non-executive Directors and the Chairman of the Board. Mike Tye is the Committee Chairman and the other members of the Committee are Graham Clemett, Sally Cowdry and Debbie Hewitt. Simon Cloke resigned from the Committee in June 2016 upon Graham Clemett's appointment. 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 or her own remuneration. In determining the executive Directors' remuneration for the year, the Committee consult the non-executive Chairman about its proposals.

New Bridge Street (NBS), part of Aon plc, were appointed by the Committee and act as its independent advisers, providing services encompassing all elements of the remuneration packages. Neither NBS nor any other part of Aon plc provided any other services to the Group during the year. Total fees paid to NBS in respect of its services were £44,432.

NBS is a signatory to the Remuneration Consultants' Code of Conduct. The Committee has reviewed the operating processes in place at NBS and is satisfied that the advice that it receives is objective and independent.

### Statement of shareholder voting

The Directors' Remuneration Policy was last put to shareholders at the AGM held on 14 May 2015 on an advisory basis. The voting outcomes were as follows:

| Directors' Remuneration Policy | | |
|---|---|---|
| Votes cast in favour | 139,800,144 | 98.45% |
| Votes cast against | 2,202,116 | 1.55% |
| Total votes cast | 142,002,260 | |
| Votes withheld | 151,592 | |

As outlined in the Chairman's letter, during the year the Committee has considered the reasons for the votes against and as a result has tightened the implementation of the Policy. The Committee has consulted significant shareholders on these changes and the responses received have been positive.

This report was approved by the Board of Directors and signed on its behalf by:

**Mike Tye**
Chairman of the Remuneration Committee

8 March 2017

# Directors' report

The Directors' report comprises pages 52 to 53 and the other sections and pages of the Annual Report and Accounts cross referred below which are incorporated by reference.
As permitted by legislation, certain disclosures normally included in the Directors' report have instead been integrated into the strategic report (pages 2 to 20).

### Subsidiaries, joint ventures and associated undertakings

The Group has 20 subsidiaries. A list of these can be found on page 99 (note ii) to the Company's financial statements.

### Articles

The Company's Articles may only be amended by special resolution and are available on the Company's website at www.trgplc.com/investors/corporate-governance.

### Greenhouse gas reporting

The disclosures concerning greenhouse gas emissions are included in the corporate responsibility report on pages 19 and 20.

### Results and dividends

The results for the year are set out in the consolidated income statement on page 71. This shows a Group profit after tax of £60.1m (2015: profit £67.4m) before exceptional items. After charging exceptional items, the Group recorded a loss after tax of £40.2m (2015: profit after tax of £68.9m). The closing mid-market price of the ordinary shares on 1 January 2017 was 324.5p and the range during the financial year was 256.9p to 691.5p.

| Dividend | | Increase/ decrease |
|---|---|---|
| **Interim dividend** | | |
| Paid on 13 October 2016 | 6.8p per share | 0% |
| **Final dividend** | | |
| Subject to shareholder approval, payable on 7 July 2017 to shareholders on the Register of Members at close of business on 16 June 2017 | 10.6p per share | 0% |
| Total dividend payable in respect of 2016 | 17.4p per share | 0% |

For more information on the Company's dividends, see note 9 on page 81 and for details on our dividend policy see page 3.

### Employee benefit trust (EBT) and share awards

Details of the Company's EBT arrangements can be found on page 86 (note 18).

The Company has an all employee save as you earn scheme and a long-term incentive plan. Details of share-based payments during the year can be found on pages 86 to 90 (note 19).

The Group considers that the disclosure requirements under Listing Rule 9.8.4R are not applicable.

### Substantial shareholdings

Details of substantial shareholdings can be found on page 27.

### 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, other 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.

### Financial risk management

The Board 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 22.

For details on interest rates charged and gross borrowings see page 92.

## Significant agreements and change of control provisions

The Group has a £140m revolving credit facility in place until June 2020 and a £10m overdraft facility. Under the terms of the £140m revolving credit 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 2016.

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 Company.

## Disclosure of information to the external auditor

For further details see page 55.

## Going concern

The strategic report contains a summary of the cash flow and borrowing position of the Group. The Group is highly cash generative and as a retail business with trading receipts settled by cash or credit or debit cards enjoys negative, and working capital.

Information on the Group's policies for capital risk management and financial risk management are set out above. The principal risk factors and uncertainties that could affect the business are detailed in the strategic report on page 11.

Based on the Group's plans for 2017 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.

By order of the Board

**Barry Nightingale**
Chief Financial Officer

8 March 2017

# Senior management Risk Committee

The Committee was established by the Audit Committee in October 2016 and held two meetings in the year.

### Membership

- Andy McCue, Chief Executive Officer
- Barry Nightingale, Chief Financial Officer
- Mike Van Deventer, Financial Controller
- Simon Iddon, Chief Information Officer
- Debbie Moore, Group HR Director
- Erika Percival, Company Secretary
- Nick Smith, Purchasing Director

As stated in its terms of reference, the Committee's membership comprises of the Chief Executive Officer, Chief Financial Officer and not less than three other members of the senior management team. In addition, employees from across the business attend Committee meetings by invitation in order to assist the Committee in discharging its duties.

The Risk Committee is chaired by the Chief Financial Officer and is required to meet at least four times a year in advance of the Audit Committee. Following each meeting the Chief Financial Officer reports to the Audit Committee Chairman on its proceedings on all matters within its duties and responsibilities.

### Role of the Risk Committee

The role of the Risk Committee is to assist the Audit Committee in discharging its risk management and internal control responsibilities.

### Key responsibilities

The Risk Committee's responsibilities include, but are not limited to, the following:

- to drive the Company's policies, procedures and training in relation to risk management;
- to review reports on any material breaches of risk limits and the adequacy of proposed action;
- to challenge and make recommendations to the Board and/or the Audit Committee on the Company's current risk exposures and future risk strategy;
- to review the effectiveness of the Company's internal financial controls and risk management systems;
- to review tax and compliance and as required evaluate tax planning proposals;
- to periodically review the Company's involvement with government initiatives on food standards, food safety and incidents of contamination;
- to review the Group's risk map and report its findings to the Audit Committee; and
- to oversee the Company's procedures for detecting fraud including an annual review of the Company's whistleblowing policy, processes and reports received.

### 2016 Committee activities

Since the Committee was set up last year it undertook the following tasks:

- agreed to provide the Audit Committee Chairman with the minutes of each meeting;
- discussed and revised the Group's risk map and the Company's risk register;
- reviewed the new capital expenditure approval policy;
- received updates from senior management on controls over specific risk areas such as cyber security, allergens and purchasing;
- discussed the impact of the General Data Protection Regulations 2016 and how the new requirements can be met; and
- agreed to put the long-term viability statement to the Committee annually.

# Directors' responsibility statements



### Financial statements and accounting records

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations. Company law requires the Directors 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 International Accounting Standards (IAS) Regulation and have chosen to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice FRS101 (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, IAS 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 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 a 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 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### 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.

### Disclosure and Transparency Rules

The Board confirms that to the best of its knowledge:

- the financial statements, prepared in accordance with the IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

# Directors' responsibility statements
continued

## UK Corporate Governance Code

The Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the necessary information for shareholders to assess the Company's performance, business model and strategy.

## Internal control over financial reporting

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. In accordance with the Code 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 reviewed throughout the year, 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 Code. 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 executive Directors, senior operational managers and head of functional departments review Group performance and issues affecting the Group.

Additionally, the Board seeks to continually strengthen its internal control procedures to ensure there is a consistent and appropriate balance between risk and reward.

Other key features and the processes for reviewing effectiveness of the internal control and risk management system in relation to financial reporting are described below:

- the 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 regularly considered by the executive Directors with senior management. Financial performance is monitored and action taken through weekly reporting to the executive Directors and monthly reporting to the Board against annual budgets approved by the Board;
- capital investment is regulated under a budgetary process and appropriate authorisation levels, including 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
- the decision not to have an internal audit function is regularly reviewed by the Audit Committee and currently it is agreed that these responsibilities are being adequately discharged.

For and on behalf of the Board

**Andy McCue**
Chief Executive Officer

8 March 2017

**Barry Nightingale**
Chief Financial Officer

8 March 2017

# Independent auditor's report

to the members of The Restaurant Group plc

### Opinion on financial statements of The Restaurant Group plc

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 1 January 2017 and of the group's loss for the 53 week period then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the related notes 1 to 26 to the Consolidated Financial Statements and the related notes (i) to (v) of the Parent Company Financial Statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

### Summary of our audit approach

**Key risks**

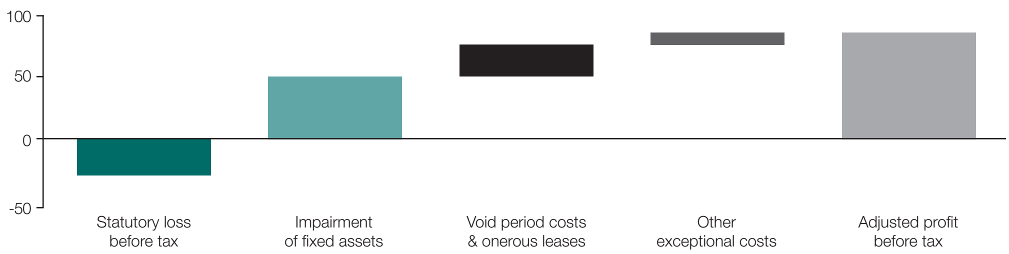
The key risks that we identified in the current year were:

- Impairment of tangible fixed assets
- Onerous contracts and provisions associated with the review of the operating estate
- Recognition of commercial discounts

Within this report, any new risks are identified with and any risks which are the same as the prior year identified with .

