

Mrs. Gloria Martínez Picazo, Vice-secretary of the Board of Directors of TELEPIZZA GROUP, S.A.

CERTIFIES THAT:

(I) The Attached documents, which include the Consolidated Management Report (*“Informe de Gestión Consolidado”*), the Consolidated Annual Accounts and the Notes to the Consolidated Annual Accounts (all of them related to the corporate year closed as of December 31, 2017 of TELEPIZZA GROUP, S.A.) have been originally issued in Spanish. In the event of discrepancy between the Spanish and English versions, the Spanish shall prevail.

(II) The Corporate Governance Annual Report (*“Informe Anual de Gobierno Corporativo”*) and the External Auditor’s Report of the Consolidated Annual Accounts, as well as all reports of the Individual Annual Accounts, have not been translated into English, so its publication will be exclusively in Spanish.

I issue this certificate in San Sebastián de los Reyes (Madrid) on February 28, 2018.

Gloria Martínez Picazo
Vice-secretary of the Board of Directors of TELEPIZZA GROUP, S.A.



Telepizza Group, S.A. and Subsidiaries

Consolidated Annual Accounts
31 December 2017

Consolidated Directors' Report
2017

(With Independent Auditor's Report Thereon)

*(Free translation from the originals in Spanish. In the event
of discrepancy, the Spanish-language versions prevail.)*



KPMG Auditores, S.L.

Paseo de la Castellana, 259
28046 Madrid

Independent Auditor's Report on the Consolidated Annual Accounts

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the shareholders of Telepizza Group, S.A.

REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

Opinion

We have audited the consolidated annual accounts of Telepizza Group, S.A. (the "Parent") and subsidiaries (together the "Group"), which comprise the consolidated statement of financial position at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2017 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the consolidated annual accounts in Spain pursuant to the legislation regulating the audit of accounts. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverable amount of non-current assets subject to amortisation and/or Impairment

See notes 4(g), 8 and 9 to the consolidated annual accounts

<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
<p>At 31 December 2017 the Group has property plant and equipment amounting to Euros 50,456 thousand, goodwill of Euros 392,539 thousand and other intangible assets relating to trademarks and contractual rights and other assets, totalling Euros 234,976 thousand and 83,334 thousand, respectively.</p> <p>There is a risk that the carrying amount of the assets allocated to the cash-generating units (CGUs) individually or grouped, depending on each case, may exceed the recoverable amount in outlets, factories or countries where there could be a temporary decline in the performance of the businesses.</p> <p>In order to calculate the impairment of property, plant and equipment, these assets have been allocated to the corresponding cash-generating units, which in the case of the Telepizza Group is determined at outlet or factory level.</p> <p>In the case of goodwill (and the trademark "Jeno's Pizza" for the Colombian market), these are allocated to the group of CGUs that correspond to the entity or entities in the country where generated. Therefore these entities are the groups of cash-generating units that are considered when analysing the recoverability of these intangible assets, which should be performed at least annually, irrespective of whether there are indications of impairment.</p> <p>The "telepizza" trademark is considered a global asset and therefore the analysis of impairment is performed by comparing the carrying amount of all the Group's non-current assets subject to amortisation and/or impairment with the recoverable amount. Given it is an intangible asset with an indefinite useful life this should be performed at least annually, irrespective of whether there are impairment triggering events.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • evaluating the design and implementation of the controls associated with the process of valuing these assets. • analysing the impairment triggering events of the outlets and factories, as well as the contractual rights and other assets with finite useful lives identified by the Group. • evaluating the reasonableness of the method used to calculate value in use and the main assumptions considered, with the involvement of our valuation specialists. • contrasting the consistency of the estimated growth in future cash flows, as forecast in calculating the value in use, with the business plan approved by the board of directors. • evaluating the adequacy of the cash flow forecasts for goodwill and the trademarks. For this purpose we contrasted s the estimated cash flows forecast in prior years with the actual cash flows obtained for a sample of outlets. • assessing the sensitivity of certain assumptions to changes that are considered reasonable. • evaluating whether the information disclosed in the consolidated annual accounts meets the requirements of the financial reporting framework applicable to the Group.

Recoverable amount of non-current assets subject to amortisation and/or Impairment

See notes 4(g), 8 and 9 to the consolidated annual accounts

<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
<p>In the case of the contractual rights with franchisees in Spain and other intangible assets with definite useful lives, the recoverability depends on the number of franchisees and the revenues associated with the franchise contracts and the analysis should only be carried out if there are indications of impairment.</p> <p>At each reporting date the Group estimates the recoverable amount of goodwill and of the intangible assets with indefinite useful lives and when there are impairment triggering events of property, plant and equipment, the contractual rights and other assets. The recoverable amount is determined considering the value in use of the cash-generating units or groups of CGUs, as applicable. To estimate this amount, the Group has used valuation techniques that require the Directors to exercise judgement and make assumptions and estimates.</p> <p>Due to the significance of the carrying amounts of these assets and the uncertainty associated with the aforementioned assumptions and estimates, we consider this to be a key matter in our audit.</p>	

Recoverability of deferred tax assets

See notes 4 (q) and 26 to the consolidated annual accounts

<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
<p>At 31 December 2017 the Group recognised deferred tax assets amounting to Euros 30,438 thousand in respect of tax losses and non-deductible interest pending offset by the Spanish tax group.</p> <p>The recognition of deferred tax assets entails a high degree of judgement by the Directors in assessing the amount, probability and sufficiency of future taxable profits against which they may be offset, future reversals of existing taxable temporary differences and the tax planning opportunities considered by the Group.</p> <p>Due to the uncertainty associated with the recoverability of the amounts recognised as deferred tax assets and the expected recovery period, we consider this to be a key matter in our audit.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • evaluating the design and implementation of the controls associated with the process of estimating the recoverability of deferred tax assets. • assessing the reasonableness of the criteria and the main assumptions considered by the Group in estimating the future taxable profits necessary for offset. • contrasting the profit and loss forecasts used as a basis for recognising the deferred tax loss assets associated with the tax losses and non-deductible interest pending offset, with the actual results obtained this year and evaluating the reasonableness of the time period in which the Group expects to offset these assets.

**Recoverability of deferred tax assets**

See notes 4 (q) and 26 to the consolidated annual accounts

<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
	<ul style="list-style-type: none">• assessing whether the information disclosed in the consolidated annual accounts in relation to the aforementioned deferred tax assets meets the requirements of the financial reporting framework applicable to the Group.

Other Information: Consolidated Directors' Report

Other information solely comprises the 2017 Consolidated Directors' Report, the preparation of which is the responsibility of the Parent's Directors and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not encompass the consolidated directors' report. Our responsibility regarding the information contained in the consolidated directors' report is defined in the legislation regulating the audit of accounts, which establishes two different levels for this information:

- a) A specific level applicable to non-financial consolidated information, as well as certain information included in the annual corporate governance report, as defined in article 35.2. b) of the Audit Law 22/2015, which consists of merely verifying that this information has been provided in the directors' report, or where applicable, in a separate report corresponding to the same year and to which reference is made in the directors' report, and if not, to report on this matter.
- b) A general level applicable to the rest of the information included in the consolidated directors' report, which consists of assessing and reporting on the consistency of this information with the consolidated annual accounts, based on knowledge of the Group obtained during the audit of the aforementioned accounts and without including any information other than that obtained as evidence during the audit. Also, assessing and reporting on whether the content and presentation of this part of the consolidated directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have verified that the information mentioned in a) above has been provided in the consolidated directors' report and the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2017, and that the content and presentation of the report are in accordance with applicable legislation.



Directors' and Audit Committee's Responsibility for the Consolidated Annual Accounts

The Parent's Directors are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they give a true and fair view of the consolidated equity, consolidated financial position and consolidated financial performance of the Group in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent's Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent's audit committee is responsible for overseeing the preparation and presentation of the consolidated annual accounts.

Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.



- Conclude on the appropriateness of the Parent's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee of the Parent regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent's audit committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Parent's audit committee, we determine those that were of most significance in the audit of the consolidated annual accounts of the current period and which are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Report to the Audit Committee of the Parent _____

The opinion expressed in this report is consistent with that stated in our additional report to the audit committee of Telepizza Group, S.A. dated 27 February 2018.



Contract Period

We were appointed as auditor of the Group by the shareholders of Telepizza Group, S.A. at their general meeting on 22 June 2017 for a period of one year, specifically the year ended 31 December 2017. We have been auditing the annual accounts since the year ended 31 December 2006. The Parent's shares were admitted to trading on the Madrid, Barcelona, Bilbao and Valencia stock exchanges on 27 April 2016.

KPMG Auditores, S.L.
On the Spanish Official Register of
Auditors ("ROAC") with No. S0702

(Signed on original in Spanish)

Carlos Peregrina García
On the Spanish Official Register of Auditors ("ROAC") with No. 15,765

27 February 2018

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statements of Financial Position
31 December 2017 and 2016

(Expressed in thousands of Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Property, plant and equipment (note 8)	50,456	46,042
Goodwill (note 9)	392,539	387,322
Other intangible assets (note 9)	326,923	330,223
Deferred tax assets (note 14)	30,438	32,165
Non-current financial assets (note 10)	<u>35,455</u>	<u>30,627</u>
 Total non-current assets	 <u>835,811</u>	 <u>826,379</u>
 Inventories (note 11)	 10,903	 11,623
Trade and other receivables (note 12)	41,117	38,445
Other current financial assets	2,730	1,789
Other current assets	3,227	3,808
Cash and cash equivalents (note 13)	<u>87,279</u>	<u>63,972</u>
 Subtotal current assets	 145,256	 119,637
 Non-current assets held for sale (note 6)	 <u>88</u>	 <u>305</u>
 Total current assets	 <u>145,344</u>	 <u>119,942</u>
 Total assets	 <u><u>981,155</u></u>	 <u><u>946,321</u></u>

The accompanying notes form an integral part of the consolidated annual accounts for 2017.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statements of Financial Position
31 December 2017 and 2016

(Expressed in thousands of Euros)

<u>Equity and Liabilities</u>	<u>2017</u>	<u>2016</u>
Share capital (note 15)	25,180	25,180
Share premium	533,695	533,695
Retained earnings	81,432	51,294
Translation differences	<u>(5,070)</u>	<u>(3,110)</u>
Equity attributable to equity holders of the Parent and total equity (note 15)	635,237	607,059
Minority interests	<u>158</u>	<u> </u>
Equity	<u>635,237</u>	<u>607,059</u>
Loans and borrowings (note 18 (a))	196,687	195,611
Financial liabilities at fair value (note 17)	4,212	-
Deferred tax liabilities (note 14)	82,100	82,866
Provisions	85	87
Other non-current liabilities	<u>7,140</u>	<u>6,460</u>
Total non-current liabilities	<u>290,224</u>	<u>285,024</u>
Loans and borrowings (note 18 (b))	895	968
Other financial liabilities (note 17)	500	-
Trade and other payables (note 21)	51,153	50,218
Provisions	151	248
Other current liabilities	<u>2,756</u>	<u>2,719</u>
Subtotal current liabilities	<u>55,455</u>	<u>54,153</u>
Liabilities directly associated with non-current assets held for sale (note 6)	<u>81</u>	<u>85</u>
Total current liabilities	<u>55,536</u>	<u>54,238</u>
Total equity and liabilities	<u><u>981,155</u></u>	<u><u>946,321</u></u>

The accompanying notes form an integral part of the consolidated annual accounts for 2017.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Income Statements
for the years ended
31 December 2017 and 2016

(Expressed in thousands of Euros)

(Free translation from the original in Spanish, In the event of discrepancy, the Spanish-language version prevails.)

	<u>2017</u>	<u>2016</u>
Revenues (note 22)	361,003	339,587
Merchandise and raw materials used (note 11)	(99,997)	(88,634)
Personnel expenses (note 23)	(95,210)	(118,637)
Amortisation and depreciation (notes 8 and 9)	(18,945)	(17,369)
Other expenses (note 24)	<u>(99,361)</u>	<u>(100,697)</u>
Operating profit	<u>47,490</u>	<u>14,250</u>
Finance income	810	3,663
Finance costs	(10,201)	(25,451)
Other losses (note 25)	<u>(38)</u>	<u>(701)</u>
Profit/(loss) before tax from continuing operations	38,061	(8,239)
Income tax income/(expense) (note 26)	<u>(6,379)</u>	<u>18,975</u>
Profit/(loss) for the year from continuing operations	31,682	10,736
Post-tax loss on discontinued operations	<u>-</u>	<u>(45)</u>
Profit/(loss) for the year	31,682	10,691
Profit attributable to minority interest	<u>161</u>	<u>-</u>
Profit/(loss) for the year attributable to equity holders of the Parent		
Continuing operations	31,843	10,736
Discontinued operations	<u>-</u>	<u>(45)</u>
	<u>31,843</u>	<u>10,691</u>
Basic and diluted earnings/(loss) per share (Euros)		
Profit/(loss) on continuing operations	<u>0.3162</u>	<u>0.1172</u>
Loss on discontinued operations	<u>-</u>	<u>(0.0005)</u>
Profit/(loss) for the year	<u>0.3162</u>	<u>0.1167</u>

The accompanying notes form an integral part of the consolidated annual accounts for 2017.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
for the years ended
31 December 2017 and 2016

(Expressed in thousands of Euros)

(Free translation from the original in Spanish, In the event of discrepancy, the Spanish-language version prevails.)

	<u>2017</u>	<u>2016</u>
Profit/(loss) for the year	31,682	10,691
Other comprehensive income:		
Items that will be reclassified to profit or loss		
Translation differences of financial statements of foreign operations	<u>(1,960)</u>	<u>4,990</u>
Total comprehensive income for the year	<u>29,722</u>	<u>15,681</u>
Profit attributable to minority interest	<u>161</u>	<u>-</u>
Comprehensive profit/(loss) attributable to equity holders of the Parent	<u>29,883</u>	<u>15,681</u>

The accompanying notes form an integral part of the consolidated annual accounts for 2017.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
for the years ended
31 December 2017 and 2016

(Expressed in thousands of Euros)

(Free translation from the original in Spanish, In the event of discrepancy, the Spanish-language version prevails,)

	Share capital	Share premium	Prior years' profit and loss	Translation differences	Minority interest	Total equity
Balances at 31/12/2015	<u>18,000</u>	<u>321,388</u>	<u>23,054</u>	<u>(8,100)</u>	<u>-</u>	<u>354,342</u>
Share capital increase of 25 April 2016 (notes 1 and 15(a))	3,824	114,707	-	-	-	118,531
Share capital increase of 27 April 2016 (note 15(a))	3,356	100,698	-	-	-	104,054
Capital increase costs	-	(3,098)	-	-	-	(3,098)
Shareholder contributions (incentive plan) (note 23)	-	-	18,766	-	-	18,766
Other differences	-	-	(1,217)	-	-	(1,217)
Profit for the year	-	-	10,691	4,990	-	15,681
Balances at 31/12/2016	<u>25,180</u>	<u>533,695</u>	<u>51,294</u>	<u>(3,110)</u>	<u>-</u>	<u>607,059</u>
Combinaciones de negocios	-	-	-	-	319	319
Otras diferencias	-	-	(1,705)	-	-	(1,705)
Resultado del ejercicio	-	-	31,843	(1,960)	(161)	29,722
Saldos al 31/12/17	<u>25,180</u>	<u>533,695</u>	<u>81,432</u>	<u>(5,070)</u>	<u>158</u>	<u>635,395</u>

The accompanying notes form an integral part of the consolidated annual accounts for 2017.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
for the years ended
31 December 2017 and 2016

(Expressed in thousands of Euros)

(Free translation from the original in Spanish, In the event of discrepancy, the Spanish-language version prevails,)

	2017	2016
Cash flows from operating activities		
Profit for the year before tax	38,061	(8,239)
<i>Adjustments for:</i>		
Amortisation and depreciation (notes 8 and 9)	18,945	17,369
(Reversal of) impairment losses (note 25)	(2,052)	53
Finance income	(810)	(3,663)
Finance costs	10,201	25,451
Losses on disposal of property, plant and equipment and other losses (note 25)	2,090	648
Change in fair value of financial assets	-	(215)
Expenses for share-based payments	-	18,766
	66,435	50,170
Change in working capital		
(Increase)/decrease in inventories	952	(231)
(Increase)/decrease in trade and other receivables	(1,701)	(4,015)
(Increase)/decrease in financial assets	(941)	2,727
(Increase)/decrease in other current assets	81	(136)
Increase/(decrease) in trade and other payables	191	2,703
Increase/(decrease) in provisions	(99)	165
Increase/(decrease) in other non-current liabilities	680	1,186
Increase/(decrease) in other current liabilities	37	(410)
Increase/(decrease) in other non-current financial liabilities	2,139	-
	1,339	1,989
Cash generated from operations		
Income tax paid	(5,166)	(4,437)
Net cash from operating activities	62,608	47,722
Cash flows from investing activities		
Increase/(decrease) in other non-current financial assets	(5,766)	(6,916)
Proceeds from sale of property, plant and equipment and intangible assets	6,128	3,574
Acquisition of property, plant and equipment	(19,404)	(17,302)
Acquisition of intangible assets	(4,701)	(4,039)
Acquisition of subsidiaries, net of cash and cash equivalents	(7,496)	(5,804)
Net cash from/(used in) investing activities	(31,239)	(30,487)
Cash flows from financing activities		
Proceeds/Payments from financial debt issue	-	115,433
Interest received	810	(92,629)
Interest paid	(8,293)	3,663
Proceeds from capital issue	-	(22,021)
Net cash from (used in) financing activities	(7,483)	4,446
Net cash from (used in) discontinued operations	213	-
Net increase/(decrease) in cash and cash equivalents	24,099	21,681
Cash and cash equivalents	88,071	61,627
Cash and cash equivalents acquire on business combination	113	-
Effect of exchange differences	(905)	2,345
Cash and cash equivalents at 31 December	87,279	63,972

The accompanying notes form an integral part of the consolidated annual accounts for 2017.