**Materiality**

The materiality that we used in the current year was £3.5m which was determined on the basis of 4.5% of adjusted profit before tax, calculated by adjusting statutory profit before tax for the exceptional charge for impairments, onerous contracts and provisions associated with the review of the operating estate.




**Scoping**

Our group audit scope focused on the group's head office in London and the accounting function in Chester, which were subject to a full audit by our London based audit team. This represents 100% of the group's net assets, revenue and profit before tax.

| | |
|---|---|
| **Significant changes in our approach** | The onerous contract provisions and costs associated with the review of the operating estate have been included a key risk in the current year.<br><br>As noted above, an adjusted measure of profit before tax has been used to determine materiality. We note adjusted measures are the focus of management’s Strategic Report to reflect their view that the adjusted measures better reflect the underlying trading performance of the business. |

### Going concern and the directors’ assessment of the principal risks that would threaten the solvency or liquidity of the group

As required by the Listing Rules we have reviewed the directors’ statement regarding the appropriateness of the going concern basis of accounting contained within the accounting policies to the financial statements on page 66 and the directors’ statement on the longer-term viability of the group contained within the strategic report on page 12.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors’ confirmation on page 11 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 11-12 that describe those risks and explain how they are being managed or mitigated;
- the directors’ statement on page 53 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group’s ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors’ explanation on page 12 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

**We confirm that we have nothing material to add or draw attention to in respect of these matters.**

**We agreed with the directors’ adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group’s ability to continue as a going concern.**

We are required to comply with the Financial Reporting Council’s Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

**We confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.**

Overview

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### Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

With the exception of the inclusion of the risk relating to onerous contracts and provisions associated with the review of the operating estate the risks identified below are the same risks as identified in the prior year.

## Impairment of tangible fixed asset

**Risk description**

Tangible fixed assets are the most quantitatively significant item on the balance sheet with a net book value at 1 January 2017 of £346.0 million (2015: £403.6 million).

The fixed asset balance is primarily comprised of freehold and leasehold buildings and the plant and equipment therein that support the Group's restaurant operations. There are 493 (2015: 506) separate restaurant sites.

For the period ended 1 January 2017 the Group has recorded an impairment charge of £68.1m which relates to 66 underperforming sites which do not generate adequate levels of return and the impairment of a further 41 sites which the Group has exited or is exiting.

The assessment of the carrying value of tangible fixed assets requires evaluating whether any indicators of impairment exist in the asset base by reference to expected future profitability of cash generating units ('CGUs') within the restaurant estate. Other than where restaurants are located together in a cluster (such as concessions in airports), CGU's are primarily individual restaurant sites.

The Chairman's Statement states that *'2016 was a challenging year for the Group with a consistently disappointing trading performance exposing fundamental issues across our three Leisure brands'*. This trend and an overriding concern about brand positioning has been reflected in management's forecast cash flows with only modest future performance improvements in the operating estate factored in.

This is recognised as a critical judgement in the accounting policies on page 70 of the financial statements. See also note 11 to the financial statements.

## Impairment of tangible fixed assets

**How the scope of our audit responded to the risk**

To audit the risk of potential fixed asset impairment our audit procedures included the following:

We challenged management's identification of CGUs and whether it is appropriate given the requirements in IAS 36, 'Impairment of assets'. Specifically we considered whether it is appropriate to treat certain sites together in clusters, given their location and impact of customers.

We assessed management's process for identification of sites with a potential impairment, including reviewing the analysis performed by management and that assets were appropriately written off.

We also considered the indicators of impairment identified by management, if any, and performed an analysis to challenge their assumptions. Our work included:

- obtaining evidence, including market based evidence, to support the growth and discount rates used;
- testing the mechanics of management's impairment model;
- performing analysis to assess and challenge the assumptions underpinning the model. This included analysis of forecast site performance, taking into account: historical performance of the sites and the overall brand, management's strategy and expectations for the sites and recent local market trends;
- assessed completeness of management's process by considering other market-based factors indicating other potential site impairments such as low historic profitability; and
- in addition, we held discussions with business heads to corroborate and challenge the assumptions used in determining the value in use of both impaired sites and other sites not subject to an impairment.

**Key observations**

Given recent operating performance and the number of challenges faced by the leisure brands, as set out in the Strategic Report, the modest future performance improvement built into the impairment model is not unreasonable. Therefore, based on our testing and challenge of the assumptions, we concur with the amount recognised as an impairment charge.

## Onerous contract provisions and costs associated with the review of the operating estate

**Risk description**

As set out in note 5, provisions relating to onerous contract provisions and costs associated with the review of the operating estate totalled £48.6m as at year end. £34.8m of this balance relates to provision on onerous contracts and the remaining £13.8m to other strategic actions resulting from the review of the operating estate.

The calculation of these provisions requires judgement, including the appropriate discount rate to use, assumptions for sub-let income and assessment of the facts and range of likely outcomes.

Management has performed a site by site review which makes an assessment of:

- the estimated period of time it will take to agree a sub-let arrangement;
- any rent-free period required and the likely sub-let rental income rate when compared to the passing rent in the lease.

Therefore there is a range of possible scenarios and considerable judgement involved.

This is recognised as a critical judgement in the accounting policies on page 70 of the financial statements.

**How the scope of our audit responded to the risk**

To audit this risk we have performed a range of procedures including:

- We have challenged the judgements supporting the amount provided with reference to contractual rent obligations, third party support & market views from our experts for potential sub-let income and evidence for the estimated cost of void periods.
- We have reviewed the calculation of onerous lease provision and assess their completeness by challenging all sites with negative EBITDA.
- We have performed sensitivity analysis flexing the data for various variables including like for like revenues, margins and discount rates.
- We consulted with our valuation specialists to assess the 10.6% discount rate (2015: 8.1%).

In addition we have discussed site by site assumptions with senior brand management and the director of property.

Further we have agreed a sample of property disposal provisions to correspondence with landlords and other supporting evidence.

**Key observations**

Based on our work, the recent experience in exiting sites, interest from potential tenants and market considerations, we concur with the approach taken by management.

# Independent auditor's report continued

## Recognition of commercial discounts

| | |
|---|---|
| **Risk description** | The restaurant business uses a wide range of suppliers. It is typical for suppliers to be on term contracts (mostly annual) and as part of the process to agree the contract, it is common for price discounts to be agreed. These principally take the form of rebates for meeting quantitative volume targets. See the accounting policies on page 69.<br><br>The recognition of commercial discounts in the Income Statement within cost of sales is a risk given their scale and, in certain cases, the judgement that is required in calculating the discount.<br><br>Commercial discounts should be recognised in accordance with negotiated supplier contracts and over the correct period to which they relate. |
| **How the scope of our audit responded to the risk** | We held meetings with those negotiating commercial discount arrangements to identify the types of deal in place.<br><br>Our testing focussed on completeness of discount arrangements, cut-off and the appropriate recognition in the financial year by:<br>• agreeing and recalculating amounts recorded to a sample of supplier contracts and the actual cash receipt (or accrued income);<br>• comparing amounts recorded for suppliers with discount arrangements to amounts recognised in prior periods and obtaining evidence and/or explantions for changes.<br><br>With reference to ageing of amounts outstanding, we have also assessed the reasonableness of any provisions held against commercial discounts receivable. |
| **Key observations** | Non-judgemental volume related discounts make up the majority of the discounts received and we concur with the amounts recognised. |

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| **Group materiality** | £3.5m (2015: £4.3m) |
| **Basis for determining materiality** | We have used 4.5% of adjusted profit before tax, calculated by adjusting statutory profit before tax for the exceptional charge for impairments, onerous contracts and provisions associated with the review of the operating estate. In the prior year, materiality was determined on the basis of less than 5% of statutory pre-tax profit. |
| **Rationale for the benchmark applied** | During the year the Group has incurred a significant charge (£116.7m) primarily relating to onerous contracts and provisions associated with the review of the operating estate. This has impacted the statutory profit before tax. To be consistent with prior periods and to be in line with the ongoing trading of the business, we have chosen 4.5% of adjusted profit before tax as our metric (as set out in the summary table above) giving a materiality of £3.5m. This has been done to determine a materiality that reflects the underlying business and then the one-off exceptional items have been tested in detail. |

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £70,000 (2015: £86,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

Based on this assessment, and as in the prior year, our group audit scope focused on the group's head office in London and the accounting function in Chester, which were subject to a full audit. This represents 100% of the group's net assets, revenue and profit before tax. Our audit work was executed at levels of materiality applicable to each individual subsidiary entity, which were lower than group materiality, ranging from £2.8m to £0.3m. All audit work done across all components was carried out by the group audit team.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

# Independent auditor's report continued

## Matters on which we are required to report by exception

*Adequacy of explanations received and accounting records*
Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

*Directors' remuneration*
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

**We have nothing to report arising from these matters.**

*Corporate Governance Statement*
Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.

**We have nothing to report arising from our review.**

*Our duty to read other information in the Annual Report*
Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:
- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

**We confirm that we have not identified any such inconsistencies or misleading statements.**

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

## 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 and 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Mark Lee Amies FCA (Senior Statutory Auditor)**
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

# Accounting policies for the consolidated accounts

## Significant accounting policies

The Restaurant Group plc (the Company) is a company incorporated and registered in Scotland. The consolidated financial statements of the Company for the year ended 1 January 2017 comprise the Company and its subsidiaries (together referred to as the Group).

### (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 the 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.

### (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 Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases have not yet been adopted by the EU:

| | |
|---|---|
| IFRS 9 | Financial Instruments |
| IFRS 15 | Revenue from Contracts with Customers |
| IFRS 16 | Leases |
| IFRS 2 (amendments) | Classification and Measurement of Share-based Payment Transactions |
| IAS 7 (amendments) | Disclosure Initiative |
| IAS 12 (amendments) | Recognition of Deferred Tax Assets for Unrealised Losses |
| IFRS 10 and IAS 28 (amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |

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 noted below:

- IFRS 9 will impact both the measurement and disclosures of financial instruments;
- IFRS 15 may have an impact on revenue recognition and related disclosures; and
- IFRS 16 will have material impact on the reported assets, liabilities, income statement and cash flows of the Group. Furthermore, extensive disclosures will be required by IFRS 16.