TELEPIZZA GROUP, S.A
AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

31 December 2017

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

(1) Nature, Activities and Composition of the Group

Telepizza Group, S.A. (the Company or the Parent) was incorporated with limited liability under Spanish law on 11 May 2005 under the name of Bahíaflora Inversiones, S.L. On 30 June 2005 the Company changed its name to Foodco Pastries Spain, S.L. In accordance with the minutes of the decisions taken by the Sole Shareholder on 22 January 2016 and raised to public deed on 5 February 2016, approval was given to transform the Company into a corporation (sociedad anónima) and to issue new articles of association to reflect the new corporate structure. On 17 March 2016 the Company changed its name to the current one. Since 27 April 2016 the Company's shares have been traded on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia. The Company's registered office is located in Calle Isla Graciosa 7, San Sebastián de los Reyes, Madrid.

The statutory activity of the Company consists of carrying out economic studies, promoting sales of all types of products on behalf of the Company or third parties, including door-to-door advertising, import and export of all types of products and raw materials, manufacturing, distributing and commercialising products for human consumption and leasing machinery and equipment. The aforementioned statutory activities can be entirely or partially carried out, directly or indirectly, through the holding of shares or interests in companies that perform these activities either in Spain or abroad. The Company shall not carry out any activities that are subject to specific legal conditions or requirements without complying in full therewith.

The principal activity of Telepizza Group, S.A. is the holding of the interest in Tele Pizza, S.A. and the rendering of corporate and strategic management-related services on behalf of Tele Pizza, S.A.

The principal activity of its subsidiaries consists of the management and operation of retail outlets under the brand names of "telepizza", "Pizza World" and "Jeno's pizza", which sell food for consumption at home and on the premises. At 31 December 2017, this activity is carried out through 441 own premises and 1,166 franchises located mainly in Spain, Portugal, Poland, Chile, Colombia, Peru, Ecuador, Switzerland, Ireland, Czech Republic and Paraguay. The Group also carries out its activity through master franchises located in Guatemala, El Salvador, Russia, Angola, Bolivia, Panama, Abu Dhabi, Iran and United Kingdom.

The Group purchases cheese in Spain through a supplier with whom it has signed a long-term exclusivity agreement and agreed a minimum annual volume. This agreement offers flexibility and enables optimum inventory management. Through its factory and logistics centre in Daganzo (Madrid), Tele Pizza, S.A. supplies all the outlets in Spain and Portugal that are directly operated by the Group or through its franchises. In addition, the Group owns another six factories in other countries in which it carries out its activity and which also serve as logistics centres. The high volume of purchases gives rise to economies of scale and facilitates the uniformity of the products purchased.

(Continued)

TELEPIZZA GROUP, S.A.
AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

The franchise activity consists mainly of advising on the management of third-parties' outlets that operate under the telepizza, Pizza World and Jenos Pizza brand names. The Telepizza Group receives a percentage of its franchisees' sales (royalties) for these services. The Group centralises the promotional and advertising activities for all the outlets operating under the aforementioned brand names and receives a percentage of its franchisees' sales as advertising revenues. In addition, the Group subleases some of the premises in which its franchisees carry out their activity and provides personnel management services, such as preparing the payroll for some its franchisees.

The master franchise activity includes the operations carried out in those countries in which the Group does not operate directly because it has signed a contract licensing the brand to a local operator. Master franchise contracts entitle the master franchisee to operate the 'telepizza' brand in a specific market, enabling them to open their own outlets or to establish outlets under franchise agreements.

The subsidiaries and sub-groups composing the Telepizza Group (the Group), and the percentage ownership and details of the respective shareholders' equities at 31 December 2017, are included in Appendix I attached hereto, which forms an integral part of this note. The Group does not hold interests in other entities or in jointly controlled entities, assets or operations.

Initial public offering

Telepizza Group shares have been listed on the stock exchanges of Madrid, Barcelona and Bilbao since 27 April 2016. These shares are freely transferable. The aforementioned initial public offering was carried out as follows:

- a) A capital increase on 25 April 2016 of Euros 118,531 thousand through the issue of 15,294,318 ordinary shares of Euros 0.25 par value each and a share premium of Euros 7.50 each. The new shares issued were sold via a public subscription offer (see note 15 (a)).
- b) A public offering of 55,673,423 shares, representing 55% of the capital, sold at Euros 7.75 each, raising a total amount of Euros 431,469 thousand.

The prospectus relating to the subscription, sale and admission to trading of the aforementioned shares was approved by the Spanish National Securities Market Commission on 15 April 2016. The capital increase was approved on 25 April 2016 by the then sole shareholder and entered on the Mercantile Register on 26 April 2016.

The Company closed the share subscription period on 25 April 2016. On 26 April 2016 the public deed was executed, the capital increase closed and the shares were allocated at the offering price of Euros 7.75 per share, with the new shares admitted to trading on 27 April 2016.

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Merrill Lynch International and UBS Limited were appointed as the global coordinators of the aforementioned process. The total expense for these issues amounted to Euros 9,669 thousand in 2016, of which Euros 4,130 thousand (excluding the tax effect) was allocated to the public subscription offer and, therefore, recognised directly in consolidated equity (see note 15 (b)). The remaining Euros 5,539 thousand was allocated to the public offering and, therefore, recognised in other expenses in the consolidated income statement (see note 24).

Lastly, within the framework of the initial public offering, the Group restructured its financial debt, settling the subordinated loan and the former syndicated loan and arranged a new syndicated loan.

(2) Basis of Presentation

The accompanying consolidated annual accounts have been prepared on the basis of the accounting records of Telepizza Group, S.A. and of the consolidated companies. The consolidated annual accounts for 2017 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other applicable provisions in the financial reporting framework, to present fairly the consolidated equity and consolidated financial position of Telepizza Group, S.A. and subsidiaries at 31 December 2017 and consolidated results of operations and changes in consolidated equity and cash flows of the Group for the year then ended.

The Group adopted IFRS-EU on 1 January 2004 and applied IFRS 1, “First-time adoption of International Financial Reporting Standards”.

The directors of the Parent consider that the consolidated annual accounts for 2017, prepared on 27 February 2018, will be approved by the shareholders without significant changes.

(a) Basis of preparation of the annual accounts

These consolidated annual accounts have been prepared on a historical cost basis, except for the following:

- Derivative financial instruments, which are recognised at fair value.
- Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs of disposal.

(b) Relevant accounting estimates, assumptions and judgements used when applying accounting principles

Relevant accounting estimates and judgements and other estimates and assumptions have to be made when applying the Group’s accounting principles to prepare the consolidated annual accounts in conformity with IFRS-EU.

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A summary of the items requiring a greater degree of judgement or which are more complex, or where the assumptions and estimates made are significant to the preparation of the consolidated annual accounts, are as follows;

- The Group determines the useful life of certain intangible assets acquired in a business combination based on assumptions relating to brand positioning, estimated future market share, investments in the brand and the projected cash flows to be generated by these assets. Some of these assumptions changed at the start of 2009 and the Group has therefore re-estimated the useful lives of certain intangible assets, with the aid of a report drawn up by independent experts (see note 4 (e)).
- The Group tests goodwill and the brand “telepizza” for impairment on an annual basis. Calculation of the recoverable amount requires the use of estimates by management. The recoverable amount is the higher of fair value less costs to sell and value in use. The Group generally uses cash flow discounting methods to calculate these values. Discounted cash flow calculations are based on five-year projections in the budgets approved by management. The cash flows take into consideration past experience and represent management’s best estimate of future market performance. From the fifth year cash flows are extrapolated using individual growth rates. The key assumptions employed when determining fair value less costs to sell and value in use include growth rates, the weighted average cost of capital, and tax rates. The estimates, including the methodology employed, could have a significant impact on the values and the impairment loss (see note 9).
- Valuation allowances for bad debts require a high degree of judgement by management and a review of individual balances based on customers’ credit ratings, current market trends and historical analysis of bad debts at an aggregated level. Any decrease in the volume of outstanding balances entails a reduction in impairment resulting from an aggregate analysis of historical bad debts, and vice versa (see note 12).
- The Group capitalises tax credits when they are likely to be offset in the foreseeable future based on the business plans for each tax jurisdiction in which it operates (see note 26). The calculation of the recoverable amount of these deferred tax assets requires the use of estimates by management. The calculations regarding their recoverability are based on the projections for coming years in the budgets approved by the board of directors, considering past experience and represent the best estimate of future market performance.

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Although estimates are calculated by the Company's directors based on the best information available at 31 December 2017, future events may require changes to these estimates in subsequent years. Any effect on the consolidated annual accounts of adjustments to be made in subsequent years would be recognised prospectively.

(c) Consolidated group

In 2017 the Group acquired Moncharm Limited, Fortys Pizza s.r.o, The Good Food Company Ltd. and Compañía de Negocios de Paraguay, S.A.

In 2016 the Group acquired Telepizza Switzerland GmbH, Foodco Maroc and Foodco Panamá. Moreover, Lubasto Holding was liquidated.

(d) Standards and interpretations issued but not applied

Standards and interpretations effective since 2017

The Group's accounting policies have not been modified as a result of any amendments to standards and interpretations or new standards introduced since 1 January 2017 as these changes deal with types of transactions not carried out by the Group.

Standards and interpretations issued but not applied

At the date of authorisation for issue of these consolidated annual accounts, the following IFRS have come into force and been adopted by the EU, and will therefore be applied to the consolidated annual accounts for 2018 and subsequent years (depending on the effective date of each standard):

- IFRS 9 Financial Instruments.

IFRS 9 applies to financial years starting as of 1 January 2018 and may be adopted in advance of that date. The Group will apply the standard for the first time on 1 January 2018 and onwards.

Given the nature of the Group's financial assets and liabilities, the change in criteria for accounts submission as contained in IFRS 9 is not relevant to the Group. With regard to the new model for calculating the impairment of financial assets based on the model for expected credit loss during the life of the asset, the Group has estimated its impact and it is not significant.

- IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes an exhaustive framework for determining how much revenue to recognise and when. It replaces existing directives on the subject of revenue recognition, including IAS 18 Ordinary Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

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For the sale of products, revenue is currently recognised when customers take possession of assets at the premises or at their homes, at which time risks and benefits are transferred. Revenue is recognised at this point whenever it and costs may be reliably assessed, once payment has been received through cash transactions. Therefore, there is currently no impact on revenue recognition and nor will there be in accordance with IFRS 15.

With regard to Group loyalty programmes, we do not generally have any programme for customers, so there will be no impact.

IFRS 15 applies to financial years starting as of 1 January 2018 and may be adopted in advance of that date. The Group will apply the standard for the first time on 1 January 2018 and onwards.

The real impact of adopting IFRS 15 on the Group's consolidated annual accounts in 2018 will be very limited.

- IFRS 16 Leases

IFRS 16 introduces a single model for recognising leases on the lessee's balance sheet. The lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases when the articles are of low value. The lessor's accounting remains as it is: In other words, lessors will continue to classify its leases as operating leases or finance leases.

IFRS 16 replaces existing lease directives, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard will apply to financial years starting as of 1 January 2019, although it may be adopted in advance by entities that apply IFRS 15 Revenue from Contracts with Customers on or before the initial application date for IFRS 16.

The Group has begun an initial assessment of the potential impact on its consolidated financial statements and has hired an independent expert to help them with this assessment. So far, the most significant impact that has been identified is that the Group is going to recognise new assets and liabilities for its operating leases for stores and retail premises. In addition, the nature of costs in relation to these leases will now change, as IFRS 16 replaces the linear cost of the operating lease with a charge for amortisation of right-of-use assets and a cost for interest on lease liabilities.

In its capacity of lessee, the Group may apply the standard using a full retrospective approach or a modified retrospective approach with optional practical simplifications.

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The Group expects to apply IFRS 16 for the first time on 1 January 2019. It has not yet decided which transition approach it is going to use. The lessee will apply the chosen option uniformly to all of its leases

In its capacity as lessor, the Group is not obliged to make any adjustment to leases in which it is a lessor, unless it is an intermediary lessor in a sub-lease.

The Group has not yet finished measuring the impact adoption of IFRS 16 will have on its reported assets and liabilities. The quantitative effect will depend, among other things, on the chosen transition method, the degree to which the Group uses the practical simplifications and exemptions from recognition, and also any additional leases it signs. The Group considers the analysis of the lease term and the discount rate to apply to be especially relevant when applying this standard. The Group expects to disclose its transition approach and its quantitative information before the standard is adopted but, in any case, it expects that the impact on consolidated annual accounts will be significant.

(e) Comparative information

The consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes thereto for 2017 include comparative figures for 2016, which were approved by the shareholders on 22 June 2017.

(f) Functional and presentation currency

The figures disclosed in the consolidated annual accounts are expressed in thousands of Euros, the functional and presentation currency of the Parent, rounded off to the nearest thousand.

(3) Distribution of Parent's income

The profit distribution of Telepizza Group S.A, amounting Euros 10,143,245, formulated by the holding company board of directors by the shareholders general Meeting is as shows;

	Euros
Distribution bases	
Year-end benefit	10,143,245
Distribution	
Voluntary Reserves	3,773,500
Dividends	6,369,745
	10,143,245

The application of the Euros 10,792,151 loss for 2016, approved by the former sole shareholder on 22 June 2017, consisted of carrying the entire amount forward as prior years' losses.

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(4) Accounting Principles

(b) Subsidiaries

Subsidiaries are entities over which the Parent exercises control, either directly or indirectly. The Company controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The Company has power over a subsidiary when it has existing substantive rights that give it the ability to direct the relevant activities. The Company is exposed, or has rights, to variable returns from its involvement with the subsidiary when its returns from its involvement have the potential to vary as a result of the subsidiary's performance.

The income, expenses and cash flows of subsidiaries are included in the consolidated annual accounts from their acquisition date, which is the date on which Group control commences. Subsidiaries are excluded from the consolidated Group from the date on which this control is lost.

Transactions and balances with Group companies and significant unrealised gains or losses have been eliminated on consolidation. Nevertheless, unrealised losses have been considered as an indicator of impairment of the assets transferred.

The subsidiaries' accounting policies have been adapted to Group accounting policies for like transactions and events in similar circumstances.

The annual accounts or financial statements of the subsidiaries used in the consolidation process have been prepared as of the same date and for the same period as those of the Parent.

Information on the subsidiaries included in the consolidated Group is presented in Appendix I to note 1.

(c) Business combinations

As permitted by IFRS 1 First-time Adoption of International Financial Reporting Standards, the Group has recognised only business combinations that occurred on or after 1 January 2004, the date of transition to IFRS-EU, using the acquisition method. Entities acquired prior to that date were recognised in accordance with accounting principles prevailing at that time, taking into account the necessary corrections and adjustments at the transition date.

The Group has applied IFRS 3 Business Combinations, revised in 2008, to transactions carried out on or after 1 January 2010.

The Group applies the acquisition method for business combinations.

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The consideration transferred in a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any consideration contingent on future events or compliance with certain conditions in exchange for control of the acquiree.

The consideration transferred excludes any payment that does not form part of the exchange for the acquired business. Acquisition costs are recognised as an expense when incurred.

With the exception of lease and insurance contracts, the assets acquired and liabilities assumed are classified and designated for subsequent measurement based on contractual agreements, economic terms, accounting and operating policies and any other conditions existing at the acquisition date.

The excess between the consideration given, plus the value assigned to any non-controlling interests, and the value of net assets acquired and liabilities assumed, is recognised as goodwill. Any shortfall, after evaluating the consideration given, the value assigned to non-controlling interests and the identification and measurement of net assets acquired, is recognised in profit or loss.

The initial measurement is only adjusted when correcting errors.

The potential benefit of the acquiree's income tax loss carryforwards and other deferred tax assets, which are not recognised as they did not qualify for recognition at the acquisition date, is accounted for as income tax income provided that it does not arise from an adjustment of the measurement period.

(c) Foreign currency transactions and balances

(i) Foreign currency transactions, balances and cash flows

Transactions in foreign currency are translated at the spot exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies have been translated into Euros at the closing rate, while non-monetary assets and liabilities measured at historical cost have been translated at the exchange rate prevailing at the transaction date. Non-monetary assets measured at fair value have been translated into Euros at the exchange rate at the date that the fair value was recognised.

In the consolidated statement of cash flows, cash flows from foreign currency transactions have been translated into Euros at the exchange rates prevailing at the dates the cash flows occur. The effect of exchange rate fluctuations on cash and cash equivalents denominated in foreign currencies is recognised separately in the statement of cash flows as effect of exchange rate fluctuations on cash and cash equivalents held.

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Exchange gains and losses arising on the settlement of foreign currency transactions and the translation into Euros of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. However, exchange gains or losses arising on monetary items forming part of the net investment in foreign operations are recognised as translation differences in other comprehensive income.

Monetary financial assets denominated in foreign currencies classified as available for sale are measured at amortised cost in the foreign currency. Consequently, the exchange differences associated with changes in amortised cost are recognised in profit or loss.

Unrealised foreign exchange gains or losses relating to non-monetary assets and liabilities are recognised in conjunction with the change in fair value. Nevertheless, the currency risk component of non-monetary financial assets denominated in foreign currencies, classified as available-for-sale and as hedged items in fair value hedges of the component, are recognised in profit or loss.

(ii) Translation of foreign operations

Foreign operations whose functional currency is not the currency of a hyperinflationary economy have been translated into Euros as follows:

- Assets and liabilities, including goodwill and net asset adjustments derived from the acquisition of the operations, including comparative amounts, are translated at the closing rate at the reporting date.
- Income and expenses, including comparative amounts, are translated at the exchange rates that approximate those prevailing at each transaction date.
- All resulting exchange differences are recognised as translation differences in other comprehensive income.

For presentation of the consolidated statement of cash flows, cash flows of the subsidiaries and foreign joint ventures, including comparative balances, are translated into Euros applying exchange rates that approximate those prevailing at the transaction date.

Translation differences recognised in other comprehensive income are accounted for in profit or loss as an adjustment to the gain or loss on the sale using the same criteria as for subsidiaries.