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.

## (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 re-measurement 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 policies.

### 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.

# Accounting policies for the consolidated accounts continued

### 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 for impairment annually (see accounting policy l). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

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

### (i) Trade and other receivables

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

### (j) Stock

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

### (k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and debit and credit card payments received within 48 working hours. 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 annually 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 annually. 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. All goodwill stated on the balance sheet relates to the acquisition of Blubeckers Limited and Brunning and Price Limited and is included in the impairment analysis of the Pub restaurant business conducted at each balance sheet date.

### (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 eligible workers into defined contribution pension plans and these contributions are charged to the income statement as they become payable. The Group does not operate any defined benefit plans.

### (q) Onerous contracts

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

### (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. Where the Group operates a Concession unit under a franchise agreement, it acts as principal in this trading arrangement. All revenue from franchise arrangements is recognised by the Group at the point of sale and licencing fees are recorded in cost of sales as the goods are sold. The Group does not act as a franchisor in any trading relationship.

### (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.

### (u) Commercial discount policy

Commercial discounts represent a reduction in cost of goods and services in accordance with negotiated supplier contracts, the majority of which are based on purchase volumes. Commercial discounts are recognised in the period in which they are earned and to the extent that any variable targets have been achieved in that financial period. Costs associated with commercial discounts are recognised in the period in which they are incurred.

# Accounting policies for the consolidated accounts continued

**Critical accounting judgements**

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 loan note due

The Group has an outstanding long-term receivable of £3.3m from BH Restaurants Limited. As a result of a detailed trading review of the business, the Board has made full provision against the loan note due (further details are provided in note 13).

**Key areas of estimation uncertainty**

a) Impairment of property, plant and equipment

The Group formally determines whether property, plant and equipment are impaired by considering indicators of impairment annually. 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 or a cluster of units depending on the nature of the trading environment in which they operate.

Calculating the value in use requires the Group to make an estimate of the future cash flows of each CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows. The discount rate used in the year ended 1 January 2017 for all CGUs was based on the Group's weighted average cost of capital of 10.6% (year ended 27 December 2015: 8.1%) as the Directors believe there are broadly equal risks associated with each CGU.

b) Onerous contract provisions and costs associated with estate review

The amount provided is based on the future rental obligations, net of any expected sub-lease income. In addition, estimates have been made with respect to legal & other associated exit costs as well as an evaluation of the cost of void period prior to sublet and the value of lease incentive which may be required to be paid as part of the sublet process.

In determining the provision, the cash flows have been discounted on a pre-tax basis using based on the Group's weighted average cost of capital of 10.6%. Significant assumptions are used in making these calculations and changes in assumptions and future events could cause the value of these provisions to change.

# Consolidated income statement

| | Note | 53 weeks ended 1 January 2017 | | | 52 weeks ended 27 December 2015 | | |
|---|---|---|---|---|---|---|---|
| | | Trading business £'000 | Exceptional (see note 5) £'000 | Total £'000 | Trading business £'000 | Exceptional (see note 5) £'000 | Total £'000 |
| **Revenue** | 2 | **710,712** | **–** | **710,712** | 685,381 | – | 685,381 |
| Cost of sales | 3 | **(598,136)** | **(109,732)** | **(707,868)** | (558,491) | – | (558,491) |
| **Gross profit/(loss)** | | **112,576** | **(109,732)** | **2,844** | 126,890 | – | 126,890 |
| Administration costs | | **(33,420)** | **(6,944)** | **(40,364)** | (37,999) | – | (37,999) |
| **Operating profit/(loss)** | | **79,156** | **(116,676)** | **(37,520)** | 88,891 | – | 88,891 |
| Interest payable | 6 | **(2,073)** | **–** | **(2,073)** | (2,128) | – | (2,128) |
| Interest receivable | 6 | **66** | **–** | **66** | 82 | – | 82 |
| **Profit/(loss) on ordinary activities before tax** | | **77,149** | **(116,676)** | **(39,527)** | 86,845 | – | 86,845 |
| Tax on profit/(loss) from ordinary activities | 7 | **(17,043)** | **16,405** | **(638)** | (19,447) | 1,488 | (17,959) |
| **Profit/(loss) for the year** | | **60,106** | **(100,271)** | **(40,165)** | 67,398 | 1,488 | 68,886 |
| **Earnings/(loss) per share (pence)** | | | | | | | |
| Basic | 8 | **30.02** | | **(20.06)** | 33.80 | | 34.55 |
| Diluted | 8 | **29.84** | | **(20.06)** | 33.50 | | 34.24 |

The table below is provided to give additional information to shareholders on a key performance indicator:

| | | | | | | |
|---|---|---|---|---|---|---|
| **Earnings before interest, tax, depreciation and amortisation** | **120,965** | **(48,626)** | **72,339** | 127,991 | – | 127,991 |
| Depreciation and impairment | **(41,809)** | **(68,050)** | **(109,859)** | (39,100) | – | (39,100) |
| **Operating profit** | **79,156** | **(116,676)** | **(37,520)** | 88,891 | – | 88,891 |

# Consolidated statement of changes in equity

| | Share capital £'000 | Share premium £'000 | Other reserves £'000 | Retained earnings £'000 | **Total £'000** |
|---|---|---|---|---|---|
| **Balance at 28 December 2015** | **56,518** | **25,255** | **(11,080)** | **212,867** | **283,560** |
| Loss for the year | – | – | – | (40,165) | **(40,165)** |
| Issue of new shares | 32 | 287 | – | – | **319** |
| Dividends | – | – | – | (34,862) | **(34,862)** |
| Share-based payments – debit to equity | – | – | 1,323 | – | **1,323** |
| Other reserve movements | – | – | (230) | – | **(230)** |
| Current tax on share-based payments taken directly to equity | – | – | – | 73 | **73** |
| Deferred tax on share-based payments taken directly to equity | – | – | – | (581) | **(581)** |
| **Balance at 1 January 2017** | **56,550** | **25,542** | **(9,987)** | **137,332** | **209,437** |
| **Balance at 29 December 2014** | **56,433** | **24,495** | **(11,971)** | **175,567** | **244,524** |
| Profit for the year | – | – | – | 68,886 | **68,886** |
| Issue of new shares | 85 | 760 | – | – | **845** |
| Dividends | – | – | – | (32,115) | **(32,115)** |
| Share-based payments – credit to equity | – | – | 2,900 | – | **2,900** |
| Employee benefit trust – purchase of shares | – | – | (1,746) | – | **(1,746)** |
| Other reserve movements | – | – | (263) | – | **(263)** |
| Current tax on share-based payments taken directly to equity | – | – | – | 818 | **818** |
| Deferred tax on share-based payments taken directly to equity | – | – | – | (289) | **(289)** |
| **Balance at 27 December 2015** | **56,518** | **25,255** | **(11,080)** | **212,867** | **283,560** |

There is no comprehensive income other than the profit/loss for the year in the year ended 1 January 2017 or the year ended 27 December 2015.

# Consolidated balance sheet

| | Note | At 1 January 2017 £'000 | At 27 December 2015 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 10 | **26,433** | 26,433 |
| Property, plant and equipment | 11 | **345,952** | 403,640 |
| | | **372,385** | 430,073 |
| **Current assets** | | | |
| Stock | 12 | **5,632** | 6,389 |
| Trade and other receivables | 13 | **18,782** | 13,366 |
| Prepayments | | **15,824** | 15,267 |
| Cash and cash equivalents | 21 | **9,568** | 2,983 |
| | | **49,806** | 38,005 |
| **Total assets** | | **422,191** | 468,078 |
| **Current liabilities** | | | |
| Overdraft | 21 | **–** | (838) |
| Corporation tax liabilities | | **(1,275)** | (8,692) |
| Trade and other payables | 14 | **(121,850)** | (125,388) |
| Other payables – finance lease obligations | 23 | **(393)** | (355) |
| Provisions | 15 | **(16,391)** | (1,130) |
| | | **(139,909)** | (136,403) |
| **Net current liabilities** | | **(90,103)** | (98,398) |
| **Non-current liabilities** | | | |
| Long-term borrowings | 21 | **(37,882)** | (30,527) |
| Other payables – finance lease obligations | 23 | **(2,950)** | (2,956) |
| Deferred tax liabilities | 16 | **(4,434)** | (12,096) |
| Provisions | 15 | **(27,579)** | (2,536) |
| | | **(72,845)** | (48,115) |
| **Total liabilities** | | **(212,754)** | (184,518) |
| **Net assets** | | **209,437** | 283,560 |
| **Equity** | | | |
| Share capital | 17 | **56,550** | 56,518 |
| Share premium | | **25,542** | 25,255 |
| Other reserves | 18,19 | **(9,987)** | (11,080) |
| Retained earnings | | **137,332** | 212,867 |
| **Total equity** | | **209,437** | 283,560 |

The financial statements of The Restaurant Group plc (company registration number SC030343) on pages 66 to 95 were approved by the Board of Directors and authorised for issue on 8 March 2017 and were signed on its behalf by:

**Andy McCue (CEO)** **Barry Nightingale (CFO)**

# Consolidated cash flow statement

| | Note | 53 weeks ended 1 January 2017 £'000 | 52 weeks ended 27 December 2015 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 20 | **122,148** | 133,632 |
| Interest received | | **41** | 82 |
| Interest paid | | **(865)** | (1,125) |
| Tax paid | | **(16,223)** | (17,644) |
| **Net cash flows from operating activities** | | **105,101** | 114,945 |
| | | | |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | **(65,280)** | (72,914) |
| Disposal of fixed assets | | **2,219** | 250 |
| Net cash flow on exceptional Items | 5 | **(7,074)** | – |
| **Net cash flows used in investing activities** | | **(70,135)** | (72,664) |
| | | | |
| **Financing activities** | | | |
| Net proceeds from issue of ordinary share capital | | **319** | 845 |
| Employee benefit trust – purchase of shares | 18 | **–** | (1,746) |
| Net withdrawals/(repayments) of loan draw downs | | **7,000** | (8,000) |
| Dividends paid to shareholders | 9 | **(34,862)** | (32,115) |
| **Net cash flows used in financing activities** | | **(27,543)** | (41,016) |
| | | | |
| **Net increase in cash and cash equivalents** | | **7,423** | 1,265 |
| | | | |
| **Cash and cash equivalents at the beginning of the year** | 21 | **2,145** | 880 |
| | | | |
| **Cash and cash equivalents at the end of the year** | 21 | **9,568** | 2,145 |

# Notes to the accounts
## For the year ended 1 January 2017



### 1 Segmental analysis
The Group trades in one business segment (that of operating restaurants) and one geographical segment (being the United Kingdom). The Group's brands meet the aggregation criteria set out in paragraph 22 of IFRS 8 'Operating Segments' and as such the Group report the business as one reportable segment.