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(d) Property, plant and equipment

Property, plant and equipment are recognised at cost, less accumulated depreciation and any accumulated impairment losses.

Non-current investments in properties contracted from third parties under operating leases are measured based on the same criteria used for property, plant and equipment. Assets are depreciated over the shorter of the lease term and their useful life. The term of the lease contract is determined consistently with the classification thereof.

Property, plant and equipment are depreciated by allocating the depreciable amount of the asset on a systematic basis over its useful life.

Property, plant and equipment are depreciated on a straight-line basis over the following estimated useful lives:

Buildings	33
Technical installations and machinery	3-15
Other installations, equipment and furniture	10
Information technology equipment	4
Other	4 - 6

The depreciable amount is the cost of an asset.

The Group reviews residual values, useful lives and depreciation methods at each financial year end. Changes to initially established criteria are accounted for as a change in accounting estimates, where applicable.

The Group determines the depreciation charge separately for each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and with a useful life that differs from the remainder of the asset.

Subsequent to initial recognition of the asset, only those costs incurred which will generate probable future profits and for which the amount may reliably be measured are capitalised. Costs of day-to-day servicing are recognised in profit or loss as incurred.

The Group measures and determines impairment to be recognised or reversed based on the criteria in section (g) of this note.

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(e) Intangible assets(i) Goodwill

Goodwill on business combinations reflects the excess of the cost of the business combination (see note 4 (b)) over the acquisition-date fair value of the assets acquired, liabilities and contingent liabilities assumed from the acquired business. Gains and losses on the sale of an entity include the carrying amount of goodwill from the sold entity.

Goodwill is not amortised but is tested for impairment annually or more frequently where events or circumstances indicate that an asset may be impaired. Goodwill on business combinations is allocated to the cash-generating units (CGUs) or groups of CGUs which are expected to benefit from the synergies of the business combination. The Telepizza Group has defined each of the outlets in which it operates and the factories owned by the Group as the main CGUs. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Internally generated goodwill is not recognised as an asset.

(ii) Intangible assets acquired in business combinations

The cost of identifiable intangible assets acquired in business combinations is their acquisition-date fair value, provided that this can be measured reliably. Subsequent costs relating to research and development projects are recognised in accordance with the criteria for internally generated intangible assets.

(iii) Other intangible assets

Other intangible assets acquired by the Group are carried at cost, less any accumulated amortisation and impairment losses.

- Concessions, patents and licences

Concessions, patents and licences are measured at their cost of acquisition.

- Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the specific software to use.

Computer software maintenance costs are expensed as incurred.

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(iv) Useful life and amortisation rates

The Group assesses whether the useful life of each intangible asset acquired is finite or indefinite. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset will generate net cash inflows.

Due to its market leadership and potential as an umbrella brand for new sales concepts through the extension of its range of products, the “telepizza” brand has an indefinite useful life, which is in line with sector practice for brands with similar characteristics.

Intangible assets with indefinite useful lives are not amortised, but are instead tested for impairment on an annual basis or whenever there is an indication that the intangible asset may be impaired.

Intangible assets with finite useful lives are amortised by allocating the depreciable amount of an asset on a straight-line basis over the following useful lives:

Patents and licences	4
Contractual rights	31
Computer software	4
Other intangible assets	4-10
Administrative concessions	Operating term

The depreciable amount of intangible assets is measured as the cost of the asset.

Contractual rights arising from the franchise agreements and the remaining intangible assets are amortised over the period in which they are expected to contribute to generating revenues.

The Group reviews the residual value, useful life and amortisation method for intangible assets at each financial year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

The Group measures and determines impairment to be recognised or reversed based on the criteria in section (g) of this note.

(f) Non-current assets held for sale and discontinued operations

(i) *Non-current assets held for sale*

Non-current assets or disposal groups are classified as non-current assets held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. Non-current assets or disposal groups are classified as held for sale, provided that they are available for sale in their present condition subject to terms that are usual and customary for sales of such assets and that the transaction is highly probable.

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Non-current assets or disposal groups classified as held for sale are measured at the lower of the carrying amount and fair value less the costs of disposal and are not depreciated.

The Group classifies subsidiaries that comply with the above conditions and over which the Group will lose control, irrespective of whether it continues to exercise significant influence or joint control, as a disposal group held for sale or distribution, or as a discontinued operation.

Impairment losses on initial classification and subsequent remeasurement of assets classified as held-for-sale are recognised under profit or loss from continuing operations in the consolidated income statement (consolidated statement of comprehensive income), unless it is a discontinued operation. Impairment losses on a cash generating unit (CGU) are allocated first to reduce the carrying amount of goodwill and then to reduce pro rata the carrying amounts of other assets in the unit.

Gains due to increases in the fair value less costs of disposal are recognised in the income statement to the extent of the cumulative impairment previously recognised due to measurement at fair value less costs of disposal or to impairment of non-current assets.

A non-current asset or disposal group, including subsidiaries and all or part of investments in associates and joint ventures acquired exclusively for resale or swap, is classified at the date of acquisition as held for sale if the transaction is expected to be realised within 12 months after the reporting date and the sale is considered highly probable within a short period subsequent to acquisition. On initial classification as held-for-sale, non-current assets are recognised at the lower of the carrying amount of the asset had it not been classified as held-for-sale and fair value less costs of disposal.

The Group measures a non-current asset that ceases to be classified as held-for-sale or to form part of a disposal group at the lower of the carrying amount before the asset was classified as held-for-sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset not been classified as held-for-sale, and its recoverable amount at the date of reclassification. Any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale is included in profit or loss from continuing operations or other comprehensive income.

The consolidated annual accounts for periods prior to the classification of a subsidiary, associate or joint venture as a disposal group or non-current asset held for sale are restated as if they had never been classified as such. As a result, the assets and liabilities of subsidiaries are presented according to their nature, and any amortisation, depreciation or revaluations that would have been recognised had they not been classified as disposal groups held for sale are recognised.

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(ii) Discontinued operations

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held-for-sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

A component of the Group comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Group.

The Group discloses the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised on the measurement at fair value less disposal or distribution costs or on the disposal of the assets or disposal groups constituting the discontinued operation on the face of the consolidated income statement. The consolidated income statement for the prior year has been restated to facilitate comparison with the accompanying consolidated annual accounts (see note 6).

If the Group ceases to classify a component as a discontinued operation, the results previously disclosed as discontinued operations are reclassified to continuing operations for all years presented.

The consolidated annual accounts for periods prior to the classification of a subsidiary, associate or joint venture as a discontinued operation are restated as if they had never been classified as such. As a result, the assets and liabilities of subsidiaries are presented according to their nature, and any amortisation, depreciation or revaluations that would have been recognised had they not been classified as disposal groups held for sale are recognised.

(g) Impairment of non-financial assets subject to amortisation or depreciation

The Group evaluates whether there are indications of possible impairment losses on non-financial assets subject to amortisation or depreciation to verify whether the carrying amount of these assets exceeds the recoverable amount.

The Group tests goodwill and the brand, which has an indefinite useful life, for impairment at least annually, irrespective of whether there is any indication that the assets may be impaired.

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The recoverable amount of the assets is the higher of their fair value less costs to sell and their value in use. An asset's value in use is measured based on the future cash flows the Group expects to derive from use of the asset, expectations about possible variations in the amount or timing of those future cash flows, the time value of money, the price for bearing the uncertainty inherent in the asset and other factors that market participants would reflect in pricing the future cash flows the Group expects to derive from the asset.

Negative differences resulting from comparison of the carrying amounts of the assets with their recoverable amount are recognised in profit and loss.

Recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs.

If there is an indication of impairment of a CGU to which goodwill has been unable to be allocated, the Group tests the CGU for impairment first, excluding any goodwill and recognises, where applicable, any impairment loss at CGU level. The Group then tests the group of CGUs to which goodwill has been allocated for impairment and recognises, where applicable, any impairment loss at CGU group level.

In testing a CGU for impairment, the Group identifies all the corporate assets that relate to the CGU. If a portion of the corporate assets can be allocated on a reasonable and consistent basis to the CGU, the Group compares the carrying amount of the CGU, including the corporate asset, with its recoverable amount and, where applicable, recognises any impairment loss at CGU level. If the Group cannot allocate a portion of the corporate assets on a reasonable and consistent basis to the CGU, it compares the carrying amount of the unit, excluding the corporate asset, with its recoverable amount and recognises, where applicable, any impairment loss at CGU level. The Group identifies the smallest group of CGUs to which the carrying amount of the corporate asset can be allocated on a reasonable and consistent basis and compares the carrying amount of the group of CGUs, including the corporate assets, with the recoverable amount and recognises, where applicable, the impairment loss at CGU group level corresponding to the country in which it is integrated.

For the purpose of verifying the impairment of intangible assets with indefinite useful lives, primarily comprising the "telepizza" brand, this is considered a global asset and the impairment analysis is therefore carried out by comparing the carrying amount of all the Group's assets with their recoverable amount.

Impairment losses for CGUs are allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other non-current assets of the unit pro rata with their carrying amounts. The carrying amount of each asset may not be reduced below the highest of its fair value less costs to sell, its value in use and zero.

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At the end of each reporting period the Group assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Impairment losses on goodwill are not reversible. Impairment losses on other assets are only reversed if there has been a change in the estimates used to calculate the recoverable amount of the asset.

A reversal of an impairment loss is recognised in the consolidated income statement. The increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.

A reversal of an impairment loss for a CGU is allocated to the assets of each unit, except goodwill, pro rata with the carrying amounts of those assets. The carrying amount of an asset may not be increased above the lower of its recoverable amount and the carrying amount that would have been disclosed, net of amortisation or depreciation, had no impairment loss been recognised.

However, if the specific circumstances of the assets indicate an irreversible loss, this is recognised directly in losses on the disposal of fixed assets in the consolidated income statement.

(h) Leases

(i) Classification of leases

The Group classifies leases as finance leases when substantially all the risks and rewards incidental to ownership of the leased asset are transferred to the lessee under the terms and conditions of the lease, otherwise they are classified as operating leases.

(ii) Lessor accounting

The Group, as lessor, subleases the right to use certain storage facilities and commercial premises to third parties through operating leases.

Assets leased to third parties under operating lease contracts are classified according to their nature, applying the accounting policies set out in note 4 (d).

Operating lease income, net of incentives granted, is recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefits deriving from the leased asset are diminished.

Initial direct costs are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

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Contingent rents are recognised as income when it is probable that they will be received.

(ii) Lessee accounting records

The Group, as lessee, holds the rights to use certain assets under lease contracts.

• Finance leases

At the commencement of the lease term, the Group recognises finance leases as assets and liabilities at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Initial direct costs are added to the asset's carrying amount. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. Interest is expensed using the effective interest method. Contingent rents are recognised as an expense when it is probable that they will be incurred.

The accounting policies applied to the assets used by the Group by virtue of finance lease contracts are the same as those set out in note 4 (d). However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the assets are fully depreciated over the shorter of the lease term and their useful lives.

• Operating leases

Lease payments under an operating lease, net of incentives received, are recognised as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the lease's benefit.

The Group recognises initial direct costs incurred on operating leases as an expense when incurred.

Contingent rents are recognised as an expense when it is probable that they will be incurred.

(i) Financial instruments

(i) Classification of financial instruments

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument in IAS 32 "Financial Instruments: Presentation".

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Financial instruments are classified into the following categories: financial assets and financial liabilities at fair value through profit or loss, separating those initially designated from those held for trading, loans and receivables and financial liabilities at amortised cost. Financial instruments are classified into different categories based on the nature of the instruments and the Group's intentions on initial recognition.

(ii) Offsetting principles

A financial asset and a financial liability are offset only when the Group currently has the legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iii) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss are those classified as held for trading or which have been designated on initial recognition.

A financial asset or financial liability is classified as held for trading if:

- It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs directly attributable to the acquisition or issue are recognised as an expense when incurred.

After initial recognition, they are recognised at fair value through profit or loss. Fair value is not reduced by transaction costs incurred on sale or disposal.

The Group does not reclassify any financial asset or financial liability into or out of this category while it is recognised in the consolidated statement of financial position, except when there is a change in the classification of hedging financial instruments.

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(iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other financial asset categories. These assets are initially recognised at fair value, including transaction costs, and are subsequently measured at amortised cost using the effective interest method.

(v) Impairment

In the case of assets carried at amortised cost, the amount of the impairment loss of financial assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate. For variable income financial assets, the effective interest rate corresponding to the measurement date under the contractual conditions is used.

If the financial asset is secured by collateral, impairment is determined based on the present value of the cash flows that could be generated from the foreclosure of the asset, less costs of foreclosing and sale, discounted at the original effective interest rate. If the financial asset is not secured by collateral, the Group applies the same criteria when the foreclosure is considered probable.

The Group recognises the impairment loss and uncollectibility of loans and receivables and debt instruments by recognising an allowance account for financial assets. When impairment and uncollectibility are considered irreversible, their carrying amount is eliminated against the allowance account.

The impairment loss is recognised in profit and loss and may be reversed in subsequent periods if the decrease can be objectively related to an event occurring after the impairment has been recognised. The loss can only be reversed up to the amortised cost the assets would have had had the impairment loss not been recognised. The impairment loss is reversed against the allowance account.

(vi) Financial liabilities

Financial liabilities, including trade and other payables, which are not classified at fair value through profit or loss, are initially recognised at fair value less any transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, liabilities classified under this category are measured at amortised cost using the effective interest method.

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(vii) Derecognition of financial assets

The Group applies the criteria for derecognition of financial assets to part of a financial asset or part of a group of similar financial assets or to a financial asset or group of similar financial assets.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received, net of transaction costs, including any new asset obtained less any new liability assumed and any cumulative gain or loss deferred in other comprehensive income, is recognised in profit or loss.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the consideration received is recognised as a liability. Transaction costs are recognised in profit or loss using the effective interest method.

(viii) Derecognition and modifications of financial liabilities

The Group derecognises all or part of a financial liability when it either discharges the liability by paying the creditor, or is legally released from primary responsibility for the liability either by process of law or by the creditor.

The exchange of debt instruments between the Group and the counterparty or substantial modifications of initially recognised liabilities are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, providing the instruments have substantially different terms.

The Group considers the terms to be substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the exchange is accounted for as an extinguishment of the financial liability, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

The difference between the carrying amount of a financial liability, or part of a financial liability, extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

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The Group has contracted reverse factoring facilities with various financial institutions to manage payments to suppliers. The Group applies the above criteria to determine whether it should derecognise the original trade payable and recognise a new liability with the financial institutions. Trade payables settled under the management of financial institutions are recognised under trade and other payables only if the Group has transferred management of the payment to the financial institutions but retains primary responsibility for settling the debt with the trade creditors.

Payables to financial institutions as a result of the sale of trade liabilities are recognised as trade payables advanced by banks under trade and other payables in the consolidated statement of financial position.

Nonetheless, when a creditor assumes primary responsibility towards the financial institutions, these debts are reclassified to financial liabilities in the consolidated statement of financial position.

The consideration given by the financial institutions in exchange for the right to finance the customers of the Group is recorded in other income in the consolidated income statement (consolidated statement of comprehensive income) when accrued.

(j) Inventories

Inventories mainly comprise food products, packaging, promotional material and smaller quantities of other materials, and are recognised at the lower of acquisition or production cost and net realisable value.

The purchase price comprises the amount invoiced by the seller, after deduction of any discounts, rebates or other similar items, plus any additional costs incurred to bring the goods to a saleable condition and other costs directly attributable to the acquisition.

Trade discounts are recognised as a reduction in cost of inventories when it is probable that the conditions for discounts to be received will be met. Unallocated discounts are recognised in the consolidated income statement as a decrease in the purchase.

Purchase returns are recognised as a reduction in the carrying amount of inventories returned.

The production cost of inventories comprises the purchase price of raw materials and consumables, costs directly related to the units of production and systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed indirect overheads is based on the higher of normal production capacity or actual production.

The cost of raw materials and other supplies, commercial inventories and transformation costs are application to the different inventory units through the weighted average cost method.

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The cost of inventories is written down against profit and loss when it exceeds net realisable value. Net realisable value is considered as the following:

- Raw materials and other supplies: replacement cost. Nevertheless, raw materials and other supplies are not written down below cost if the finished goods into which they will be incorporated are expected to be sold at or above cost of production.
- Merchandise and finished goods: estimated selling price less costs to sell.

(k) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in financial institutions. They also include other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent when it has a maturity of less than three months from the date of acquisition.

The Group classifies cash flows from interest received and paid as financing activities.

(l) Hedge accounting

Derivative financial instruments are initially recognised using the same criteria as those described for financial assets and financial liabilities. Derivative financial instruments that do not meet hedge accounting requirements are classified and measured as financial assets and financial liabilities at fair value through profit or loss. Derivative financial instruments which qualify for hedge accounting are initially measured at fair value, plus any transaction costs that are directly attributable to the acquisition, or less any transaction costs directly attributable to the issue of the financial instruments. Nonetheless, transaction costs are subsequently recognised in profit and loss, inasmuch as they do not form part of the changes in the effective value of the hedge.

(m) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached. Government grants may comprise the following:

- Capital grants: Capital grants awarded as monetary assets are recognised under government grants in the consolidated statement of financial position and allocated to other income in line with the amortisation or depreciation of the assets for which the grants have been received. Government grants in the form of transfers of a non-monetary asset are recognised at fair value under government grants in the consolidated statement of financial position and are allocated to other income in line with the amortisation or depreciation of the assets for which the grants have been received.
- Operating grants: are recognised as a reduction in the expenses that they are used to finance.

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(n) Employee benefits(i) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring that involves the payment of termination benefits.

For termination benefits payable as a result of an employee's decision to accept an offer, the time when the Group can no longer withdraw the offer of termination benefits is the earlier of when the employee accepts the offer and when a restriction on the Group's ability to withdraw the offer takes effect.