### 2 Revenue

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| Income for the year consists of the following: | | |
| Revenue from continuing operations | **710,712** | 685,381 |
| | | |
| Other income not included within revenue in the income statement: | | |
| Rental income | **2,260** | 2,688 |
| Interest income | **66** | 82 |
| **Total income for the year** | **713,038** | 688,151 |

### 3 Profit for the year

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| Cost of sales consists of the following: | | |
| | | |
| Continuing business excluding pre-opening costs | **594,756** | 553,106 |
| Pre-opening costs | **3,380** | 5,385 |
| Trading cost of sales | **598,136** | 558,491 |
| | | |
| Exceptional charge | **109,732** | – |
| | | |
| **Total cost of sales for the year** | **707,868** | 558,491 |

# Notes to the accounts continued

## 3 Profit for the year continued

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Profit for the year has been arrived at after charging/(crediting): | | |
| Depreciation | **41,809** | 39,100 |
| Impairment | **68,050** | – |
| Purchases | **144,467** | 142,325 |
| Staff costs (see note 4) | **239,297** | 225,642 |
| Minimum lease payments | **74,616** | 67,009 |
| Contingent rents | **10,906** | 9,607 |
| Total operating lease rentals of land and buildings | **85,522** | 76,616 |
| Rental income | **(2,260)** | (2,688) |
| **Net rental costs** | **83,262** | 73,928 |

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Auditor's remuneration:** | | |
| Fee payable to the Company's auditor for the audit of the Company's annual accounts | **175** | 146 |
| **Fees payable to the Company's auditor and their associates for other services to the Group:** | | |
| The audit of the Company's subsidiaries | **12** | 10 |
| **Total audit fees** | **187** | 156 |
| Audit-related assurance services | **20** | 20 |
| Other assurance services | **19** | 37 |
| Tax compliance services | **50** | 53 |
| Other tax advisory services | **29** | 15 |
| Other services | **33** | 150 |
| **Total non-audit fees** | **151** | 275 |
| **Total auditor's remuneration** | **338** | 431 |

Audit fees included in the above total relating to the Company are borne by a subsidiary undertaking. All of the auditor's remuneration in 2016 and 2015 was expensed as administration costs, excluding £0.15m incurred in 2015 relating to the refinancing of the Group's debt which will be amortised over the life of the facility.

## 4 Staff costs and numbers

| | 2016 | 2015 |
|---|---|---|
| **a) Average staff numbers during the year (including executive Directors)** | | |
| Restaurant staff | **15,222** | 14,715 |
| Administration staff | **348** | 332 |
| | **15,570** | 15,047 |

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **b) Staff costs (including Directors) comprise:** | | |
| Wages and salaries | **221,815** | 206,960 |
| Social security costs | **14,560** | 14,304 |
| Share-based payments | **1,323** | 2,900 |
| Pension costs | **1,599** | 1,478 |
| | **239,297** | 225,642 |

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **c) Directors' remuneration** | | |
| Emoluments | **2,610** | 2,398 |
| Money purchase (and other) pension contributions | **144** | 187 |
| | **2,754** | 2,585 |
| (Credit)/charge in respect of share-based payments | **(662)** | 748 |
| | **2,092** | 3,333 |

Further details of the Directors' emoluments and the executive pension schemes are given in the Directors' remuneration report.

# Notes to the accounts continued

## 5 Exceptional items

| | Exit sites £'000 | Impaired sites £'000 | Other £'000 | 2016 Total £'000 | 2015 Total £'000 |
|---|---|---|---|---|---|
| Impairment of fixed assets | 26,585 | 41,465 | – | **68,050** | – |
| Void period costs and onerous leases | 27,629 | 7,218 | – | **34,847** | – |
| Other exceptional costs | 4,173 | 2,662 | 6,944 | **13,779** | – |
| | 58,387 | 51,345 | 6,944 | **116,676** | – |
| Credit in respect of tax rate change | – | – | (261) | **(261)** | (1,488) |
| Tax effect of exceptional Items | (8,142) | (7,219) | (783) | **(16,144)** | – |
| | (8,142) | (7,219) | (1,044) | **(16,405)** | (1,488) |
| | **50,245** | **44,126** | **5,900** | **100,271** | **(1,488)** |

The Group has recorded a charge of £58.4m for the exit costs of 33 underperforming sites, and a further eight underperforming units which we intend to exit in the short-term as we do not believe that these sites are capable of generating adequate returns.

The Group has also made an impairment charge of £51.3m against 66 sites, as required by IAS 36, which, owing to poor trading performance, are unlikely to generate sufficient cash in the future to justify their book value.

Furthermore, the Group has recorded a charge of £5.1m for the Board and management restructuring and strategic review costs, together with an accelerated charge of £1.8m in respect of the cancellation by savers of options for the 2014 & 2015 Save as You Earn schemes.

The Group has recognised a £16.4m tax credit in relation to these exceptional items (52 weeks ended 27 December 2015: £1.5m tax credit in relation to revaluation of the deferred tax liability).

## 6 Net finance charges

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Bank interest payable | **834** | 1,075 |
| Other interest payable | **465** | 334 |
| Facility fees | **387** | 338 |
| Interest on obligations under finance leases | **387** | 381 |
| **Total borrowing costs** | **2,073** | 2,128 |
| Bank interest receivable | **(5)** | (9) |
| Other interest receivable | **(8)** | (13) |
| Loan note interest receivable (see note 13) | **(53)** | (60) |
| **Total interest receivable** | **(66)** | (82) |
| **Net finance charges** | **2,007** | 2,046 |

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## 7 Tax

| | Trading 2016 £'000 | Exceptional 2016 £'000 | Total 2016 £'000 | Total 2015 £'000 |
|---|---|---|---|---|
| **a) The tax charge comprises:** | | | | |
| Current tax | | | | |
| UK corporation tax at 20.0% (2015: 20.25%) | 17,011 | (8,014) | **8,997** | 19,624 |
| Adjustments in respect of previous years | (116) | – | **(116)** | (525) |
| | 16,895 | (8,014) | **8,881** | 19,099 |
| Deferred tax | | | | |
| Origination and reversal of temporary differences | 27 | – | **27** | 24 |
| Adjustments in respect of previous years | 121 | – | **121** | 324 |
| Credit in respect of rate change on deferred tax liability | – | (261) | **(261)** | (1,488) |
| Credit in respect of fixed asset write downs and disposals | – | (8,130) | **(8,130)** | – |
| | 148 | (8,391) | **(8,243)** | (1,140) |
| **Total tax charge for the year** | 17,043 | (16,405) | **638** | 17,959 |

**b) Factors affecting the tax charge for the year**

The tax charged for the year varies from the standard UK corporation tax rate of 20.0% (2015: 20.25%) due to the following factors:

| | Trading 2016 £'000 | Exceptional 2016 £'000 | Total 2016 £'000 | 2015 £'000 |
|---|---|---|---|---|
| Profit/(loss) on ordinary activities before tax | 77,149 | (116,676) | **(39,527)** | 86,845 |
| Profit/(loss) on ordinary activities before tax multiplied by the standard UK corporation tax rate of 20.0% (2015: 20.25%) | 15,430 | (23,335) | **(7,905)** | 17,586 |
| *Effects of:* | | | | |
| Depreciation/impairment on non-qualifying assets | 1,868 | 4,765 | **6,633** | 1,960 |
| Expenses/(income) not deductible for tax purposes | 621 | 2,616 | **3,237** | 103 |
| Credit in respect of rate change on deferred tax liability | – | (261) | **(261)** | (1,488) |
| Adjustment in respect of previous years | (876) | (190) | **(1,066)** | (202) |
| **Total tax charge for the year** | 17,043 | (16,405) | **638** | 17,959 |

The Finance Act 2012 introduced a reduction in the main rate of corporation tax from April 2015 from 21% to 20% resulting in a blended rate of 20.25% being used to calculate the tax liability for the 52 weeks ended 27 December 2015 and 20% for the 53 weeks to 1 January 2017.

The Finance (No.2) Act 2015 introduced a reduction in the main rate of corporation tax from 20% to 19% from April 2017 and from 19% to 18% from April 2020. These reductions were substantively enacted on 26 October 2015.

The Finance Act 2016 introduced a further reduction in the main rate of corporation tax to 17% from April 2020. This was substantively enacted on 06 September 2016. The deferred tax provision at the balance sheet date has been calculated at this rate, resulting in a £0.3m tax credit.