In the case of involuntary termination benefits, the Group can no longer withdraw the offer when it has communicated to the affected employees or trade union representatives the plan; the actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made; the plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations and the expected completion date; the plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

If the termination benefits are not expected to be settled wholly before 12 months after the end of the annual reporting period, the liability is discounted by reference to market yields on high quality corporate bonds.

(ii) Short-term employee benefits

Short-term employee benefits are employee benefits, other than termination benefits, that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service.

The Group recognises the expected cost of short-term employee benefits in the form of accumulating compensated absences when the employees render service that increases their entitlement to future compensated absences. In the case of non-accumulating compensated absences, the expense is recognised when the absences occur.

The Group recognises the expected cost of profit-sharing and bonus plans when it has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

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(o) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account all risks and uncertainties surrounding the amount to be recognised as a provision and, where the time value of money is material, the financial effect of discounting provided that the expenditure to be made each period can be reliably estimated. The discount rate is a pre-tax rate that reflects the time value of money and the specific risks for which future cash flows associated with the provision have not been adjusted at each reporting date.

The financial effect of provisions is recognised as a finance cost in profit or loss.

The tax effect and gains on the expected disposal of assets are not taken into account in measuring a provision.

If it is not probable that an outflow of resources will be required to settle an obligation, the provision is reversed. The provision is reversed against the income statement caption in which the related expense was recognised.

(p) Revenue recognition

Revenue from the sale of goods or services is measured at the fair value of the consideration received or receivable. Revenue is presented net of value added tax and any other taxes. Sales discounts are recognised as a reduction in revenues

Sales of goods to customers in cash or sales to franchises and revenue from services rendered are recognised when the Group sells the product or renders the service.

In case of Revenues from royalties and advertising are recognised when the service is rendered and are calculated as a percentage of the sales of the franchise.

Revenues from the initial franchise fee/ transfer fees largely reflect the right of the franchisee to open an outlet and are recognised upon signing the contract.

(q) Income tax

The income tax expense or tax income for the year comprises current tax and deferred tax.

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Current tax is the amount of income taxes payable or recoverable in respect of the consolidated taxable profit or tax loss for the period. Current tax assets or liabilities are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carryforward of unused tax losses and the carryforward of unused tax credits. Temporary differences are differences between the carrying amount of an asset or liability and its tax base.

Current and deferred tax are recognised as income or an expense and included in profit or loss for the year, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different year, directly in equity, or from a business combination.

Since 1 January 2007 the Company has been the parent of a tax group, as defined by the consolidated tax regime, which comprised Tele Pizza, S.A., Circol, S.A., Mixor, S.A. and Luxtor, S.A. at 31 December 2017.

(i) Recognition of deferred tax liabilities

The Group recognises deferred tax liabilities in all cases except where:

- they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income.
- they are associated with investments in subsidiaries and joint ventures for which the Group is able to control the timing of the reversal of the temporary difference and it is not probable that the difference will reverse in the foreseeable future.

(ii) Recognition of deductible temporary differences

The Group recognises deferred tax assets provided that:

- it is probable that taxable profit will be available against which the deductible temporary difference can be utilised or when tax legislation allows the future conversion of deferred tax assets into a receivable from public entities. However, assets arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and, at the time of the transaction, affect neither accounting profit nor taxable income.

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- the temporary differences are associated with investments in subsidiaries and joint ventures that will reverse in the foreseeable future and sufficient tax gains are expected to be generated against which the temporary differences can be offset.

Tax planning opportunities are only considered when assessing the recoverability of deferred tax assets if the Group intends to use these opportunities or it is probable that they will be utilised.

(iii) Measurement of deferred tax assets and liabilities

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted. The tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of its assets or liabilities are also reflected in the measurement of deferred tax assets and liabilities.

The Group reviews the carrying amount of deferred tax assets at the reporting date and reduces this amount to the extent that it is not probable that sufficient taxable profit will be available against which to recover them.

Deferred tax assets that do not comply with the above conditions are not recognised in the consolidated statement of financial position. At year end the Group reassesses whether conditions are met for recognising previously unrecognised deferred tax assets.

(iii) Offset and classification

The Group only offsets current tax assets and liabilities if it has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The Group only offsets deferred tax assets and liabilities if it has a legally enforceable right to offset the recognised amounts, and they relate to income taxes levied by the same taxation authority on the same taxable entity or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets and liabilities are recognised in the consolidated statement of financial position under non-current assets or liabilities, irrespective of the expected date of recovery or settlement.

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(r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(s) Classification of assets and liabilities as current and non-current

The Group classifies assets and liabilities in the consolidated statement of financial position as current and non-current. Current assets and liabilities are determined as follows:

- Assets are classified as current when they are expected to be realised or are intended for sale or consumption in the Group's normal operating cycle, they are held primarily for the purpose of trading, they are expected to be realised within twelve months after the reporting date or are cash or a cash equivalent, unless the assets may not be exchanged or used to settle a liability for at least twelve months after the reporting date.
- Liabilities are classified as current when they are expected to be settled in the Group's normal operating cycle, they are held primarily for the purpose of trading, they are due to be settled within twelve months after the reporting date or the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.
- Financial liabilities are classified as current when they are due to be settled within twelve months after the reporting date, even if the original term was for a period longer than twelve months, and an agreement to refinance or to reschedule payments on a long-term basis is completed after the reporting date and before the consolidated annual accounts are authorised for issue.

(t) Environmental issues

The Group takes measures to prevent, reduce or repair the damage caused to the environment by its activities.

Expenses derived from environmental activities are recognised as other operating expenses in the period in which they are incurred.

Property, plant and equipment acquired by the Group to minimise the environmental impact of its activity and protect and improve the environment, including the reduction and elimination of future pollution from the Group's activities, are recognised as assets, applying the measurement, presentation and disclosure criteria described in note 4 (d).

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(5) Segment Reporting

As described below, the Group is organised internally into operating segments, which are strategic business units. The strategic business units operate under different market conditions and are managed separately because they require different strategies.

At 31 December 2017 and 2016, the Group comprises the following operating segments:

- Spain
- Rest of Europe
- Latin America
- Master franchise and rest of the world

Segment performance is measured based on the profit generated by each segment. The profit generated by each segment is used as a measure of its performance because the Group considers that this is the most relevant information in the assessment of the profits generated by specific segments in relation to other groups which operate in these businesses.

The impact of the expenses recognised in the consolidated income statement of 2016 as a result of the public offering and the management incentive plans totals Euros 30,027 thousand, which has been included in the Spain segment.

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Inter-segment transaction prices are established based on the normal commercial terms and conditions with unrelated third parties.

	2017					Total
	Thousands of Euros					
	Spain	Other Europe	Latin America	Master franchise and rest of world	Eliminations	
Operating income						
Own outlet sales	99,918	42,593	52,211	-	-	194,722
Factory sales to franchisees	84,116	15,055	10,514	868	-	110,553
Royalties	22,298	2,729	2,747	829	-	28,603
Other income	15,967	1,873	9,028	257	-	27,125
To other segments	20,134	-	-	-	(20,134)	-
Total operating income	242,433	62,250	74,500	1,954	(20,134)	361,003
Gross margin	165,540	41,195	53,079	1,192	-	261,006
Amortisation and depreciation	(13,418)	(1,664)	(3,863)	-	-	(18,945)
Segment operating profit/(loss)	31,740	8,167	6,397	1,186	-	47,490
Net finance income/(cost)	(7,418)	(114)	(1,893)	34	-	(9,391)
Other gains	1,194	(109)	(1,123)	-	-	(38)
Income tax	(5,644)	(235)	(461)	(39)	-	(6,379)
Profit/(loss) from continuing operations	19,872	7,709	2,920	1,181	-	31,682
Income attributable to external parties	-	161	-	-	-	161
Income attributable to the Parent	<u>19,872</u>	<u>7,870</u>	<u>2,920</u>	<u>1,181</u>	<u>-</u>	<u>31,843</u>
Segment assets	831,087	55,963	94,016	-	-	981,066
Assets from discontinued operations or held for sale	89	-	-	-	-	89
Group assets	<u>831,176</u>	<u>55,963</u>	<u>94,016</u>	<u>-</u>	<u>-</u>	<u>981,155</u>
Segment liabilities	47,154	11,329	7,335	-	-	65,818
Liabilities from discontinued operations or held for sale	81	-	-	-	-	81
Unassigned liabilities	-	-	-	-	-	915,252
Group liabilities	<u>47,235</u>	<u>11,329</u>	<u>7,335</u>	<u>-</u>	<u>-</u>	<u>981,155</u>
Investments in property, plant and equipment and intangible assets	<u>13,776</u>	<u>11,992</u>	<u>7,444</u>	<u>-</u>	<u>-</u>	<u>33,213</u>

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	2016					Total
	Thousands of Euros					
	Spain	Other Europe	Latin America	Master franchise and rest of world	Eliminations	
Operating income						
Own outlet sales	110,536	34,549	50,876	-	-	195,961
Factory sales to franchisees	74,810	14,091	8,871	247	-	98,019
Royalties	18,715	2,957	2,189	850	-	24,712
Other income	12,438	1,650	5,332	1,477	-	20,896
To other segments	12,278	-	-	-	(12,278)	-
Total operating income	228,777	53,247	67,268	2,574	(12,278)	339,588
Gross margin	162,594	35,879	50,109	2,371	-	250,953
Amortisation and depreciation	(11,886)	(1,431)	(4,052)	-	-	(17,369)
Segment operating profit/(loss)	(1,552)	7,155	6,277	2,370	-	14,250
Net finance income/(cost)	(20,479)	(357)	(952)	-	-	(21,788)
Other gains	22	10	206	-	-	238
Other losses	(394)	(174)	(371)	-	-	(939)
Income tax	21,264	(1,406)	(846)	(37)	-	18,975
Profit/(loss) from continuing operations	(109)	4,196	4,316	2,333	-	10,736
Loss after tax from discontinued operations	(45)	-	-	-	-	(45)
Loss attributable to the Parent	(109)	4,196	4,316	2,333	-	10,736
Segment assets	788,703	45,955	109,588	-	-	944,246
Assets from discontinued operations or held for sale	305	-	-	-	-	305
Group assets	789,008	45,955	109,588	-	-	944,541
Segment liabilities	43,751	8,047	8,691	-	-	60,489
Liabilities from discontinued operations or held for sale	86	-	-	-	-	86
Unassigned liabilities	-	-	-	-	-	883,969
Group liabilities	43,837	8,047	8,691	-	-	944,543
Investments in property, plant and equipment and intangible assets	13,668	4,248	9,069	-	-	26,985

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(6) Non-current Assets Held for Sale and Discontinued Operations

On 31 December 2017 the Company has classified as non-current assets held for sale its non-operating subsidiary in Morocco, which currently in liquidation and whose activities have been classified as discontinued operations in the consolidated income statement. In 2016 the Company classified two outlets in Spain and its subsidiary in Morocco under non-current assets held for sale.

(7) Business Combinations

During financial year 2017, the Group acquired own-shop and franchise businesses in Ireland, the Czech Republic and Paraguay, and also several operating shops—mainly franchises—in Chile, Portugal and Colombia. These shop acquisitions were due to the Group's global strategy, where it is aiming to maximise the balance between own shops and franchises in different geographical areas, and due to entering new geographical markets.

During 2016, the group had acquired several operating shops, mainly franchises in Spain, Chile, Peru and the master franchisee of Paraguay.

Aggregate details of the cost of the business combinations, the net assets acquired and goodwill are as follows:

	Thousands of Euros	
	2017	2016
Cost of the combination, cash paid	10,068	5,800
Less, fair value of net assets acquired	(1,587)	(624)
Goodwill (note 9)	8,481	5,176

The goodwill generated on the business combinations in both years is due to the outlets acquired having a good market position.

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The amounts recognised in 2017 and 2016 by significant class of assets and liabilities at the date of acquisition of the assets and liabilities are as follows:

	Thousands of Euros	
	Fair value	
	2017	2016
Intangible assets	4	-
Property, plant and equipment	623	624
Inventories	232	-
Trade and other receivables	970	-
Cash and cash equivalents	113	-
	1,942	624
Total assets		
Trade and other payables	356	-
	1,587	624
Total net assets acquired		
Cash paid	10,182	-
Cash and cash equivalents of the acquire	(113)	-
	10,069	-
Cash outflow for the acquisition		

The business combination of the purchase of the franchise business in Ireland has been determined provisionally because it took place at the end of 2017 and insufficient information is available. Consequently, the identifiable net assets have been recognised initially at their provisional values. The other business combinations during the year are definitive and the fair value of the net assets acquired does not differ from their carrying amount.

The amount of the business combination for the acquisition of Ireland is Euros 2,573 thousand which are not paid at year end. (See note 17)

The business combination of the purchase of the franchise business in Switzerland has been determined provisionally because it took place at the end of 2016 and insufficient information is available. Consequently, the identifiable net assets have been recognised initially at their provisional values. The other business combinations during the year are definitive and the fair value of the net assets acquired does not differ from their carrying amount. No transaction costs were incurred in the aforementioned business combinations.

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The businesses acquired during 2017 have generated consolidated revenues and consolidated profit for the Group for the period from the acquisition date to the reporting date of Euros 5,401 thousand and Euros 424 thousand (profit), respectively. The acquisition of the business in Ireland took place in December 2017 so it has not produced any profit or revenue for the Group in financial year 2017. The business combinations that have taken place during the year obtained losses due to the costs associated with conversion of the Fortys brand in the Czech Republic into Telepizza. The businesses acquired in 2016 generated consolidated revenues and consolidated profit for the Group for the period from the acquisition date to the 2016 reporting date of Euros 3,142 thousand and Euros 124 thousand, respectively.

Had the acquisition taken place on 1 January 2017, Group revenues and consolidated income for the year ended 31 December 2016 would have amounted to Euros 366,070 thousand and Euros 33,079 thousand (profit), respectively.

Had the acquisition taken place on 1 January 2016, Group revenues and consolidated income for the year ended 31 December 2016 would have amounted to Euros 345,540 thousand and Euros 10,789 thousand (profit), respectively.

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(8) Property, Plant and Equipment

Details of and movement in property, plant and equipment are as follows:

Data	Thousands of Euros					Total
	Land and buildings	Technical installations and machinery	Other installations, equipment and furniture	Advances and property, plant and equipment under construction	Other property, plant and equipment	
<u>Cost</u>						
Balance at 31.12.2015	7,612	104,849	11,736	391	15,042	139,630
Additions	9	13,447	1,221	3,125	213	18,015
Disposals	(661)	(15,584)	(1,123)	-	(1,900)	(19,268)
Other transfers	5	631	210	(864)	18	-
Exchange losses	261	1,295	174	6	283	2,019
Balance at 31.12.2016	7,226	104,638	12,218	2,658	13,656	140,396
Additions	92	14,916	2,604	743	1,672	20,027
Disposals	(394)	(14,285)	(1,877)	(2)	(2,019)	(18,577)
Other transfers	46	(1,930)	1,377	(2,451)	2,661	(297)
Exchange losses	(45)	(1,617)	(180)	15	(353)	(2,180)
Balance at 31.12.2017	6,925	101,722	14,142	963	15,617	139,369
<u>Depreciation or impairment</u>						
Depreciation at 31.12.2015	(4,376)	(69,317)	(8,876)	-	(10,864)	(93,433)
Impairment at 31.12.2015	-	(6,027)	(12)	-	-	(6,039)
Depreciation for the year	(664)	(7,090)	(651)	-	(1,310)	(9,715)
Disposals	574	11,971	794	-	1,594	14,933
Exchange gains	(172)	(600)	(134)	-	(189)	(1,095)
Impairment	(68)	1,063	-	-	-	995
Depreciation at 31.12.2016	(4,638)	(65,036)	(8,867)	-	(10,769)	(89,310)
Impairment at 31.12.2016	(68)	(4,964)	(12)	-	-	(5,044)
Depreciation for the year	(769)	(7,665)	(747)	-	(1,659)	(10,840)
Disposals	281	10,052	1,119	-	1,628	13,080
Exchange losses	164	116	(406)	-	951	825
Impairment	(305)	3,326	(645)	-	-	2,376
Depreciation at 31.12.2017	(4,962)	(62,533)	(8,901)	-	(9,849)	(86,245)
Impairment at 31.12.2017	(373)	(1,638)	(657)	-	-	(2,668)
<u>Carrying amount</u>						
At 31.12.2015	3,236	29,505	2,848	391	4,178	40,158
At 31.12.2016	2,520	34,638	3,339	2,658	2,887	46,042
At 31.12.2017	1,963	37,551	4,584	963	5,768	50,456

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During 2017 and 2016 significant additions were made to installations and machinery, mainly due to the investments related to new outlets opened and the purchase of franchised outlets. Additions have also been made to furniture and motorcycles.

Other property, plant and equipment mainly include the acquisition of motorcycles and IT equipment for outlets.

Disposals in 2017 and 2016 primarily include property, plant and equipment used in outlets which have been franchised, closed or sold, and items relating to the termination of rental contracts for certain outlets.

At 31 December 2017 and 2016 the Group had no commitments to acquire items of property, plant and equipment. Assets totalling Euros 1,040 thousand have been pledged as security. The Group does not have any significant unused property, plant and equipment.

During 2017 the Group recognised income from the reversal of impairment totalling Euros 2,052 thousand (an impairment loss of Euros 995 thousand in 2016) (see note 25). It has also recognised impairment losses of Euros 324 thousand on sales of outlets to franchisees (Euros 648 thousand in 2016). The impairment losses recognised and reversed are basically due to the impairment of assets used in operations in the Group's outlets. Impairment losses have been determined based on value in use. Value in use is calculated based on future cash flows, projected up to the expiry date of the lease contract for each outlet. The main assumptions employed to project cash flows are detailed in note 9. The impaired assets comprise installations, machinery and store furniture.

The Group has taken out sufficient insurance policies to cover the risk of damage to its property, plant and equipment.