## 8 Earnings per share

| | 2016 | 2015 |
|---|---|---|
| **a) Basic earnings per share:** | | |
| Weighted average ordinary shares for the purposes of basic earnings per share | **200,230,299** | 199,408,183 |
| Total (loss)/profit for the year (£'000) | **(40,165)** | 68,886 |
| **Basic earnings per share for the year (pence)** | **(20.06)** | 34.55 |
| Total (loss)/profit for the year (£'000) | **(40,165)** | 68,886 |
| Effect of exceptional items on earnings for the year (£'000) | **100,271** | (1,488) |
| Earnings excluding exceptional items (£'000) | **60,106** | 67,398 |
| **Adjusted earnings per share (pence)** | **30.02** | 33.80 |
| **b) Diluted earnings per share:** | | |
| Weighted average ordinary shares for the purposes of basic earnings per share | **200,230,299** | 199,408,183 |
| **Effect of dilutive potential ordinary shares:** | | |
| Dilutive shares to be issued in respect of options granted under the share option schemes | **404,829** | 488,349 |
| Shares held by employee benefit trust | **814,855** | 1,262,608 |
| | **201,449,983** | 201,159,140 |
| **Diluted earnings per share (pence)** | **(20.06)** | 34.24 |
| **Adjusted diluted earnings per share (pence)** | **29.84** | 33.50 |

The additional non-statutory earnings per share information (where exceptional items, described in note 5, 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 for the purposes of basic earnings per share in respect of notional share awards made to employees in regards of share option schemes and the shares held by the employee benefit trust. The calculation of diluted earnings per share does not assume conversion, exercise or other issue of potential ordinary shares that would have an antidilutive effect on earnings per share.

## 9 Dividend

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Amounts recognised as distributions to equity holders during the year: | | |
| Final dividend for the 52 weeks ended 27 December 2015 of 10.60p (2014: 9.30p) per share | **21,237** | 18,550 |
| Interim dividend for the 53 weeks ended 1 January 2017 of 6.80p (2015: 6.80p) per share | **13,625** | 13,565 |
| **Total dividends paid in the year** | **34,862** | 32,115 |
| | | |
| Proposed final dividend for the 53 weeks ended 1 January 2017 of 10.60p (2015 actual proposed and paid: 10.60p) per share | **21,240** | 21,176 |

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting to be held on 26 May 2017 and is not recognised as a liability in these financial statements. The proposed final dividend payable reflects the number of shares in issue on 1 January 2017, adjusted for the 1.2m shares owned by the employee benefit trust for which dividends have been waived. Further details are provided in note 18.

## 10 Intangible assets

| | £'000 |
|---|---|
| **Cost and carrying amount** | |
| At 29 December 2015, 27 December 2015 and 1 January 2017 | **26,433** |

Goodwill arising on business combinations is not amortised but is subject to an impairment review annually, 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 its carrying value. The intangible assets reported on the balance sheet represent goodwill 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 10.6% (2015: 8.1%) which is the rate believed by the Directors to reflect the risks associated with the CGU.

The Group has conducted a sensitivity analysis taking into consideration the impact on key impairment test assumptions arising from a range of possible trading and economic scenarios. The scenarios have been performed separately with the sensitivities summarised as follows:

- An increase in the discount rate of 1%
- A decrease of 5% on forecast cash flows

The sensitivity analysis shows that no impairment would result from either an increase in the discount rate or a decrease in forecast cash flows.

# Notes to the accounts continued

## 11 Property, plant and equipment

| | Land and buildings £'000 | Fixtures, equipment and vehicles £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 29 December 2014 | 447,403 | 162,940 | 610,343 |
| Additions | 50,842 | 23,975 | 74,817 |
| Disposals | (8,360) | (5,079) | (13,439) |
| **At 27 December 2015** | **489,885** | **181,836** | **671,721** |
| **Accumulated depreciation and impairment** | | | |
| At 29 December 2014 | 141,547 | 100,220 | 241,767 |
| Provided during the year | 20,848 | 18,252 | 39,100 |
| Impairment | – | – | – |
| Disposals | (7,869) | (4,917) | (12,786) |
| **At 27 December 2015** | **154,526** | **113,555** | **268,081** |
| **Cost** | | | |
| At 28 December 2015 | 489,885 | 181,836 | 671,721 |
| Additions | 38,445 | 16,558 | 55,003 |
| Disposals | (6,536) | (6,801) | (13,337) |
| **At 1 January 2017** | **521,794** | **191,593** | **713,387** |
| **Accumulated depreciation and impairment** | | | |
| At 28 December 2015 | 154,526 | 113,555 | 268,081 |
| Provided during the year | 22,533 | 19,276 | 41,809 |
| Impairment | 54,807 | 13,243 | 68,050 |
| Disposals | (3,991) | (6,514) | (10,505) |
| **At 1 January 2017** | **227,875** | **139,560** | **367,435** |
| Net book value as at 28 December 2015 | 335,360 | 68,281 | 403,640 |
| **Net book value as at 1 January 2017** | **293,919** | **52,033** | **345,952** |

## 11 Property, plant and equipment continued

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Net book value of land and buildings** | | |
| Freehold | **109,525** | 108,613 |
| Long leasehold | **3,915** | 5,112 |
| Short leasehold | **180,479** | 221,634 |
| | **293,919** | 335,359 |

| | 2016 £'000 | 2015 £'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 | **1,249** | 1,224 |
| Provided during the year | **25** | 25 |
| Impairment | **407** | – |
| **At the end of the year** | **1,681** | 1,249 |
| **Net book value at the end of the year** | **280** | 712 |

## 12 Stock

Stock comprises raw materials and consumables and has been valued at the lower of cost and estimated net realisable value. The replacement cost at 1 January 2017 is not considered by the Directors to be materially different from the balance sheet value. The Group recognised £144.5m of purchases as an expense in 2016 (2015: £142.3m).

## 13 Trade and other receivables

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Amounts falling due within one year: | | |
| Trade debtors | **4,424** | 1,955 |
| Other debtors | **14,358** | 11,411 |
| | **18,782** | 13,366 |

The Group has an outstanding long-term receivable of £3.3m from BH Restaurants Limited, of which has been fully provided against as a result of a detailed review undertaken in prior years of the trading performance of the BH Restaurants Limited.

Interest was receivable from BHR Finance Limited on a loan note of £3.3m at a rate of LIBOR + 1%. In the 53 weeks ended 1 January 2017 £0.1m of interest accrued of which the Group recognised £0.1m (2015: £0.1m of which the Group recognised £0.1m).

# Notes to the accounts continued

### 14 Trade and other payables

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Amounts falling due within one year: | | |
| Trade creditors | **42,812** | 55,669 |
| Other tax and social security | **20,317** | 18,747 |
| Other creditors | **10,182** | 6,981 |
| Accruals | **48,539** | 43,991 |
| | **121,850** | 125,388 |

### 15 Provisions

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Provision for onerous lease contracts | **19,853** | 2,714 |
| Provision for property exit costs | **24,117** | 952 |
| **Balance at the end of the year** | **43,970** | 3,666 |
| Analysed as: | | |
| Amount due for settlement within one year | **16,391** | 1,130 |
| Amount due for settlement after one year | **27,579** | 2,536 |
| | **43,970** | 3,666 |

| | Onerous lease contracts £'000 | Property exit costs £'000 | Total £'000 |
|---|---|---|---|
| **Balance at 28 December 2015** | 2,714 | 952 | **3,666** |
| Additional provisions made | 18,197 | 30,221 | **48,418** |
| Amounts utilised | (1,161) | (6,831) | **(7,992)** |
| Provisions released | (5) | (225) | **(230)** |
| Adjustment for change in discount rate | (337) | – | **(337)** |
| Unwinding of discount | 445 | – | **445** |
| **Balance at 1 January 2017** | **19,853** | **24,117** | **43,970** |

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 30 years.

The provision for property exit costs includes the costs of strip out and dilapidations and the costs expected to be incurred over the void period until the property is sublet. In addition, this includes a provision for other committed costs arising from the strategic exit project.

## 16 Deferred taxation

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Balance at the beginning of the year** | **12,096** | 12,947 |
| Movement in accelerated capital allowances | **(7,796)** | 602 |
| Other temporary differences | **7,944** | (254) |
| Credit in respect of rate change | **(261)** | (1,488) |
| Credit in respect of fixed asset write downs and disposals | **(8,130)** | – |
| **Deferred tax taken directly to the income statement (see note 7)** | **(8,243)** | (1,140) |
| Tax on share-based payments | **581** | 290 |
| Credit in respect of rate change | **–** | (1) |
| Credit in respect of exceptionals | **–** | – |
| **Deferred tax taken through equity** | **581** | 289 |
| **Balance at the end of the year** | **4,434** | 12,096 |

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Deferred tax consists of:** | | |
| Capital allowances in advance of depreciation | **4,533** | 13,664 |
| Capital gains rolled over | **330** | 349 |
| Other temporary differences | **(429)** | (1,917) |
| | **4,434** | 12,096 |

## 17 Share capital

| | Number | £'000 |
|---|---|---|
| **Authorised, issued and fully paid** | | |
| At 29 December 2014 | **200,648,821** | **56,433** |
| Exercise of share options | 301,851 | 85 |
| **At 27 and 28 December 2015** | **200,950,672** | **56,518** |
| Exercise of share options | 112,373 | 32 |
| **At 1 January 2017** | **201,063,045** | **56,550** |

# Notes to the accounts continued

## 18 Employee benefit trust

An employee benefit trust (EBT) was established in 2007 in order to satisfy the exercise or vesting of existing and future share awards under the Long-Term Incentive Plan. The EBT purchases shares in the market, using funds provided by the Company, based on expectations of future requirements. Dividends are waived by the EBT. At 1 January 2017, the Trustees, Appleby Trust (Jersey) Limited, held 0.7m shares in the Company (27 December 2015: 1.2m shares).

There were no cash transactions in the 53 weeks ended 1 January 2017 (52 weeks ended 27 December 2015: £1.7m, inclusive of costs).

| | Number | £'000 |
|---|---|---|
| **At 29 December 2014** | **1,554,928** | |
| Purchase of shares on 17 March 2015 at an average price of 693 pence per share | 250,000 | 1,746 |
| Transfer of shares to satisfy the exercise of share awards | (627,699) | |
| **At 27 and 28 December 2015** | **1,177,229** | |
| Non purchase of shares | – | – |
| Transfer of shares to satisfy the exercise of share awards | (488,953) | |
| **At 1 January 2017** | **688,276** | |

Details of options granted under the Group's share schemes are given in note 19.

## 19 Share-based payment schemes

The Group operates a number of share-based payment schemes, details of which are provided in the Directors' remuneration report. 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.

A charge is recorded in the financial statements of the Group in respect of share-based payments of £1.3m (2015: £2.9m charge).

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 18).

### Long-Term Incentive Plan

The Group operates the 2005 Long-Term Incentive Plan (LTIP), details of which are provided in the Directors' remuneration report.

Awards under the LTIP are granted to executive Directors and senior management in the form of nil cost options.

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 exercisable. 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 |
|---|---|
| 27 February 2014 | 30 June 2014 |
| 3 March 2015 | 30 June 2015 |
| 17 March 2016 | n/a |

## 19 Share-based payment schemes continued

Vesting of share options under the LTIP is dependent on continuing employment or in accordance with 'good leaver' status as set out in the scheme rules.

In exceptional circumstances, employees may be permitted to exercise options before the normal vesting date.

The Conditional and Matching Awards granted on 28 February 2013 became exercisable on 28 February 2016. The performance criteria was based on total shareholder return (TSR) and earnings per share (EPS). For the TSR element of the award, The Restaurant Group plc was ranked between the median and upper quartile against its comparator group and consequently, 85% the TSR element of the award vested. In respect of the EPS element of the award, the growth in EPS was above RPI +10% p.a. and 100% of this part of the award vested.

For those awards granted on 27 February 2014 that vest in 2017, the performance criteria were based on TSR and EPS. For the TSR element of the award, The Restaurant Group plc was ranked in the lower quartile against its comparator group and consequently the TSR element of the award will not vest.

The EPS element of this award will not vest based on the 2016 performance.

The options from the LTIP scheme will be satisfied through shares purchased via a trust. Further details are provided in note 18.

### Year ended 1 January 2017

| 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 |
|---|---|---|---|---|---|---|---|---|
| 2016 | Conditional – TSR element | 214.9p | 198,077 | – | (183,424) | (14,653) | – | – |
| 2016 | Conditional – EPS element | 418.9p | 198,076 | – | (183,423) | (14,653) | – | – |
| 2016 | Matching – TSR element | 214.9p | 78,150 | – | (57,647) | (20,503) | – | – |
| 2016 | Matching – EPS element | 418.9p | 78,153 | – | (57,650) | (20,503) | – | – |
| 2017 | Conditional – TSR element | 431.8p | 177,664 | – | (1,861) | (37,002) | 138,801 | – |
| 2017 | Conditional – EPS element | 658.5p | 177,665 | – | (1,861) | (36,999) | 138,805 | – |
| 2017 | Matching – TSR element | 431.8p | 63,170 | – | – | (10,969) | 52,201 | – |
| 2017 | Matching – EPS element | 658.5p | 63,170 | – | – | (10,969) | 52,201 | – |
| 2018 | Conditional – TSR element | 417.5p | 240,041 | – | (1,544) | (73,532) | 164,965 | – |
| 2018 | Conditional – EPS element | 731.5p | 240,040 | – | (1,544) | (73,530) | 164,966 | – |
| 2018 | Matching – TSR element | 417.5p | 80,978 | – | – | (28,099) | 52,879 | – |
| 2018 | Matching – EPS element | 731.5p | 80,978 | – | – | (28,099) | 52,879 | – |
| 2019 | Conditional – TSR element | 50.4p | – | 541,602 | – | (136,361) | 405,241 | – |
| 2019 | Conditional – EPS element | 395.1p | – | 541,602 | – | (136,361) | 405,241 | – |
| 2019 | Continued Employment | 395.1p | – | 225,720 | – | (23,813) | 201,907 | – |
| 2019 | Conditional – TSR element | 141.1p | – | 75,713 | – | – | 75,713 | – |
| 2019 | Conditional – EPS element | 259.9p | – | 75,712 | – | – | 75,712 | – |
| 2019 | Conditional – TSR element | 212.5p | – | 141,338 | – | – | 141,338 | – |
| 2019 | Conditional – EPS element | 331.7p | – | 141,337 | – | – | 141,337 | – |
| **Total number** | | | **1,676,162** | **1,743,024** | **(488,954)** | **(666,046)** | **2,264,186** | **–** |

# Notes to the accounts continued

## 19 Share-based payment schemes continued

**Year ended 27 December 2015**

| 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 |
|---|---|---|---|---|---|---|---|---|
| 2015 | Conditional – TSR element | 124.5p | 256,654 | – | (254,966) | (1,688) | – | – |
| 2015 | Conditional – EPS element | 283.5p | 256,656 | – | (225,310) | (31,346) | – | – |
| 2015 | Matching – TSR element | 124.5p | 97,457 | – | (75,346) | (22,111) | – | – |
| 2015 | Matching – EPS element | 283.5p | 97,460 | – | (66,527) | (30,933) | – | – |
| 2016 | Conditional – TSR element | 214.9p | 205,120 | – | (1,951) | (5,092) | 198,077 | – |
| 2016 | Conditional – EPS element | 418.9p | 205,120 | – | (1,901) | (5,143) | 198,076 | – |
| 2016 | Matching – TSR element | 214.9p | 79,015 | – | (609) | (256) | 78,150 | – |
| 2016 | Matching – EPS element | 418.9p | 79,018 | – | (593) | (272) | 78,153 | – |
| 2017 | Conditional – TSR element | 431.8p | 182,992 | – | (243) | (5,085) | 177,664 | – |
| 2017 | Conditional – EPS element | 658.5p | 182,993 | – | (152) | (5,176) | 177,665 | – |
| 2017 | Matching – TSR element | 431.8p | 63,574 | – | (62) | (342) | 63,170 | – |
| 2017 | Matching – EPS element | 658.5p | 63,575 | – | (39) | (366) | 63,170 | – |
| 2018 | Conditional – TSR element | 417.5p | – | 247,827 | – | (7,786) | 240,041 | – |
| 2018 | Conditional – EPS element | 731.5p | – | 247,826 | – | (7,786) | 240,040 | – |
| 2018 | Matching – TSR element | 417.5p | – | 91,085 | – | (10,107) | 80,978 | – |
| 2018 | Matching – EPS element | 731.5p | – | 91,085 | – | (10,107) | 80,978 | – |
| **Total number** | | | **1,769,634** | **677,823** | **(627,699)** | **(143,596)** | **1,676,162** | **–** |

### Save As You Earn

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

**Year ended 1 January 2017**

| Period during which options are exercisable | Exercise price | Outstanding at the beginning of the year | Granted | Forfeited | Exercised | Lapsed | Outstanding at the end of the year | Exercisable at the end of the year |
|---|---|---|---|---|---|---|---|---|
| 2015 – 2016 | 283.0p | 119,815 | – | – | (111,993) | (7,822) | – | – |
| 2017 – 2018 | 525.0p | 1,025,474 | – | (51,707) | (380) | (657,603) | 315,784 | – |
| 2018 – 2019 | 546.0p | 785,884 | – | (65,677) | – | (475,932) | 244,275 | – |
| 2019 – 2020 | 307.0p | – | 1,838,962 | (7,035) | – | (37,165) | 1,794,762 | – |
| **Total number** | | **1,931,173** | **1,838,962** | **(124,419)** | **(112,373)** | **(1,178,522)** | **2,354,821** | **–** |
| **Weighted average exercise price** | | **518.5p** | **307.0p** | **523.8p** | **283.8p** | **525.0p** | **361.0p** | |

## 19 Share-based payment schemes continued

**Year ended 27 December 2015**

| Period during which options are exercisable | Exercise price | Outstanding at the beginning of the year | Granted | Forfeited | Exercised | Lapsed | Outstanding at the end of the year | Exercisable at the end of the year |
|---|---|---|---|---|---|---|---|---|
| 2015 – 2016 | 283.0p | 439,511 | – | – | (294,280) | (25,416) | 119,815 | 119,815 |
| 2017 – 2018 | 525.0p | 1,285,466 | – | – | (571) | (259,421) | 1,025,474 | – |
| 2018 – 2019 | 546.0p | – | 796,426 | – | – | (10,542) | 785,884 | – |
| **Total number** | | **1,724,977** | **796,426** | **–** | **(294,851)** | **(295,379)** | **1,931,173** | **119,815** |
| **Weighted average exercise price** | | **463.3p** | **546.0p** | **–** | **283.5p** | **504.9p** | **518.5p** | **283.0p** |

During 2016, the weighted average market price at date of exercise was 499.4p per share (2015: 666.2p).