Details of the cost of fully depreciated property, plant and equipment at 31 December 2017 and 2016 are as follows:

	Thousands of Euros	
	2017	2016
Technical installations and machinery	33,186	39,170
Other	16,313	12,816
	<u>49,499</u>	<u>51,986</u>

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Property, plant and equipment leased by the Group to third parties under operating leases consists of assets in sublet outlets, which were carried at the following amounts at 31 December 2017 and 2016:

	Thousands of Euros	
	2017	2016
Cost	4,577	4,409
Accumulated depreciation at 1 January	(4,290)	(4,113)
Depreciation charge for the year	(48)	(59)
Carrying amount	<u>239</u>	<u>237</u>

The Group has entered into sublease contracts with some of its franchisees in respect of the premises where the latter operate the brand. These sublease contracts are arranged for the same period of time as the franchise contract entered into with the franchisee (10 years). This is a mandatory period and the contracts cannot be cancelled early. The rent is generally a fixed amount, reviewed annually in line with the consumer price index.

However, to calculate the future minimum receivables under non-cancellable operating leases, the Group has applied the same criterion as for the calculation of minimum operating lease payments, therefore taking into account the duration of the sublease agreement because the Group has committed to sub-leasing the premises to the franchisee for this period (see note 24).

In any case, from a legal standpoint, the lease contracts can generally be cancelled with prior notice of three months, on average.

Operating lease instalments recognised as income in 2017 and 2016 total Euros 8,483 thousand and Euros 6,695 thousand, respectively. They are recognised as “other revenues” (see note 22).

Future minimum payments receivable under non-cancellable operating subleases are as follows:

	Thousands of Euros	
	2017	2016
Up to 1 year	6,902	5,685
Between 1 and 5 years	24,810	20,567
More than 5 years	18,445	14,076
	<u>50,157</u>	<u>40,328</u>

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(9) Intangible Assets

Details of goodwill and movement during the year are as follows:

	<u>Thousands of Euros</u>
<u>Cost</u>	
Balance at 31.12.2015	<u>382,694</u>
Goodwill on business combinations for the year (note 7)	5,176
Translation differences	500
Impairment losses for the year (note 25)	<u>(1,048)</u>
Balance at 31.12.2016	<u>387,322</u>
Goodwill on business combinations for the year (note 7)	8,481
Translation differences	(518)
Disposal	(2,570)
Impairment losses for the year (note 25)	<u>(176)</u>
Balance at 31.12.2017	<u><u>392,539</u></u>

Details of goodwill by country at 31 December 2017 and 2016 are as follows:

	<u>Thousands of Euros</u>	
	<u>2017</u>	<u>2016</u>
Spain	266,389	268,741
Portugal	61,916	61,311
Poland	4,620	4,620
Chile	41,723	41,819
Colombia	8,417	8,371
Panama	228	260
Switzerland	1,986	1,844
Ireland	5,315	-
Paraguay	561	-
Czech Republic	1,071	-
Other	313	356
	<u><u>392,539</u></u>	<u><u>387,322</u></u>

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The recoverable amount of each group of CGUs is determined based on its value in use. These calculations are based on cash flow projections from the financial budgets approved by Parent management over a period of five years. Cash flows subsequent to this five-year period are extrapolated using the sector growth rates in each country, which do not exceed the average long-term growth for the home delivery business in which the groups of CGUs operate.

The discount rate assumption used when calculating value in use is as follows:

	2017				
	Spain	Portugal	Chile	Poland	Colombia
Discount rate (WACC)	6.89%	7.86%	9.37%	6.53%	9.00%
Growth rate of income in perpetuity (g)	2.15%	2.20%	3.75%	2.10%	4.00%
	2016				
	Spain	Portugal	Chile	Poland	Colombia
Discount rate (WACC)	7.00%	8.10%	8.40%	7.15%	8.75%
Growth rate of income in perpetuity (g)	2.00%	2.20%	4.15%	1.00%	3.90%

To calculate the value in use of the different groups of CGUs over the five-year budget period, the directors' business operating assumptions were net annual revenue growth rates of between 1% and 7%, without considering any outlet openings or acquisitions and taking into account the features of each market and estimated inflation. This growth in annual income has a practically proportional impact on other business operating assumptions, such as the gross margin and EBITDA.

Growth rates of income in perpetuity have been determined based on the Economist Intelligence Unit (EIU) estimates of the GDP deflator and the CPI of the different countries.

The income and expense growth rates have been determined based on past performance and expectations for future market development. The discount rates used reflect specific risks related to the relevant segments.

The annual impairment test was not performed on the goodwill generated in 2017 on the businesses acquisitions in Paraguay, Czech Republic and Ireland because they were acquired in 2017 and the business combination is provisional.

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If a sensitivity analysis of goodwill impairment per CGU group were performed, the result, in thousands of Euros, of reasonably possible variations of between 50 and 25 basis points in the discount rate, between 50 and 25 basis points in the growth rate of income in perpetuity and between 50 and 25 basis points in the business operating assumptions, would not have an impact on the consolidated annual accounts at 31 December 2017 and 2016.

Details of other intangible assets and movement are as follows:

	Thousands of Euros					Total
	Concessions patents, Licences	Trademarks	Contractual rights and other	Other intangible assets	Computer software	
<u>Cost</u>						
Balances at 31.12.2015	1,568	253,502	151,359	528	23,347	430,304
Additions	71	-	-	26	3,697	3,794
Disposals	-	-	-	(76)	(2,866)	(2,942)
Exchange losses	(7)	-	-	20	150	163
Balances at 31.12.2016	1,632	253,502	151,359	498	24,328	431,319
Additions	137	-	15	-	4,553	4,705
Disposals	(2)	-	(4)	-	(70)	(76)
Exchange gains	(2)	-	(18)	(6)	73	47
Balances at 31.12.2017	1,765	253,502	151,352	492	28,884	435,995
<u>Amortisation or impairment</u>						
Amortisation at 31.12.2015	(769)	(18,526)	(56,554)	(411)	(20,054)	(96,314)
Impairment at 31.12.2015	(8)	-	-	-	-	(8)
Amortisation for the year	(181)	-	(5,815)	(9)	(1,649)	(7,654)
Disposals	-	-	-	75	2,869	2,944
Exchange gains	(4)	-	(31)	(7)	(22)	(64)
Amortisation at 31.12.2016	(954)	(18,526)	(62,400)	(352)	(18,856)	(101,088)
Impairment at 31.12.2016	(8)	-	-	-	-	(8)
Amortisation for the year	(4)	-	(5,749)	1	(2,353)	(8,105)
Disposals	-	-	2	-	80	82
Exchange losses	(12)	-	129	-	(70)	47
Amortisation at 31.12.2017	(958)	(18,526)	(68,030)	(351)	(21,199)	(109,064)
Impairment at 31.12.2017	(8)	-	-	-	-	(8)
<u>Carrying amount</u>						
At 31.12.2015	791	234,976	94,805	117	3,293	333,982
At 31.12.2016	670	234,976	88,959	146	5,472	330,223
At 31.12.2017	787	234,976	83,334	141	7,685	326,923

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The Company has recognised an intangible asset with an indefinite useful life under patents, licences and trademarks in relation to the “telepizza” brand. The original value of this asset was Euros 247,028 thousand and its carrying amount at 31 December 2017 and 2016 is Euros 228,502 thousand (see note 4 (g)). The “Jeno’s pizza” brand also has an indefinite useful life and a value of Euros 6,474 thousand at 31 December 2017 and 2016, which is allocated to the group of CGUs in Colombia

In 2006 the Group acquired the ‘telepizza’ brand name from Tele Pizza, S.A. through the business combination with the latter. When allocating a purchase price to the shares, this brand name was measured at its fair value of Euros 247,028 thousand. In the aforementioned business combination, the Group also recognised the rights arising from the franchise contracts at their fair value, which totalled Euros 132,960 thousand.

The recoverable amount of intangible assets with an indefinite useful life is determined by calculating the value in use. These calculations are based on cash flow projections from the financial budgets approved by Parent management over a period of five years. Cash flows beyond the five-year period are extrapolated using specific growth rates for the sector in each country. These growth rates do not exceed the average long-term growth rate of the business.

Based on the estimates and projections available to the Parent’s directors, the expected future economic benefits of these CGUs fully justify the carrying amount of recognised goodwill and intangible assets with an indefinite useful life. The discount rate assumption used when calculating value in use in 2017 and 2016 of intangible assets with an indefinite useful life is as follows:

	2017	2016
Discount rate (WACC)	7.12%	7.75%
Growth rate of income in perpetuity (g)	2.32%	2.00%

To calculate the value in use of the different groups of CGUs over the five-year budget period, the directors' business operating assumptions were net annual revenue growth rates of between 2% and 4%, without considering any outlet openings or acquisitions and taking into account the features of each market and estimated inflation. This growth in annual income has a practically proportional impact on other business operating assumptions, such as the gross margin and EBITDA.

Growth rates of income in perpetuity have been determined based on the Economist Intelligence Unit (EIU) estimates of the GDP deflator and the CPI of the different countries.

If a sensitivity analysis of impairment of intangible assets with an indefinite useful life were performed, in 2017 and 2016 the result, in thousands of Euros, of reasonably possible variations of between 50 and 25 basis points in the discount rate, between 50 and 25 basis points in the growth rate of income in perpetuity or between 50 and 25 basis points in the business operating assumptions, would not have an impact on the consolidated annual accounts at 31 December 2017 and 2016.

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As regards contractual rights with franchisees subject to amortisation, there are no indications of the potential impairment of these intangible assets.

Details of residual amortisation, amortisation for the year, accumulated amortisation and the carrying amount of individually significant intangible assets at 31 December are as follows:

Description of the asset	Euros			
	Remaining useful life	Amortisation for the year	Accumulated amortisation	Carrying amount
<u>2017</u>				
Telepizza brand	Indefinite	-	18,526	228,502
“Jeno´s Pizza” brand	Indefinite	-	-	6,474
Contractual rights	19	4,296	54,882	81,633
		<u>4,296</u>	<u>73,408</u>	<u>316,609</u>
<u>2016</u>				
Telepizza brand	Indefinite	-	18,526	228,502
“Jeno´s Pizza” brand	Indefinite	-	-	6,474
Contractual rights	20	4,296	50,586	85,929
		<u>4,296</u>	<u>69,112</u>	<u>320,905</u>

At 31 December 2017 and 2016 the Group has no commitments to purchase intangible assets.

Details of the cost of fully amortised intangible assets at 31 December 2017 and 2016 are as follows:

	Thousands of Euros	
	2017	2016
Computer software	16,143	15,055
Other	995	933
	<u>17,138</u>	<u>15,988</u>

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(10) Non-current Financial Assets

Details of non-current financial assets at 31 December 2017 and 2016 are as follows:

	Thousands of Euros	
	2017	2016
Security deposits and guarantees	6,062	6,216
Non-current trade receivables	25,424	20,500
Other loans and receivables	3,969	3,911
	<u>35,455</u>	<u>30,627</u>

Non-current trade receivables mainly reflect amounts receivable for franchising activities and from the sale of non-current assets to franchisees.

At 31 December 2017 and 2016 the Group extended loans to directors and personnel totalling Euros 3,871 thousand and 3,787 thousand respectively, which fall due in 2021 and accrue interest at market rates. Interest amounting to Euros 84 thousand and 35 thousand was capitalised with the principal in 2017 and 2016, respectively.

(11) Inventories

Details at 31 December 2017 and 2016 are as follows:

	Thousands of Euros	
	2017	2016
Merchandise	10,258	10,527
Raw materials	356	865
Finished goods	289	231
Total inventories	<u>10,903</u>	<u>11,623</u>

The cost of inventories recognised as an expense and included in the cost of goods sold is as follows:

	Thousands of Euros	
	2017	2016
Net purchases	100,717	88,865
Change in inventories	(720)	(231)
	<u>99,997</u>	<u>88,634</u>

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The Group has long-term commitments to purchase certain inventories, which if breached would give rise to penalties with a negative effect of approximately Euros 3 million on the consolidated income statement.

At 31 December 2017 and 2016 the Group has no inventories pledged as collateral to secure repayment of debts and commitments with third parties. The Group has taken out sufficient insurance policies to cover the risk of damage to its inventories.

(12) Trade and Other Receivables

Details are as follows:

	Thousands of Euros	
	2017	2016
Trade receivables	40,745	37,384
Other receivables	4,475	3,468
Public entities	5,117	5,825
Impairment	(9,220)	(8,232)
Trade and other receivables	<u>41,117</u>	<u>38,445</u>

Trade receivables mainly comprise uncollected amounts in respect of the normal billings to franchisees.

Other receivables mainly include volume discounts on purchases from suppliers and advertising promotions.

An analysis of impairment losses due to the credit risk associated with financial assets is as follows:

	Thousands of Euros	
	2017	2016
<i>Current</i>		
Balance at 1 January	(8,232)	(7,141)
Charge	(535)	(1,094)
Application/reversal	9	3
Business combination	(462)	-
Balance at 31 December	<u>(9,220)</u>	<u>(8,232)</u>

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(13) Cash and Cash Equivalents

Details at 31 December 2017 and 2016 are as follows:

	Thousands of Euros	
	2017	2016
Cash in hand and at banks	87,279	63,972
Cash and cash equivalents	87,279	63,972

Cash and cash equivalents recognised in the consolidated statement of financial position are the same as those reported in the statement of cash flows as the Group does not have any overdrafts.

(14) Deferred Tax

Details of deferred tax assets are as follows:

Deferred tax assets	Thousands of Euros				
	Non-deductible amortisation/ depreciation	Tax credits and deductions	Finance costs	Other	Total
Balances at 31.12.2015	1,769	9,430	-	660	11,859
Taken to the income statement (note 26)	(188)	1,332	19,268	(106)	20,306
Balances at 31.12.2016	1,581	10,762	19,268	554	32,165
Taken to the income statement (note 26)	(166)	(1,964)	663	(260)	(1,727)
Balances at 31.12.2017	1,415	8,798	19,931	294	30,438

The deferred tax assets recognised in the consolidated statement of financial position mainly reflect tax loss carryforwards and non-deductible finance costs generated by the Group companies Telepizza Group, S.A., Tele Pizza, S.A. and Mixor, S.A. (see note 26).

Since 2012, due to the limitations on the deductibility of finance costs laid down in tax legislation, the tax group of the companies domiciled in Spain has obtained taxable income. Therefore, the Group has recognised deferred tax assets in respect of tax credits for loss carryforwards available for offset because the directors consider these credits to be recoverable. This assumption is based on the Company's approved business plans, as the tax group in Spain, as mentioned previously, has been generating taxable income and will continue to do so in the coming years.

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Details of deferred tax liabilities are as follows:

Deferred tax liabilities	Thousands of Euros			
	Accelerated depreciation/ amortisation	Intangible assets	Other	Total
Balances at 31.12.2015	367	83,790	590	84,747
Taken to the income statement (note 26)	(106)	(1,546)	(229)	(1,881)
Balances at 31.12.2016	261	82,244	361	82,866
Taken to the income statement (note 26)	(138)	(962)	334	(766)
Balances at 31.12.2017	123	81,282	695	82,100

The deferred tax liability related to intangible assets is due to the tax effect of various intangible assets, primarily the brand, and contractual rights that arose as a result of the business combinations in prior years, as explained in note 9. This deferred tax decreases each year as these assets with finite useful life are amortised and will not give rise to a cash outflow for the Group.

Spanish Income Tax Law 27/2014 of 27 November 2014, approved on 28 November 2014, incorporated wholly new legislation on corporate income tax and entered into force for tax periods beginning on or after 1 January 2015. These amendments included a reduction of the general tax rate from 30% in 2014 to 28% in 2015 and 25% from 2016 onwards.

Under Royal Decree-Law 3/2016, the limits for the offset of tax loss carryforwards have been amended to 25% of the taxable income prior to applying the capitalisation reserve. Nevertheless, in any event tax loss carryforwards up to a maximum of Euros 1 million may be offset in each tax period.

The negative tax base compensation term of 18 years has been eliminated, which implies that the term becomes unlimited.

(15) Equity

(a) Share capital

At 31 December 2017 and 2016 the share capital of Telepizza Group, S.A. represented by 100,720,679 ordinary shares, each with a par value of Euros 0.25, of a single class and series and represented by book entries. All the shares are fully subscribed and paid up and grant the shareholders the same voting and profit sharing rights.

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On 17 March 2016, the sole shareholder resolved to reduce the par value of the Company's shares by performing a share split of two hundred new shares per old share and amending the articles of association.

The following capital increases were carried out in the context of the initial public offering (see note 1):

- On 25 April 2016, the Group's former sole shareholder resolved to increase the share capital by Euros 3,824 thousand through the issue and circulation of 15,294,318 new ordinary shares with a par value of Euros 0.25 each, of the same class and series and with the same rights as the previously issued shares. These shares were issued with a share premium of Euros 7.50 per share, amounting to a total share premium of Euros 114,707 thousand. As a result, the capital increase and share premium amounted to Euros 118,531 thousand.

Merrill Lynch International and UBS Limited, acting as global coordinators of the share subscription offer (see note 1) on behalf of the final subscribers of the shares allotted through the subscription offer, underwrote each of the 15,294,318 new ordinary shares jointly equivalent to Euros 118,531 thousand, after Foodco Finance S.à.r.l. expressly waived the right to any preferential subscription rights.

- On 27 April 2016, the former sole shareholder resolved to increase the share capital by Euros 3,357 thousand, with a share premium of Euros 100,698 thousand, by issuing 13,426,361 new shares of Euros 0.25 par value each with a share premium of Euros 7.50 each. The shares were subscribed and fully paid by Foodco Finance, S.à.r.l., by partially capitalising the subordinated loan of Euros 104,054 that had been extended to the Group on 25 April 2016 (see note 1).

As indicated in note 1, since 27 April 2016 the Parent's shares have been listed on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia. In accordance with the public information registered with the Spanish Securities Market Commission, the members of the board of directors controlled approximately 0.546% of the Parent company's share capital at 31 December 2017 and 2016.