### Executive Share Option Plans (ESOP)

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 the ESOP become exercisable on the third anniversary of the date of grant, subject to growth in EPS exceeding RPI growth by more than 2.5%. The 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 27 December 2015**

| 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 |
|---|---|---|---|---|---|---|---|
| 2008 – 2015 | 134.4p | 17,000 | – | (7,000) | (10,000) | – | – |
| **Total number** | | **17,000** | **–** | **(7,000)** | **(10,000)** | **–** | **–** |
| **Weighted average exercise price** | | **134.4p** | **–** | **134.4p** | **134.4p** | **–** | **–** |

## 19 Share-based payment schemes continued

### Assumptions used in valuation of share-based payments granted in the year ended 1 January 2017:

| Scheme | March 2016 LTIP Award | | | July 2016 LTIP Award | | October 2016 LTIP Award | | 2016 SAYE |
|---|---|---|---|---|---|---|---|---|
| Grant date | TSR element 17/03/2016 | EPS element 17/03/2016 | Continued employment element 17/03/2016 | TSR element 01/07/2016 | EPS element 01/07/2016 | TSR element 14/10/2016 | EPS element 14/10/2016 | 28/10/2016 |
| Share price at grant date | 395.1p | 395.1p | 395.1p | 280.4p | 280.4p | 359.7p | 359.7p | 379.2p |
| Exercise price | n/a | n/a | n/a | n/a | n/a | n/a | n/a | 307.0p |
| No of options originally granted | 541,602 | 541,602 | 225,720 | 75,713 | 75,712 | 141,338 | 141,337 | 1,838,962 |
| Minimum vesting period | 2.8 years | 2.8 years | 2.8 years | 3 years | 3 years | 3 years | 3 years | 3 years |
| Expected volatility[1] | 23.4% | 23.4% | 23.4% | 39.4% | 39.4% | 42.6% | 42.6% | 40.2% |
| Contractual life | 3 years | 3 years | 3 years | 5 years | 5 years | 5 years | 5 years | 3.5 years |
| Risk free rate | 1.47% | 1.47% | 1.47% | 0.12% | 0.12% | 0.23% | 0.23% | 0.37% |
| Expected dividend yield | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 3.03% |
| Expected forfeitures | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Fair value per option | 50.4p | 395.1p | 395.1p | 141.1p | 259.9p | 212.5p | 331.7p | 113.5p |

1 Expected volatility is the measure of the amount by which the share price is expected to fluctuate during a period. In order to calculate volatility, the movement in the return index has been calculated (share price plus dividends reinvested) over a period prior to the grant date equal in length to the remaining period over which the performance condition applies. For the discount for the TSR performance condition for the March 2016 Awards, the calculated volatility based on the movement in the return index over a period of 2.8 years prior to the grant has been used. For the discount for the TSR performance condition for the July and October 2016 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 3.3 years prior to the grant has been used.

## 20 Reconciliation of profit before tax to cash generated from operations

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| (Loss)/profit before tax | (39,527) | 86,845 |
| Net finance charges | 2,007 | 2,046 |
| Impairment (non cash) | 68,050 | – |
| Provision for future lease and other costs | 46,860 | – |
| Share-based payments | 1,323 | 2,900 |
| Depreciation | 41,809 | 39,100 |
| Decrease/(increase) in stocks | 757 | (859) |
| Increase in debtors | (5,973) | (5,633) |
| Increase in creditors | 6,842 | 9,233 |
| **Cash generated from operations** | **122,148** | 133,632 |

## 21 Reconciliation of changes in cash to the movement in net debt

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Net debt:** | | |
| **At the beginning of the year** | **(28,382)** | (38,578) |
| Movements in the year: | | |
| (Proceeds from)/repayments of loan draw downs | **(7,000)** | 8,000 |
| Non-cash movements in the year | **(355)** | 931 |
| Cash inflow/(outflow) | **7,423** | 1,265 |
| **At the end of the year** | **(28,314)** | (28,382) |

| Represented by: | At 29 December 2014 £'000 | Cash flow movements in the year £'000 | Non-cash movements in the year £'000 | At 27 and 28 December 2015 £'000 | Cash flow movements in the year £'000 | Non-cash movements in the year £'000 | At 1 January 2017 £'000 |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | **880** | 2,103 | – | **2,983** | 6,585 | – | **9,568** |
| Overdraft | **–** | (838) | – | **(838)** | 838 | – | **–** |
| Bank loans falling due after one year | **(39,458)** | 8,000 | 931 | **(30,527)** | (7,000) | (355) | **(37,882)** |
| | **(38,578)** | 9,265 | 931 | **(28,382)** | 423 | (355) | **(28,314)** |

## 22 Financial instruments and derivatives

The Group finances its operations through equity and borrowings, with the borrowing interest subject to floating rates.

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 of the Group's capital risk management can be found in the Directors Report.

Further details on the business risk factors that are considered to affect the Group are included in the strategic report and more specific financial risk management (including sensitivity to increases in interest rates) are included in the Directors Report. Further details on market and economic risk and headroom against covenants are included in the strategic report.

# Notes to the accounts continued

## 22 Financial instruments and derivatives continued

(a) Financial assets and liabilities

**Financial assets**

The financial assets of the Group comprise:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Cash and cash equivalents – Sterling | **9,568** | 2,983 |
| Cash and cash equivalents – Euro | **–** | – |
| | **9,568** | 2,983 |
| Trade and other receivables | **18,782** | 13,366 |
| **Total financial assets** | **28,350** | 16,349 |

Cash and cash equivalents include £0.4m (2015: £0.3m) 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:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Overdraft | **–** | 838 |
| Trade and other payables excluding tax | **101,533** | 106,641 |
| Finance lease debt | **393** | 355 |
| **Short-term financial liabilities** | **101,926** | 107,834 |
| Long-term borrowings – at floating interest rates * | **37,882** | 30,527 |
| Finance lease debt | **2,950** | 2,956 |
| **Long-term financial liabilities** | **40,832** | 33,483 |
| **Total financial liabilities** | **142,758** | 141,317 |

* Total financial liabilities attracting interest were £39.0m (2015: £35.1m). 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 1.79% (2015: 2.18%).

The average rate of interest charged during the year on the Group's debt was 2.26% (2015: 2.71%), and the average year-end rate was 1.79% (2015: 2.18%). On 2016 results, net interest was covered 39.5 times (2015: 43.4 times) by profit before tax, interest and exceptional items. Based on year-end debt and profits for 2016, a 1% rise in interest rates would reduce profits before tax and exceptional items by 0.5% (2015: 0.4%) and interest cover would reduce to 33 times (2015: 37.1 times).

At 1 January 2017 the Group had a cash balance of £9.6m (2015: £3.0m).

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

At 1 January 2017 the Group has £101.0m of committed borrowing facilities in excess of gross borrowings (27 December 2015: £108.0m) and £10.0m of undrawn overdraft (27 December 2015: £6.9m of undrawn overdraft).

## 22 Financial instruments and derivatives continued

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

**At 1 January 2017**

| | Overdraft £'000 | Trade and other payables excluding tax £'000 | Floating rate loan £'000 | Finance lease debt £'000 | **Total £'000** |
|---|---|---|---|---|---|
| Within one year | – | 101,533 | 8,009 | 393 | **109,935** |
| Within two to five years | – | – | 32,348 | 1,572 | **33,920** |
| After five years | – | – | – | 11,676 | **11,676** |
| | – | 101,533 | 40,357 | 13,641 | **155,921** |
| Less: future interest payments | – | – | (2,475) | (10,298) | **(12,773)** |
| | – | 101,533 | 37,882 | 3,343 | **142,758** |

**At 27 December 2015**

| | Overdraft £'000 | Trade and other payables excluding tax £'000 | Floating rate loan £'000 | Finance lease debt £'000 | **Total £'000** |
|---|---|---|---|---|---|
| Within one year | 838 | 106,641 | 1,844 | 355 | **109,678** |
| Within two to five years | – | – | 34,287 | 1,420 | **35,707** |
| After five years | – | – | – | 11,630 | **11,630** |
| | 838 | 106,641 | 36,131 | 13,405 | **157,015** |
| Less: future interest payments | – | – | (5,604) | (10,094) | **(15,698)** |
| | 838 | 106,641 | 30,527 | 3,311 | **141,317** |

### Fair value of financial assets and liabilities

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.

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 commercial 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 £3.3m from BH Restaurants Limited. As a result of a detailed trading review of the business, the Board has made full provision against the loan note due (further details are provided in note 13).

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.

### 22 Financial instruments and derivatives continued

(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 June 2020 (as set out in note (a) above) ensures continuity of funding, provided the Group continues to meet its covenant requirements (as detailed in the Directors Report).

(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 as the continued 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.

### 23 Lease commitments

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

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2016 £'000** | 2015 £'000 | **2016 £'000** | 2015 £'000 |
| Within one year | **393** | 355 | **393** | 355 |
| Within two to five years | **1,572** | 1,420 | **1,204** | 1,089 |
| After five years | **11,676** | 11,630 | **1,746** | 1,867 |
| | **13,641** | 13,405 | | |
| Less: future interest payments | **(10,298)** | (10,094) | | |
| **Present value of lease obligations** | **3,343** | 3,311 | **3,343** | 3,311 |
| **Analysed as:** | | | | |
| Amount due for settlement within one year | | | **393** | 355 |
| Amount due for settlement after one year | | | **2,950** | 2,956 |
| **Present value of lease obligations** | | | **3,343** | 3,311 |

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 £3.3m (2015: £3.3m).

## 23 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 2016 £'000 | Receivable 2016 £'000 | Payable 2015 £'000 | Receivable 2015 £'000 |
|---|---|---|---|---|
| Within one year | **74,494** | **2,138** | 67,364 | 2,023 |
| Within two to five years | **264,390** | **7,485** | 233,242 | 6,756 |
| After five years | **547,689** | **18,301** | 497,972 | 18,561 |
| | **886,573** | **27,924** | 798,578 | 27,340 |

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 Concessions 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.

## 24 Capital commitments

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Authorised and contracted for: | **37,268** | 42,650 |

## 25 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.

## 26 Related party transactions

There were no related party transactions in the 53 weeks ended 1 January 2017.

In the 53 weeks ended 1 January 2017, the Group received £0.1m of loan note interest from BH Restaurants Limited, all of which was recognised in the income statement (52 weeks ended 27 December 2015: £0.1m of interest, all of which was recognised in the income statement).

Remuneration in respect of key management personnel, defined as the Directors for this purpose, is disclosed in note 4. Further information concerning the Directors' remuneration is provided in the Directors' remuneration report.