Companies with direct or indirect interests of at least 10% in the share capital of the Parent by 31 December 2017 are as follows:

	Percentage ownership
KKR Credit Advisors (US) LLC	20.24%

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Like other groups in the sector, the Telepizza Group controls its capital structure on a leverage ratio basis. This ratio is calculated as net debt divided by EBITDA (Profit before interest, tax, depreciation and amortisation). Net debt is the sum of financial liabilities less cash and cash equivalents. EBITDA is the sum of the consolidated income statement items “Operating profit” plus “depreciation and amortisation”. This debt ratio for 2017 and 2016 was calculated as follows:

	Thousands of Euros	
	2017	2016
Total loans and borrowings	197,582	196,579
Less: Cash and cash equivalents	(87,279)	(63,972)
Net debt	110,303	132,607
EBITDA	66,435	31,619
Debt ratio	1.66	4.19

(d) Share premium

At 31 December 2017 and 2016, the share premium is freely distributable. As mentioned in section a) of this note, during 2016 the Company has increased share capital on two occasions, raising the share premium by Euros 215,405 thousand.

During 2016, the Parent's share premium was reduced by Euros 4,130 thousand due to the costs of the capital increase and the fees of the related advisors, principally Merrill Lynch International and UBS Limited, which acted as the global coordinators of the initial public share offering (see note 1).

(c) Accumulated gains/losses

- Legal reserve

The Parent is obliged to transfer 10% of each year's profits to a legal reserve until this reserve reaches an amount equal to 20% of share capital. This reserve is not distributable to shareholders and may only be used to offset losses if no other reserves are available. Under certain conditions it may be used to increase share capital provided that the balance left on the reserve is at least equal to 10% of total share capital after the increase. At 31 December 2017 the Parent has appropriated to this reserve more than the minimum amount required by law. The legal reserve of the Parent amounts to Euros 10,832 thousand at 31 December 2017 and 2016.

- Shareholder contributions

These consist of the monetary and non-monetary contributions received in 2014, which amounted to Euros 157,615,105 and Euros 3,615,885 and the capital increase costs in 2008, 2010, 2011, 2013 and 2014 net of the tax effect.

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The increase in this Parent caption during 2016 is due to the recognition of Euros 9,971 thousand for incentive plans relating to the initial public offering, which were approved beforehand by the sole shareholder (see notes 1 and 23).

- Other cumulative gains/(losses)

These reflect mainly the results of the Group companies and the respective consolidation adjustments.

(d) Translation differences

Translation differences reflect differences generated since the inclusion of the Telepizza subgroup in the Group in September 2006.

(16) Earnings/(Loss) per Share

(a) Basic

Basic earnings per share are calculated by dividing the profit/loss for the year attributable to equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year, excluding own shares if applicable.

	2017	2016
Profit for the year attributable to equity holders of the Parent (in Euros)	31,843,725	10,691,485
Weighted average number of ordinary shares outstanding (in number of securities)	100,720,679	91,583,370
Basic earnings/(losses) per share (in Euros)	0.3162	0.1167

The weighted average number of ordinary shares outstanding in 2016 was determined as the weighted average number of ordinary shares, taking into account the two capital increases carried out in 2016.

(b) Diluted

At 31 December 2017 and 2016 diluted earnings/losses per share are the same as basic earnings/losses per share because the ordinary shares are not subject to any dilutive effects.

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(17) Current and Non-current Financial Liabilities at Fair Value

Details of derivative financial instruments measured at fair value at 31 December 2017 and 2016 are as follows:

2017	Notional amount	Thousands of Euros	
		Fair values	
		Liabilities	
		Non-current	Current
<i>Derivatives</i>			
Interest rate swaps	(100,000)	(126)	-
Total derivatives at fair value through consolidated profit or loss	(100,000)	(126)	-
2016	Notional amount	Thousands of Euros	
		Fair values	
		Liabilities	
		Non-current	Current
<i>Derivatives</i>			
Interest rate swaps	(100,000)	78	-
Total derivatives at fair value through consolidated profit or loss	(100,000)	78	-

In 2016 the Group arranged a new interest rate hedge for Euros 100,000 thousand, which swapped the Euribor rate with a zero floor for a fixed rate of 0.27%. This instrument becomes effective on 29 April 2018 and expires on 29 April 2021. At 31 December 2017 it has a negative fair value of Euros 126 thousand (positive fair value of Euros 78 thousand at 31 December 2016).

The Group accrued income of Euros 204 thousand in 2017 and Euros 293 thousand in 2016 in relation to its derivative financial instruments.

Furthermore this caption include debt to the former shareholder of Ireland subsidiaries acquired during 2017 named The God Food Company, Ltd for Euros 2,573 thousand.

(18) Interest-bearing Loans, Borrowings and Bonds

(a) Non-current loans and borrowings

On 12 September 2006 the Group entered into a credit facility (hereinafter Senior Facility), which provided a total of Euros 591 million to subsequently finance the acquisition of Tele Pizza, S.A. shares and convertible bonds. On that date, the Group also arranged a subordinated loan (hereinafter Mezzanine Facility), providing a maximum of Euros 100 million to the Telepizza Group to partially finance this acquisition. All loans had a single maturity date, except the Senior Facility, tranche A, which is repayable in instalments.

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On 20 October 2014 the Parent together with its subsidiary Tele Pizza, S.A. signed an Amendment and Restatement Deed on refinancing the senior debt held by the Group. This refinancing was used to repay the Mezzanine debt, the borrowing costs capitalised to date and a portion of the senior debt. The only outstanding debt of this type was a single tranche amounting to Euros 285,000 thousand and a revolving credit facility for up to Euros 10,000 thousand.

On 8 April 2016, the Parent together with its subsidiary Tele Pizza, S.A. and various financial entities, with Banco Santander acting as the agent bank, signed a new syndicated loan of 200,000 thousand euros, the effective date of which was conditional upon the initial public offering, which expiry date was fixed in 2021, and a revolving facility with a limit of Euros 15,000 thousand. At 31 December 2017 and 2016 the fair value of this loan is Euros 196,687 thousand and Euros 195,611 thousand, respectively, while its nominal value at that date was Euros 200,000 thousand. The difference between the fair value and nominal value is due to the Euros 5,023 thousand arrangement fees for the loan. The loan will mature as follows: 15% of the principal 48 months from the effective date of use of the loan, 20% of the principal at 54 months from that date and the remainder at five years from that date.

On 29 April 2016 a portion of the funds obtained from the public offering and the new syndicated loan was used to cancel the former syndicated loan by repaying the Euros 285,000 thousand of outstanding principal at that date and the accrued interest of Euros 541 thousand. Also all the guarantees extended in the former financing agreement were released.

The finance costs accrued on the syndicated loan amounted to Euros 6,250 thousand and Euros 11,125 thousand in 2017 and 2016, respectively.

At 31 December 2017 and 2016 the accrued interest payable on these loans amounted to Euros 895 thousand and 968 thousand, respectively.

Details of payments and the present value of borrowings by maturity are as follows:

	Thousands of Euros			
	2017		2016	
	Principal	Interest	Principal	Interest
Less than one year (note 18 (b))	-	895	-	968
Two to five years	196,687		195,611	
More than 5 years	-	-	-	-
	<u>196,687</u>	<u>895</u>	<u>195,611</u>	<u>968</u>

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Details of non-current loans and borrowings at 31 December 2017 are as follows:

Type	Final maturity	Thousands of Euros		
		Limit	Balance at 31/12/2017	Margin over Euribor
Senior				
Senior Facility	2021	200,000	200,000	EUR+ 2,50%
Revolving	2021	15,000	-	EUR+ 2,50%
Loan arrangement fees			<u>(3,313)</u>	
Balance at 31 December			<u>196,687</u>	

Details of non-current loans and borrowings at 31 December 2016 are as follows:

Type	Final maturity	Thousands of Euros		
		Limit	Balance at 31/12/2016	Margin over Euribor
Senior				
Senior Facility	2021	200,000	200,000	EUR+ 2,75%
Revolving	2021	15,000	-	EUR+ 2,75%
Lease payables (note 8)			<u>(4,389)</u>	-
Balance at 31 December			<u>195,611</u>	

Although the interest rates are as listed above, the Group has contracted a variable-to-fixed interest rate swap, which is described in note 17.

The Group pledged shares in the Parent and the subsidiaries, Tele Pizza, S.A., Telepizza Chile, S.A., Telepizza Portugal and Luxtor, S.A. and Luxtor, S.A. and committed to pledge shares in Telepizza Portugal Comercio de Productos Alimentares, S.A. to secure the loan described above. The assets and liabilities pledged as collateral directly or indirectly comprise practically all of the assets and liabilities consolidated financial statements.

The Parent is also required to comply with a certain financial ratio. The Group complies with this ratio at 31 December 2017 and 2016.

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(b) Current loans and borrowings

Details of current loans and borrowings at 31 December 2017 and 2016 are as follows:

	Thousands of Euros	
	2017	2016
Accrued interest (note 18 (a))	895	968
Other payables	-	-
	895	968

(19) Employee Benefits

Termination benefits

The total expense recognised in 2017 and 2016 for termination benefits is Euros 918 thousand and Euros 950 thousand, respectively (see note 23).

(20) Contingencies

The Group has contingent liabilities for bank and other guarantees related to its normal business operations amounting to Euros 5,154 thousand at 31 December 2017 (Euros 4,589 thousand at 31 December 2016). No significant liabilities are expected to arise from these guarantees.

The Group has no significant litigation or claims of any nature. However, the Group is subject to regulatory processes and inspections by government bodies with respect to an international operation, which could result in possible risks totalling Euros 1,419 thousand. The directors do not consider that any liabilities will arise other than those recognised in these consolidated annual accounts.

(21) Trade and Other Payables

Details are as follows:

	Thousands of Euros	
	2017	2016
Trade payables	42,850	40,586
Public entities	3,482	6,013
Other payables	142	300
Salaries payable	4,650	3,288
Current guarantees and deposits received	29	31
	51,153	50,218

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At 31 December 2017 trade payables include Euros 9,816 thousand payable to financial institutions for reverse factoring transactions (Euros 8,131 thousand at 31 December 2016).

The balance of salaries payable at 31 December 2017 includes Euros 2,608 thousand (Euros 1,533 thousand at 31 December 2016) in relation to the three-year remuneration plan arranged by the former sole shareholder as explained in the initial public offering prospectus, which affects a certain number of employees.

Average Supplier Payment Period. "Reporting Requirement", Third Additional Provision of Law 15/2010 of 5 July 2010"

Details of late payments to suppliers by Spanish consolidated companies are as follows:

	2017
	Days
Average supplier payment period	89
Transactions paid ratio	95
Transactions payable ratio	65
	Thousands of Euros
Total payments made	143,670
Total payments outstanding	34,843

	2016
	Days
Average supplier payment period	91
Transactions paid ratio	100
Transactions payable ratio	58
	Thousands of Euros
Total payments made	127,682
Total payments outstanding	32,198

(22) Revenues

Details are as follows:

	Thousands of Euros	
	2017	2016
Outlet sales to customers	194,722	195,961
Wholesale factory sales to franchisees and other sales	110,553	98,019
Royalties and advertising fees	28,603	24,712
Other income	27,125	20,895
	361,003	339,587

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Other revenues in 2017 and 2016 mainly include franchise fees, which are collected when a franchise is opened or when an existing franchise agreement is renewed, income from other services provided to franchisees and the income from the subleasing of commercial premises to franchisees (see note 8).

(23) Personnel Expenses

Details of personnel expenses in 2017 and 2016 are as follows:

	Thousands of Euros	
	2017	2016
Salaries and wages	78,023	101,003
Social Security	15,637	16,196
Termination benefits (note 19)	918	950
Other employee benefits expenses	632	488
Total personnel expenses	<u>95,210</u>	<u>118,637</u>

On 31 March 2016 and 6 April 2016, members of the Group's management team and a certain number of Group employees signed an incentive plan, whereby they would receive a series of payments related to the Parent's shares and a bonus, which would be accrued if the Company was admitted for trading. The total remuneration under this incentive plan depended on the price set in the public offering and was paid by Foodco Finance, s.a.r.l. and the Company.

At 31 December 2016 personnel expenses mainly comprise non-recurrent costs for the value of the shares and other monetary consideration received by employees in relation to the public offering and sale of shares, as well as for the Group's financial restructuring, amounting to Euros 26,488 thousand. Euros 18,766 thousand of the aforementioned remuneration was paid directly by Foodco Finance, s.a.r.l. and was recognised as a shareholder's contribution for the same amount (see note 15 (c)).

The average number of full-time equivalent employees in the Group during 2017 and 2016, distributed by category, is as follows:

	Number	
	2017	2016
Management	42	40
Outlet managers	402	424
Other personnel	5,337	5,151
	<u>5,781</u>	<u>5,615</u>

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At year end the distribution by gender of the Parent's group personnel and directors is as follows:

	Number			
	2017		2016	
	Male	Female	Male	Female
Board members	7	-	7	-
Management	30	9	28	11
Outlet managers	175	199	206	210
Other personnel	2,708	2,384	2,979	2,505
	<u>2,920</u>	<u>2,592</u>	<u>3,220</u>	<u>2,726</u>

The average number of Company employees with a minimum disability rating of 33% (or local equivalent) in 2017 and 2016, distributed by category, is as follows:

	Number	
	2017	2016
Technicians	1	1
Outlet managers	-	1
Other personnel	92	97
	<u>93</u>	<u>99</u>

(24) Other Expenses

Details of other expenses are as follows:

	Thousands of Euros	
	2017	2016
Operating leases	31,721	29,722
Transport	13,866	12,677
Advertising and publicity	18,220	17,178
Utilities	11,781	11,473
Other expenses	23,773	29,647
	<u>99,361</u>	<u>100,697</u>

At 31 December 2016 other expenses comprise non-recurrent advisory fees totalling Euros 5,539 thousand associated with the public offering (see note 1).

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The Group leases most of the properties where it carries out its activity, including outlets, factories and offices. Most lease contracts for outlets stipulate payment of a fixed rent that is increased annually in line with the consumer price index. The exception are outlets located in shopping centres, for which both a fixed and sales-based variable rental fee are paid.

The initial lease period of each contract is usually 10 years but generally, with few exceptions, the Group has the option of ending the lease contract early without having to pay any kind of penalty, giving due notice as provided for in the contract. Leases on premises located in shopping centres are subject to a mandatory period of five years during which the Group cannot cancel the contract.

The Group has entered into sublease contracts with many of its franchisees in respect of the premises at which the latter operate the brand. These sublease contracts are arranged for the same period of time as the franchise contract entered into with the franchisee (10 years). This is a mandatory period and the contracts cannot be cancelled early. The rent comprises a fixed amount increased annually in line with the consumer price index.

The Group has no obligations in respect of lease contracts that the franchisees enter into directly with the lessor or in respect of properties owned by franchisees.

Future minimum payments under operating leases at 31 December 2017 and 2016, considering the payments to be accrued based on the lease period set out in the contracts, irrespective of the fact that most of the lease contracts for premises can be cancelled subject to a short period of notice, are as follows:

	Thousands of Euros	
	2017	2016
Less than one year	21,806	13,802
One to five years	76,588	47,588
More than 5 years	48,769	35,958
	<u>147,163</u>	<u>97,348</u>

Future minimum payments under non-cancellable operating leases at 31 December 2017 and 2016 are as follows:

	Thousands of Euros	
	2017	2016
Less than one year	12,944	11,394
One to five years	37,163	32,651
More than 5 years	27,325	24,836
	<u>77,432</u>	<u>68,881</u>

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(25) Other Losses

Details at 31 December 2017 and 2016 are as follows:

	Thousands of Euros	
	2017	2016
Losses on sale of property, plant and equipment	(1,914)	(648)
Goodwill (note 9)	(176)	(1,048)
Reversals of impairment on property, plant and equipment (note 8)	2,052	995
	<u>(38)</u>	<u>(701)</u>

(26) Income Tax

A reconciliation of income tax, resulting from applying the standard tax rate in Spain to the pre-tax profit/loss, with the income tax expense recognised in the consolidated income statement for 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Profit/Loss for the year before tax from continuing operations	38,061	(8,239)
Tax losses not recognised as tax credits	204	5,069
	<u>43,265</u>	<u>(3,170)</u>
Expected Parent tax expense/(income) at the standard tax rate (25%)	10,816	(792)
Non-deductible expenses at the standard tax rate		
Finance costs	60	2,182
Deferred tax assets recognised	(3,278)	(20,434)
Deductions applied	(1,180)	-
(Income)/expense due to different tax rates	39	69
	<u>6,379</u>	<u>(18,975)</u>
Effective tax rate / Income tax expense/(income)		

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Non-deductible expenses reflect non-deductible interest of the Group companies in Spain.

Income tax payable/(recoverable) for 2017 and 2016 is calculated as follows:

	Thousands of Euros	
	2017	2016
Tax expense/(income)	6,379	(18,975)
Deductible temporary differences and tax credits (note 14)	(1,727)	20,306
Taxable temporary differences (note 14)	766	(2,338)
Deductions applied during the year	-	-
Reversal of deferred tax liability from business combinations	-	457
Adjustment for change in tax rate and other	-	550
Payments on account	(4,875)	(1,394)
Income tax payable (recoverable)	<u>543</u>	<u>(1,394)</u>

In accordance with prevailing legislation in each country, losses declared may be carried forward to be offset against profits of the subsequent accounting periods, the amount being distributed as considered appropriate. Losses are offset when the tax declarations are filed, without prejudice to the taxation authorities' power of inspection during the inspection periods established by applicable legislation.