# Company balance sheet

| | Note | At 1 January 2017 £'000 | At 27 December 2015 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments in subsidiary undertakings | ii | **143,029** | 143,471 |
| | | **143,029** | 143,471 |
| **Current assets** | | | |
| **Debtors** | | | |
| Amounts falling due within one year from Group undertakings | | **334,937** | 304,221 |
| | | **334,937** | 304,221 |
| **Total assets** | | **477,966** | 447,692 |
| **Creditors** | | | |
| Amounts falling due within one year to Group undertakings | | **(322,614)** | (289,608) |
| **Net current assets** | | **12,323** | 14,613 |
| **Total assets less current liabilities** | | **155,352** | 158,084 |
| **Net assets** | | **155,352** | 158,084 |
| **Capital and reserves** | | | |
| Called up share capital | | **56,550** | 56,518 |
| Share premium account | | **25,542** | 25,255 |
| Other reserves | | **(8,744)** | (9,838) |
| Profit and loss account | | **82,004** | 86,149 |
| **Shareholders' funds** | | **155,352** | 158,084 |

The financial statements of The Restaurant Group plc (company registration number SC030343) on pages 96 to 100 were approved by the Board of Directors and authorised for issue on 8 March 2017 and were signed on its behalf by:

**Andy McCue (CEO)** **Barry Nightingale (CFO)**

# Statement of changes in equity

| | Share capital £'000 | Share premium £'000 | Other reserves £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|---|---|
| At 28 December 2014 | 56,433 | 24,495 | (10,729) | 87,547 | 157,746 |
| Issue of shares | 85 | 760 | – | – | 845 |
| Employee share-based payment schemes | – | – | 2,900 | – | 2,900 |
| Employee benefit trust – purchase of shares | – | – | (1,746) | – | (1,746) |
| Other reserve movements | – | – | (263) | – | (263) |
| Total comprehensive income | – | – | – | 30,717 | 30,717 |
| Dividends | – | – | – | (32,115) | (32,115) |
| As at 27 December 2015 | **56,518** | **25,255** | **(9,838)** | **86,149** | **158,084** |
| Issue of shares | **32** | **287** | **–** | **–** | **319** |
| Employee share-based payment schemes | **–** | **–** | **(442)** | **–** | **(442)** |
| Other reserve movements | **–** | **–** | **1,536** | **–** | **1,536** |
| Total comprehensive income | **–** | **–** | **–** | **30,717** | **30,717** |
| Dividends | **–** | **–** | **–** | **(34,862)** | **(34,862)** |
| **As at 1 January 2017** | **56,550** | **25,542** | **(8,744)** | **82,004** | **155,352** |

# Notes to the financial statements

## i) Accounting policies and basis of preparation

### Basis of preparation

The Company accounts have been prepared under the historical cost convention, with the exception of those assets and liabilities that are carried at fair value, and in accordance with UK Accounting Standards. During the period, the Company adopted Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and transitioned from reporting under UK Generally Accepted Accounting Practice (UK GAAP). This transition is not considered to have had a material effect on the financial statements. The Company intends to continue reporting under FRS 101 in the next financial period.

As permitted under FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, business combinations, financial instruments, fair values, presentation of a cash flow statement and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements are presented in sterling, rounded to the nearest thousand.

### Going concern basis

The financial statements have been prepared on a going concern basis as, after making appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future at the time of approving the financial statements.

### Investments

Investments are valued at cost less any provision for impairment.

### Dividends

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.

### Share-based payment transactions

The Group operates a share option programme which allows employees of the Group to acquire shares in the Company.

The fair value of options granted is recognised as an employee expense in the company in which the employees are employed, with a corresponding increase in capital contribution. The Company recognises an increase in the investment held by the Company in the subsidiary in which the employees are employed, with a corresponding increase in equity.

The fair value of the options 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.

### ii) Investment in subsidiary undertakings

| | Shares £'000 | Loans and other £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| **At 27 December 2015** | 91,829 | 53,064 | 144,893 |
| Credit – share-based payment schemes | – | (442) | (442) |
| **At 1 January 2017** | **91,829** | **52,622** | **144,451** |
| **Amounts written off** | | | |
| **At 27 December 2015 and 1 January 2017** | **888** | **534** | **1,422** |
| Net book value at 27 December 2015 | 90,941 | 52,530 | 143,471 |
| **Net book value at 1 January 2017** | **90,941** | **52,088** | **143,029** |

The Company's subsidiaries are listed below:

| | Status | Proportion of voting rights and shares held at 1 January 2017 |
|---|---|---|
| TRG (Holdings) Limited | Holding | 100% |
| The Restaurant Group (UK) Limited | Trading | 100% |
| Chiquito Limited | Trading | 100% |
| Blubeckers Limited | Trading | 100% |
| Brunning and Price Limited | Trading | 100% |
| Caffe Uno Limited | Dormant | 100% |
| Number One Leicester Square Limited | Dormant | 100% |
| Adams Rib Limited | Dormant | 100% |
| G.R. Limited | Holding | 100% |
| Strikes Restaurants Limited | Dormant | 100% |
| Black Angus Steak Houses Limited | Dormant | 100% |
| J.R. Restaurants Limited | Dormant | 100% |
| City Hotels Group Limited | Dormant | 100% |
| DPP Restaurants Limited | Dormant | 100% |
| Garfunkels Restaurants Limited | Dormant | 100% |
| Frankie & Benny's (UK) Limited | Dormant | 100% |
| City Centre Restaurants (UK) Limited | Dormant | 100% |
| Est Est Est Group Limited | Holding | 100% |
| Factmulti Limited | Holding | 100% |
| Sidemet Limited | Dormant | 100% |

The Company's operating subsidiaries are registered in England and Wales, and operate restaurants in the United Kingdom.

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

# Notes to the financial statements
continued

### iii) Creditors – amounts falling due within one year
In accordance with FRS 101 'Events after the balance sheet date', the proposed final dividend in respect of 2016 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.

### iv) 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 (2015: £30.7m representing paid and accrued internal preference dividend income).

Remuneration of the auditor is borne by a subsidiary undertaking (refer to note 3 in the consolidated financial statements).

### v) Employee costs and numbers
All costs of employees and Directors are borne by a subsidiary undertaking. At 1 January 2017 the Company employed seven persons (27 December 2015: five persons).

# Group financial record

| | 2016 £'000 | 2015 £'000 | 2014 £'000 | 2013 £'000 | 2012 £'000 |
|---|---|---|---|---|---|
| **Revenue** | **710,712** | 685,381 | 635,225 | 579,589 | 532,541 |
| Adjusted operating profit | **79,156** | 88,891 | 80,450 | 74,916 | 66,435 |
| Underlying interest | **(2,007)** | (2,046) | (2,385) | (2,231) | (1,874) |
| **Adjusted profit before tax** | **77,149** | 86,845 | 78,065 | 72,685 | 64,561 |
| Exceptional (charges)/credits | **(116,676)** | – | 6,862 | – | – |
| **(Loss)/profit on ordinary activities before tax** | **(39,527)** | 86,845 | 84,927 | 72,685 | 64,561 |
| Tax | **(638)** | (17,959) | (17,928) | (16,495) | (16,334) |
| **(Loss)/profit for the year** | **(40,165)** | 68,886 | 66,999 | 56,190 | 48,227 |
| Basic earnings per share | **(20.06p)** | 34.55p | 33.39p | 28.02p | 24.08p |
| Adjusted earnings per share | **30.02p** | 33.80p | 29.96p | 28.02p | 24.08p |
| Proposed total ordinary dividend per share for the year | **17.40p** | 17.40p | 15.40p | 14.00p | 11.80p |
| Special dividend per share | **–** | – | 3.45p | – | – |
| Dividend cover (excluding exceptional items and special dividends) | **1.73** | 1.94 | 1.95 | 2.00 | 2.04 |
| **Employment of finance** | | | | | |
| Property, plant and equipment | **345,952** | 403,640 | 368,576 | 337,519 | 293,785 |
| Other non-current assets | **26,433** | 26,433 | 26,433 | 26,433 | 26,433 |
| Net current liabilities | **(90,103)** | (98,398) | (92,224) | (80,168) | (65,268) |
| Long-term liabilities | **(72,845)** | (48,115) | (58,261) | (67,819) | (71,102) |
| | **209,437** | 283,560 | 244,524 | 215,965 | 183,848 |
| **Financed by:** | | | | | |
| **Equity** | **209,437** | 283,560 | 244,524 | 215,965 | 183,848 |
| Net debt | **(28,314)** | (28,382) | (38,578) | (41,857) | (35,974) |
| Gearing | **13.5%** | 10.0% | 15.8% | 19.4% | 19.6% |

# Shareholder information

**Directors**
Debbie Hewitt
Non-executive Chairman

Andy McCue (from 19 September 2016)
Chief Executive Officer

Barry Nightingale (from 20 June 2016)
Chief Financial Officer

Simon Cloke
Senior independent non-executive Director

Graham Clemett (from 1 June 2016)
Independent non-executive Director

Sally Cowdry
Independent non-executive Director

Mike Tye (from 4 April 2016)
Independent non-executive Director

**Company Secretary**
Erika Percival (from 10 March 2017)

**Head office**
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**Company number**
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London EC4A 3BZ

**Solicitors**
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London EC1Y 8YY

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London
EC4A 4AD

**Brokers**
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25 Bank Street
London E14 5JP

Numis Securities Limited
The London Stock Exchange Building
One Paternoster Square
London EC4M 7LT

**Annual General Meeting**
Friday, 26 May 2017

**Proposed final dividend – 2016**
Announcement – 8 March 2017
Ex-dividend – 15 June 2017
Record date – 16 June 2017
Payment date – 7 July 2017

# Notes

# Notes

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