At 31 December 2017 and 2016 the Group has recognised the following deferred tax assets in respect of tax loss carryforwards in Spain:

Year	Thousands of Euros	
	2017	2016
2008	3,081	11,025
2009	7,562	7,562
2010	628	628
2011	14,366	14,366
2012	4,343	4,343
2013	1,182	1,182
2014	532	532
2015	185	185
2016	3,312	3,312
Total	<u>35,191</u>	<u>43,135</u>

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At 31 December 2017 and 2016 the Group has the following unrecognised deferred tax assets in respect of tax loss carryforwards of companies in Peru, Ecuador, Colombia and Poland:

Year	Thousands of Euros	
	2017	2016
2012	964	989
2013	1,754	1,742
2014	8,307	8,294
2015	5,288	5,625
2016	2,564	3,486
2017 (estimated)	3,211	-
Total	<u>22,088</u>	<u>20,136</u>

At 31 December 2017 the Group has the following non-deductible interest for future offset in an indefinite period, generated by the group companies in Spain and Portugal amounting to Euros 150,910 thousand and Euros 14,965 thousand, respectively:

Year	Thousands of Euros	
	2017	2016
2012	39,277	52,643
2013	40,173	40,173
2014	53,296	53,296
2015	20,153	20,153
2016	11,356	11,356
2017 (estimated)	1,620	-
	<u>165,875</u>	<u>177,621</u>

As mentioned in note 14 the Group has recognised deferred tax assets in relation to non-deductible interest amounting to Euros 19,931 thousand. It is considered probable that sufficient future taxable income will be available to use these tax assets.

Based on the tax declarations filed by the Group companies during 2017 and in prior years, the Group has no tax credits for deductions pending application.

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the inspection period of four years has elapsed. At the date of authorisation for issue of these consolidated annual accounts, the main Group companies have open to inspection by the taxation authorities all the main applicable taxes since 1 January 2013.

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Due to the treatment permitted by fiscal legislation of certain transactions, additional tax liabilities could arise in the event of inspection. In any case, the Parent's directors do not consider that any such liabilities that could arise would have a significant effect on the annual accounts.

(27) Commitments

As stated in notes 8 and 9, at 31 December 2017 and 2016 the Group has no commitments relating to investing activities.

(28) Information on the Parent's Directors and Senior Management Personnel

The Parent's directors received remuneration of Euros 1,276 thousand in 2017 (Euros 9,533 thousand in 2016). The Group has also extended loans or advances to the directors totalling Euros 1,358 thousand (Euros 1,337 thousand in 2016). These loans are secured by the directors with certain shares of the Parent. The main conditions and characteristics of the loans to the directors are described in note 10. Life insurance premiums of Euros 6 thousand were paid to the directors in 2017 (Euros 7 thousand in 2016) and the savings plan contributions made amounted to Euros 136 thousand (Euros 120 thousand in 2016).

The amounts paid out in 2017 by Telepizza Group on Senior Management and Directors Civil Liability insurance amount to Euros 24 thousand.

Members of the Group's senior management received remuneration of Euros 2,411 thousand in 2017 (Euros 17,344 thousand in 2016). The Group has also extended loans or advances to senior management totalling Euros 2,405 thousand (Euros 2,368 thousand in 2016). These loans are secured by the directors with certain shares of the Parent. The main conditions and characteristics of the loans to senior management are described in note 10. Life insurance premiums of Euros 11 thousand were paid to senior management in 2017 (Euros 9 thousand in 2016) and the savings plan contributions made amounted to Euros 82 thousand (Euros 67 thousand in 2016).

During 2017 and 2016 the Parent's directors have not carried out operations with the Company or Group companies other than ordinary operations under market conditions.

Conflicts of Interest concerning the Directors

In 2017 and 2016 the directors of the Company and their related parties have had no conflicts of interest requiring disclosure in accordance with article 229 of the Revised Spanish Companies Act.

(29) Environmental Information

The Group's operations are subject to legislation governing environmental protection and health and safety in the workplace (environmental protection and safety-in-the-workplace laws). The Group complies substantially with these laws and has established procedures designed to encourage and ensure compliance.

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The Group has adopted appropriate measures for protecting and improving the environment and minimising the effect of its activities thereon and complies with prevailing environmental legislation. During the year the Group has considered that no significant contingencies exist concerning the environment and, accordingly, no provision has been made for environmental liabilities and charges.

The Group considers that the environmental risks deriving from its activity are minimal and adequately covered and that no additional liabilities will arise therefrom. The Group has not incurred any expenses, made investments or received significant grants related with these risks during the year ended 31 December 2017 and 2016.

(30) Audit Fees

The auditors of the Group's consolidated annual accounts (KPMG Auditores, S.L) invoiced the Group the following fees and expenses for professional services during the years ended 31 December 2017 and 2016:

	Thousands of Euros	
	2017	2016
Audit services	178	178
Other assurance services	6	282
	184	460

The amounts detailed in the above table for audit services include the total fees for services rendered in 2017 and 2016, irrespective of the date of invoice.

Other accounts verification services related to the 2017 audit include, essentially, work to the amount of 4 thousand euros and a report on capital increase due to the compensation of credit to the amount of 2 thousand euros provided by KPMG Auditores, S.L. to Telepizza Group, S.A. and one of its subsidiary companies during the year ended 31 December 2017.

Other affiliates of KPMG International have invoiced the Group the following fees and expenses for professional services during the years ended 31 December 2017 and 2016:

	Thousands of Euros	
	2017	2016
Audit services	73	73
Other services	9	49
	82	122

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(31) Other information

On the date these annual accounts are being drawn up, the Company is in conversations with YUM! Brands, Inc. regarding the conditions under which it could operate Pizza Hut shops in different markets, including Latin America, and other formulas for collaboration between the Telepizza and Pizza Hut brands. However, the inclusion of YUM! Brands, Inc. in the Telepizza Group's share capital is not being considered.

(32) Risk Management Policy

Financial risk factors

The Group's activities are exposed to various financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk, and cash flow interest rate risk. The Group's global risk management programme focuses on uncertainty in the financial markets and aims to minimise potential adverse effects on the Group's profits. The Group therefore uses derivatives to mitigate certain risks.

Risks are managed by the Group's Finance Department in accordance with policies approved by the board of directors of the Parent. This department identifies, evaluates and mitigates financial risks in close collaboration with the Group's operational units. The board of directors issues global risk management policies in writing, as well as policies for specific issues such as currency risk, interest rate risk, liquidity risk, the use of derivatives and non-derivative instruments, and investments of cash surpluses.

Interest rate risk

Variations in interest rates affect the fair value of assets and liabilities that accrue interest at fixed rates, as well as the future cash flows of assets and liabilities indexed to a variable interest rate. Such variations could have a significant impact on the cost of debt and the return on investments.

The objective of interest rate management is to achieve a balance in the structure of debt that minimises the year-on-year cost of the debt with limited volatility in the income statement. Exhaustive monitoring of trends in benchmark interest rates is essential to ensure that any substantial fluctuations identified are evaluated and that optimum hedging is contracted, where necessary, to minimise the risk, assuring a reasonable interest rate.

The structure of financial risk at 31 December 2017 and 2016 is as follows:

<u>Type of financing</u>	<u>Interest rate</u>	<u>Benchmark</u>	<u>Thousands of Euros</u>	
			<u>2017</u>	<u>2016</u>
Syndicated loan	Floating	Euribor	197,582	196,579
Total			<u>197,582</u>	<u>196,579</u>

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The benchmark interest rates for the debt contracted by the Group companies are mainly one-month, three-month and one-year Euribor plus a spread, depending on the conditions established for each of the financial transactions.

The Group manages cash flow interest rate risk through variable to fixed interest rate swaps. These interest rate swaps convert variable interest rates on borrowings to fixed interest rates. The Group generally obtains non-current borrowings with variable interest rates and swaps these for fixed interest rates that are normally lower than if the financing had been obtained directly with fixed interest rates. Through interest rate swaps the Group undertakes to exchange the difference between fixed interest and variable interest with other parties periodically (generally on a quarterly basis). The difference is calculated based on the contracted notional principal amount.

The Group has contracted a fixed interest rate swap facility for a two-year period to cover a portion of the drawdowns on the syndicated loan (see note 18).

At 31 December 2017, had interest rates been 10 basis points higher or lower, with the other variables remaining constant, it would not have affected profit for the year, mainly because borrowing costs on variable interest rate debt not covered by the interest rate swap have a floor of 1% and therefore, 1% was the rate paid in 2017 for variable interest pegged to Euribor.

Currency risk

As the Telepizza Group operates internationally, variations in exchange rates for financial or commercial transactions in foreign currencies represent another fundamental financial risk to which the Group is exposed.

Currency risk mainly arises from three types of transactions:

- Commercial transactions in foreign currency.
- Intragroup payables in foreign currency.
- Net assets deriving from net investments in foreign operations with functional currencies other than the Euro (risk of fluctuation in the exchange rate on translation of the financial statements of these companies in the consolidation process).

There are no significant Group balances or commercial transactions denominated in foreign currencies other than the functional currencies of each country where the Group operates.

During 2016 the Group arranged an exchange rate derivative instrument to hedge part of the currency risk associated with the transactions in Chilean pesos and considers that possible fluctuations in the exchange rates of the Chilean Peso, the Colombian Peso and the Polish Zloty would not have a significant impact on its consolidated equity.

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At 31 December 2017, had the Euro strengthened/weakened by 10% against the Chilean Peso, the Colombian Peso and the Polish Zloty, with the other variables remaining constant, consolidated post-tax profit would have been Euros 97 thousand higher (Euros 186 thousand higher in 2016), mainly as a result of translating trade receivables, debt instruments classified as available-for-sale financial assets and payables to Group companies that are eliminated on consolidation. Translation differences recognised under other comprehensive income would have increased by Euros 6,965 thousand (Euros 7,191 thousand in 2016), mainly due to translation differences on foreign operations.

Liquidity risk

The Group's liquidity policy consists of contracting credit facilities and maintaining marketable securities for a sufficient amount to cover forecast requirements, making financing available and enabling the Parent to settle market positions in current investments immediately, thereby ensuring that this financial risk is minimised.

The Group's exposure to liquidity risk at 31 December 2017 and 2016 is shown below. These tables present an analysis of financial liabilities by remaining contractual maturity dates.

	Thousands of Euros					
	Amount at 31/12/2017	Future cash flow maturities	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Loans and borrowings						
Principal	196,687	200,000	-	-	200,000	-
Interest	895	16,847	1,250	3,819	11,678	-
Derivatives	126	-	-	-	-	-
Trade and other payables	51,153	51,153	5451,153	409	-	-
Total	248,861	268,000	52,403	3,819	211,778	-

	Thousands of Euros					
	Amount at 31/12/2016	Future cash flow maturities	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Loans and borrowings						
Principal	195,611	200,000	-	-	200,000	-
Interest	968	27,154	2,185	3,301	21,668	-
Derivatives	-	-	-	-	-	-
Trade and other payables	50,218	50,218	50,218	-	-	-
Total	246,797	277,372	52,403	3,301	221,668	-

(Continued)

TELEPIZZA GROUP, S.A.
AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

Payables to public entities are not included in suppliers and other payables.

Future cash flow maturities include the loan principal plus interest based on contractual interest rates at year end.

Approved investments not recognised as property, plant and equipment under construction at the reporting date are not included.

Credit risk

The Group is not exposed to significant credit risk considering the following parameters:

- Credit risk is not significantly concentrated.
- Cash placements and derivative contracts are with highly solvent entities.
- The average collection period for trade receivables is very short, varying between cash collections at retail outlets and collections at one month from sale in the case of franchises and other customers.
- Customers have adequate credit records, which significantly reduces the likelihood of bad debts.

The Group has recognised impairment losses of Euros 9,220 thousand for credit risks associated with financial assets (Euros 8,232 thousand at 31 December 2016). In 2017 the amount recognised in the consolidated income statement was Euros 580 thousand (Euros 1,094 thousand at 31 December 2016).

TELEPIZZA GROUP, S,A, AND SUBSIDIARIES
Details of Shareholdings in Group Companies

31 December 2017

(Expressed in thousands of Euros)

(Free translation from the original in Spanish, In the event of discrepancy, the Spanish-language version prevails,)

	Registered office	Percentage ownership	Capital	Reserves	Gains/losses	Dividend	Total equity
Tele Pizza S,A, (1)	Madrid	100%	16,380	73,871	11,723	(7,500)	94,474
Mixor, S,A, (3)	Madrid	100%	3,215	3,763	22	-	7,000
Circol, S,A, (3)	Madrid	100%	1,085	294	518	-	1,897
Grupo Telepizza Chile (2)	Santiago de Chile	100%	3,065	56,456	1,200	-	59,521
Telepizza Portugal Comercio de Produtos Alimentares, S,A (2)	Lisbon	100%	1,900	23,137	5,009	-	30,046
Telepizza Poland Sp, Z o,o, (1)	Warsaw	100%	9,319	(8,614)	(164)	-	541
Telepizza Maroc, S,A, (3) (4)	Casablanca	100%	59	(765)	-	-	(706)
Telepizza Guatemala S,A (3)	Guatemala	100%	370	1,027	426	(390)	1,433
Luxtor, S,A, (1)	Avila	100%	6,128	1,403	12,303	(11,500)	8,334
Telepizza Ecuador S,A, (3)	Quito	100%	3,112	(1,358)	(738)	-	1,016
Cozicharme Comercio de Produtos Alimentares, LDA (2)	Lisbon	100%	5	-	(2,577)	-	(2,572)
Bazigual, SGPS,LDA (2)	Lisbon	100%	5	1,166	(6)	-	1,165
Inverjenos S,A,S, (1)	Bogotá	100%	1,543	4,666	(1,817)	-	4,392
Telepizza Shanghai S,A,(3)	Shanghai	100%	100	(334)	(15)	-	(249)
Telepizza Andina S,A,C (3)	Lima	100%	10,225	(4,135)	(474)	-	5,616
Procusto Activos, S,L,U (3)	Madrid	100%	3	(2)	-	-	1
Foodco Pastries Maroc(3)	Tangier	100%	27	(95)	(128)	-	(196)
Foodco Pastries Panamá(3)	Panama	100%	8	(30)	(296)	-	(318)
Telepizza Switzerland GmbH(3)	Berne	100%	17	(5)	(999)	-	(987)
Compañía de Negocios de Paraguay, SA (3)	Paraguay	51%	581	4	(152)	-	433
Fortys Pizza SRO (3)	República Checa	80%	8	96	(435)	-	(331)
The Good Food Company LTD (3)	Irlanda	49%	1,256	-	-	-	1,256
Mooncharm Limited (3)	Irlanda	51%	-	-	-	-	-

(1) Audited

(2) The main companies of the subgroup have been audited

(3) Unaudited

(4) Dormant companies

This appendix forms an integral part of note 1 to the consolidated annual accounts for 2017, in conjunction with which it should be read.

TELEPIZZA GROUP, S,A, AND SUBSIDIARIES
Details of Shareholdings in Group Companies

31 December 2016

(Expressed in thousands of Euros)

(Free translation from the original in Spanish, In the event of discrepancy, the Spanish-language version prevails.)

	Registered office	Percentage ownership	Capital	Reserves	Gains/losses	Total equity
Tele Pizza S,A, (1)	Madrid	100%	16,380	101,253	(29,154)	88,479
Mixor, S,A, (3)	Madrid	100%	3,215	3,771	(9)	6,977
Circol, S,A, (3)	Madrid	100%	1,085	3,459	435	4,979
Grupo Telepizza Chile (2)	Santiago de Chile	100%	3,065	56,653	4,012	63,730
Telepizza Portugal Comercio de Produtos Alimentares, S,A (2)	Lisboa	100%	1,900	18,997	5,143	26,040
Telepizza Poland Sp, Z o.o, (1)	Varsovia	100%	9,319	(9,858)	(1,438)	(1,976)
Telepizza Maroc, S,A, (3) (4)	Casablanca	100%	59	(803)	-	(744)
Telepizza Guatemala S,A (3)	Guatemala	100%	1	254	508	763
Luxtor, S,A, (1)	Avila	100%	6,128	12,728	10,868	29,724
Telepizza Ecuador S,A, (3)	Quito	100%	2,278	(786)	(482)	1,010
Cozicharme Comercio de Produtos Alimentares, LDA (2)	Lisboa	100%	5	-	(5,516)	(5,511)
Bazigual, SGPS,LDA (2)	Lisboa	100%	5	1,169	(3)	1,171
Inverjenos S,A,S, (1)	Bogotá	100%	1,511	4,191	(2,453)	3,249
Telepizza Shanghai S,A,(3)	Shanghai	100%	100	(217)	6	(111)
Telepizza Andina S,A,C (3)	Lima	100%	9,706	(3,155)	(452)	6,099
Procusto Activos, S,L,U (3)	Madrid	100%	3	(1)	(1)	1
Foodco Pastries Maroc(3)	Tanger	100%	28	(2)	(101)	(75)
Foodco Pastries Panamá(3)	Panamá	100%	9	-	(55)	(46)
Telepizza Switzerland GmbH(3)	Berna	100%	19	-	-	19

(1) Audited

(2) The main companies of the subgroup have been audited

(3) Unaudited

(4) Dormant companies

This appendix forms an integral part of note 1 to the consolidated annual accounts for 2017, in conjunction with which it should be read.

TELEPIZZA GROUP S.A.
AND SUBSIDIARIES

Directors' Report

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

1. Group Position and Business Performance

During the year 2017, recovery of the macroeconomic context in the main market, **Spain**, that began in 2014 continued.

GDP growth in 2017 increased to 3.1%, in line with the trend established in 2016, when growth stood at 3.3%.

The unemployment rate continued to improve in 2017, closing the year at 16.6%, two percentage points lower than the 2016 rate of 18.6%.

The upward and downward trends, in GDP growth and unemployment respectively, look set to continue in 2018.

The **Portuguese** economy after several years of slowdown and measures to reduce the public deficit, negatively affecting consumer confidence and total expenditure, began to show signs of recovery in 2015, with a positive trend which has been maintained since then.

The OECD estimates project GDP growth of 2.6%. The unemployment rate has improved now recording 9.1% versus 11.0% the previous year. This positive trend is expected to continue in 2018.

In 2017, the **Chilean** economy continued with low rates of growth, with a forecast of a GDP increase of 1.5%. The unemployment rate at the end of 2016 was the estimated 6.6%, similar to that of the previous year. Lastly, the macroeconomic situation is expected to improve significantly in 2018, with an improved position in terms of the price of raw materials.

The **Polish** economy maintained its growth in 2017, with a forecast of a GDP increase of 4.3%. The unemployment also improved this year, going from 6.2% in 2016 to 4.8% in 2017. This growth trend is expected to continue in 2018.

In **Colombia** the GDP grew slightly in the first half of the year, with signs of recovery in the second, with an estimated increase of 1.7% for the entire year of 2017. The unemployment rate remained stable at 9.3%. The acceleration of growth is expected to continue in 2018.

(Continued)

TELEPIZZA GROUP S.A.
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Directors' Report

Activity of the Group

<i>In thousands of €</i>	2017	2016	% change
<i>Group chain sales</i> ¹	561.6	517.0	8.6%
<i>Chain Sales in Core Geographic Areas</i> ²	529.3	486.9	8.7%
Growth in sales in constant currency in Core Geographic Areas			8.3%
<i>LFL Growth</i> ³ in sales in Core Geographic Areas (%)			<u>4.1%</u>
Chain Sales in Spain	354.7	335.2	5.8%
<i>LFL Growth</i> ⁴ in sales in Spain (%)			<u>3.6%</u>
<i>International Chain Sales</i>	206.9	181.8	13.8%
<i>International Chain Sales in Core Geographic Areas</i>	174.6	151.7	15.1%
Growth in International sales in constant currency in Core Geographic Areas (%)			13.9%
<i>International LFL sales growth in Core Geographic Areas (%)</i>			<u>5.2%</u>
<i>Revenue</i>	361.0	339.6	6.3%
Turnover growth at constant exchange rates (%)			5.9%
Reported Group EBITDA ⁵	66.4	31.6	110.1%
Underlying Group EBITDA ⁶	67.2	63.6	5.5%

Telepizza Group, S.A. is the parent company of the Group, which owns 100% of Grupo Telepizza.

The Group operates mainly in the prepared food home delivery sector, with pizza being its main product, via the Telepizza brand.

¹ Chain sales from own stores plus sales from franchisees and master franchisees

² Excluding sales from master franchisees

³ LFL growth corresponds to the growth of chain sales after adjustments for store openings and closures and for exchange rate impact versus the euro.

⁴ LFL growth corresponds to the growth of chain sales after adjustments for store openings and closures.

⁵ EBITDA defined as operating profit plus amortisation plus profit from asset disposal.

⁶ EBITDA defined as operating profit plus amortisation plus profit asset disposal excluding 32 Million euros of costs related to the Public Stock Offering and the income from asset disposals in 2016 and excluding 0.7 million euros related to a corporate operation in 2017.

TELEPIZZA GROUP S.A.
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Directors' Report

Its subsidiary companies' business consists of managing and operating the stores for home and on-site consumption, which at 31 December 2017 they operate via owned and franchised premises, located mainly in Spain, Portugal, Poland, Chile, Colombia, Peru, Ecuador, Panama, Paraguay, Switzerland, Czech Republic and Ireland as direct investments.

Furthermore, the Group also undertakes its activity through master franchises located in Guatemala, El Salvador, Bolivia, Russia, Angola, Iran and the United Kingdom.

The Group operated directly and indirectly through franchises, 1,607 stores in 2017 versus 1,389 in 2016.

Via its factories the Group provides mass production services and ingredient distribution to all its stores where the company operates whether they are operated directly by the Telepizza Group or by its franchisees.

The chain sales, which are sales from the owned stores plus sales from the franchises and master franchises to the public, stood at 562 million euros in 2017, which implies growth of 8.6% against the 517 million in 2016; growth was 8.3% excluding exchange rate in the Core geographic areas. Chain sales is an indicator used by the sector to measure business performance.

The reasons for this chain sales growth versus the previous year are, on the one hand, the sustained recovery of growth in Spain reporting 15 consecutive quarters of positive growth and on the other, the excellent performance of the international business.

	Millions of Euros	
	2017	2016
Sales from own stores to the public	195	196
Sales from franchises and master franchises to the public	367	321
Chain Sales	562	517

The sales figure from own stores is detailed in note 22 in the report.

The sales from franchisees and master franchisees can be found in the sales reports. These sales are directly related to the Royalties and advertising revenues line detailed in note 22 since the latter corresponds to the percentage of sales that the company invoices to the franchisees and master franchisees.

Activity in the Spanish market

Telepizza is the leader in the home delivery pizza segment in Spain, significantly larger in terms of size and sales compared to the second competitor (*source NPD*).

Spain is the Group's main market, with chain sales of 354.7 million euros, contributing 63% of total chain sales. Chain sales in Spain in 2017 grew by 5.8% versus the previous year, driven by organic growth ("LFL") of 3.6% and horizontal growth of 2.2%.

TELEPIZZA GROUP S.A.
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Directors' Report

Home delivery sales, which accounted for 59% of chain sales in Spain in 2017, continued to grow above the total sales growth, with year-on-year growth of 6.4% and increased market share for Telepizza in this channel, driven by Digital sales, which grew at a rate of 14.6% year-on-year, and which represented 39% of Telepizza home delivery sales in Spain in 2017.

The Digital channel is not only our main growth driver, it also generates significant profits for Telepizza, our franchisees and our customers:

- Digital customers order more frequently than phone customers, generating higher average spend per digital customer.
- Greater accuracy in orders and less time on the phone for Telepizza employees, enabling them to focus on improving the service.
- Improved image, greater brand visibility and greater innovation penetration.
- Continuous interaction with our customers via social media.
- As part of our efforts to drive the channel, we have worked on developing a new App, launched in July this year.

Sales via mobile devices represent 61% of digital sales, thanks to a greater rate versus computer sales.

The in-store channel ('Take Away' and on-premise consumption) increased by 4.6%, maintaining the share of 41% of Spanish chain sales in 2017.

In-store sales growth was driven by the change in the sales policy undertaken in the second half of 2016 and due to the acceleration of the renovation and relocation programme, finalized in 2017.

The opening of mini-stores, a format requiring less investment than the traditional format, adds flexibility to the expansion strategy, underpinning the horizontal expansion.

The industrial area of the Group has the latest technologies for mass pizza production, which has enabled constant improvement in terms of productivity and flexibility in stock management, guaranteeing a homogeneous, maximum quality product. Within the industrial area, the logistics hub is of particular importance supplying the product to stores, delivering at least two or three times per week.

Lastly, the success of the brand must be highlighted which is based on two key factors: product quality, made to order and to the consumer's taste, and service, with broad coverage nationally.

TELEPIZZA GROUP S.A.
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Directors' Report

Activity in the international market

2017 was a record year, historically, for the growth of chain sales in the international market. The International "Core" chain sales (excluding master franchises) grew by 15.1% in the year (13.9% at constant exchange rates), to 174.6 million euros, driven by LFL growth of 5.2%, horizontal growth of 8.2%, with positive exchange rate impact of 1.2%.

As a whole, there has been balanced growth across the "Core" countries, with several of them reaching double digit growth, with significant horizontal growth underpinned by our successfully openings plan, which has added 218 stores across the Group and five new countries, the United Kingdom and Iran (master franchises); Czech Republic, Paraguay and Ireland (own operation).

Chain sales of master franchises grew slightly by 7.3% in 2017, to 32.3 million euros, with highlights including the first stores in the United Kingdom, with two stores, and Iran, with seven stores.

Expansion of store network

At 31 December 2017, the Group had a total of 1,607 stores (708 of which in Spain and 899 International), compared with 1,389 stores at 31 December 2016.

73% of stores were franchised at 2017 year-end, versus 67% at 2016 year-end.

Throughout the year, the Group added 240 new stores gross, having closed 32, as part of its store network optimisation programme.

Telepizza continues to see great potential for expansion in Spain, above all in the mini-store formats franchised in towns of less than 35,000 inhabitants and stores in shopping malls, in which Telepizza continues to have low penetration, compared with other countries in the Group, particularly, Chile.

Internationally, there is an interesting expansion opportunity in our "Core" countries in Latin America, which present favourable long-term demographic and macroeconomic trends, and where the penetration of home delivery pizza sales is still low, mainly in Colombia and in Peru.

TELEPIZZA GROUP S.A.
AND SUBSIDIARIES

Directors' Report

Group Economic-Financial Information

M€	31/12/17	31/12/16	% change
Group chain sales²	561.6	517.0	8.6%
Owned store sales	194.7	196.0	(0.6%)
Franchises sales	334.6	290.9	15.0%
Master franchises sales	32.3	30.1	7.3%
Total revenues	361.0	339.6	6.3%
Owned store sales	194.7	196.0	(0.6%)
Supplies, royalties and marketing and other revenues	166.3	143.6	15.8%
Gross margin	260.0	251.0	3.8%
Gross Margin (%)	72.3%	73.9%	
Personnel expenses	(95.2)	(92.1)	3.3%
Other costs	(98.6)	(95.2)	3.7%
Underlying EBITDA³	67.2	63.6	5.5%
Underlying EBITDA Margin (%)	18.6%	18.7%	
Depreciation and amortisation (excluding PPA amortisation)	(13.4)	(11.6)	16.0%
Underlying EBITDA⁴	53.8	52.1	3.2%
Extraordinary costs from corporate operations	(1.1)	-	-
Costs related to IPO	-	(32.0)	-
PPA Amortisation	(5.5)	(5.8)	(4.6)
Net financial income/(expenses)	(8.5)	(19.9)	(57.3)
Exchange rate impact	(0.9)	(1.9)	(52.9)
Other	(0.0)	(0.7)	-
Profit/(Loss) before taxes	38.1	(8.3)	-
Tax Expense/Income	(6.4)	19.0	-
Minority shareholdings	(0.2)	-	-
Net profit for the Period	31.2	10.7	197.8%

Chain sales increased by 8.6% to 516.6 million euros in 2017. The sum of Ordinary Revenues reached 361 million euros, with growth of 6.3% versus 2016 at constant exchange rates of 5.9%.

The conversion chain sales to revenues was impacted mainly by the change in the 'mix' of own stores and franchises, with an increase in franchise sales over total sales:

- Sales from own stores decreased by 0.6% to 196 million euros, given the lower number of own stores in 2017 versus 2016.

TELEPIZZA GROUP S.A.
AND SUBSIDIARIES

Directors' Report

- Chain sales from franchises, not including master franchises, increased by 15% to 334.6 million euros; and revenues from the sale of supplies, royalties and marketing and other revenues increased by 15.8%, to 166.3 million euros, driven by the increase in activity and the franchise business.

Operating gross margin stood at 260 million euros, which is a margin of 72.3% of net turnover, 1.6 p.p. down on 2016, mainly due to the impact of the increase in the price of cheese and the change in the sales policy in Spain.

The rest of the cost structure in absolute terms, excluding the 0.7 million euros in extraordinary expenses for 2017, increased by 3.5% year-on-year, partly due to growth of sales, which affects those expenses that depend on sales.

- Personnel expenses reached 95.2 million euros, an increase of 3.3% versus 2016, impacted by the increase in personnel to improve service to consumers.
- Other expenses amounted to 98.6 million euros, a 3.7% increase in the year, in line with the increase in the Group's activity.

Underlying EBITDA increased by 5.5%, to 67.2 million euros in 2017, compared to the same period of the previous year. Underlying EBITDA margin was 18.6%, a decrease of 0.1pp compared to 2016, mainly due to a decrease in gross margin.

The year's results include 0.7 million euros in non-recurring costs related to a corporate operation.

Underlying EBITDA, defined as operating profit + extraordinary costs + amortisation related to PPA from 2006, reached 53.8 million euros, an increase of 3.2% versus the previous year.

Net Financial Income/Loss stood at -8.5 million euros, a 57.3% decrease versus 2016 due to the debt reduction through the IPO in 2016 and the new resulting financial structure. Similarly, there was 0.9 million euros of negative exchange rate impact due in the year.

The net consolidated income of the Group was 31 million euros versus 10.7 million the previous year, an improvement of 197.8%.

Investment in the year is related to expansion projects (such as store openings, renovations and technological investment). There was also the acquisition of Apache Pizza, which operates mainly in the Republic of Ireland with a cost of acquisition of 6, 6 thousand euros.

2. Development Forecast

In 2017, the Group continued to operate in a very competitive environment, with sustained macroeconomic recovery in Europe and improved consumer confidence in the domestic market. The sales policy adopted led to an increase in sales in Spain, despite market circumstances.

Meanwhile, operations in LatAm benefited from a significant horizontal increase and positive LFL despite the complex market environments in some countries in the second half of the year.

TELEPIZZA GROUP S.A.
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Directors' Report

In 2017, sales from master franchises improved thanks to improved activity in existing countries and entry into new markets, such as the United Kingdom, which has two stores, or Iran, which experienced rapid growth with seven openings since the beginning of operations in July.

The work undertaken to improve product and service quality, the commercial effort and efficiency improvements, both in 2017 and in previous years, made it possible to operate in an environment of competitive pressure, enabling significant growth both in sales and in operating income, but above all contributed to preparing the company to confidently approach its plans for future growth.

The 2018 objectives require work to continue to increase the Group's activity, in an expected macroeconomic context of growth in all countries in which it operates.

Forecasts

We expect to obtain total growth in chain sales of 4% to 5% in Spain, via a combination of LFL and horizontal growth.

In "Core" International, we expect total growth in chain sales to be double digit, with significant contribution from horizontal expansion.

We have limited our forecast of openings to between 60 and 70 stores net in our "Core" Geographic areas.

We expect low or mid single digit growth of underlying Group EBITDA in 2018.

In terms of earnings per share adjusted for amortisation of PPA intangibles and taxes paid in cash, we expect between 0.37€ and 0.40€

The Group's investments are forecast to be in the region of 25 million euros, excluding relevant acquisitions.

Lastly, we reiterate our commitment to our dividend policy, with a payout of 15-20%.

3. R+D+i activities

The Group continues to strive to create, develop and improve all of the Company's products, always taking into account consumer tastes, working with the best ingredients which provide their products a balance between flavour and nutritional value. In this process, quality is a key factor and new suppliers go through rigorous controls before being approved thus guaranteeing maximum product quality and service quality in store.

Another decisive factor in R+D+i are the acceptance tests. These tests are performed with market research companies, with the main objective being to understand the opinion of customers and ensure good product acceptance. The opinion and experience of staff from other departments within the Company, such as operations and marketing are also used in these tests. The entire process is tested, covering suggestions in terms of product preparation, use of names, composition and presentation of the different products.

TELEPIZZA GROUP S.A.
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Directors' Report

In 2017, four new varieties were launched in Telepizza Spain, nationally, alongside new products providing consumers with alternatives.

The common denominator in the launches performed has been to reinforce the idea of variety and offer something new to the consumer, and show a qualitative improvement in the product range.

The international area benefits from the R+D+i work undertaken in Spain and they are also supported in all developments and product testing carried out locally.

The common denominator in the launches performed has been to reinforce the idea of variety and offer something new to the consumer, and show a qualitative improvement in the product range.

Risk Management Policy

The main risks in the Group's activity arise from the consumption position and catering market in each country where we operate.

The Group's activities are exposed to various types of **financial risk**: market risk (including exchange rate risk, interest rate fair value risk and price risk), credit risk, liquidity risk and interest rate cash flow risk. The Group's global risk management programme focuses on uncertainties in its markets of operations and in financial markets, and aims to minimise the potentially adverse effects on the Group's financial performance; it therefore uses derivatives to hedge certain risks.

The changes in **interest rates** alter the fair value of the assets and liabilities that earn fixed interest rate, and the future flows of assets and liabilities linked to a variable interest rate and may imply a significant impact on both the financial cost due to debt, and the return on financial investments.

The Group carries out an exhaustive monitoring of the fluctuations in the benchmark interest rate such that any substantial change identified, is assessed and if necessary, the optimum coverage is arranged enabling the risk to be minimised, ensuring a reasonable interest rate.

The Group arranged a fixed rate swap in 2016 for a term of 5 years on the Senior Facility lines.

The change in **exchange rates** due to financial or commercial transactions in foreign currencies is another fundamental financial risk to which the Telepizza Group is exposed resulting from its international operations.

The group has arranged an exchange rate derivative to guarantee part of the operations performed in Chilean pesos and does not believe the potential change in the exchange rates of the Chilean peso and the Polish zloty to have significant impact on its consolidated net equity.

Liquidity risk

The Group maintains a liquidity policy consisting of taking out credit policies of sufficient amounts to cover the planned needs, it has access to said financing capacity and is able to settle market positions of its temporary financial investments, immediately, enabling this financial risk to be minimised.

TELEPIZZA GROUP S.A.
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Directors' Report

Credit risk

The has no relevant credit risk considering that: said risk is not significantly concentrated, cash management placements and derivatives are arranged with highly solvent entities, the average customer payment collection period is very short, customers have adequate credit history, thus reducing the possibility of insolvency.

4. Own shares

At 31 December 2017, no Company of the Group held shares in Telepizza Group, S.A. nor rights to such shares, and there are therefore no political or economic treasury stock rights.

5. Average payment period to suppliers

The average payment period to suppliers by the consolidated Spanish companies is 65 days.

6. Events subsequent to 31 December 2017

On the date these consolidated financial statements were prepared there are no significant events subsequent to year-end.

7. Non-Financial Information Statement

This non-financial information statement aims to report on the most relevant environmental, social, staff-related and human rights-related matters in the Group's activity.

BUSINESS MODEL

Telepizza is the largest non-U.S. pizza delivery company in the world by number of stores. Including the companies established in the United States, Telepizza is the fourth largest delivery operator in terms of number of stores.

The Telepizza Group's main activity consists of managing and operating stores mainly under the brand. As of 31 December 2017, the Group was operating through 441 of its own establishments and 1,166 franchises. These establishments are mainly situated in Spain, Portugal, Poland, Chile, Colombia, Peru, Ecuador, Switzerland, Ireland, Czech Republic and Paraguay. Furthermore, the Group also undertakes its activity through master franchises located in Guatemala, El Salvador, Russia, Angola, Bolivia, Panama, United Kingdom, Abu Dhabi and Iran.

The Telepizza Group offers a unique, varied line of products that combines flavour with local adaptation and innovation in the markets in which it operates. The Group produces its own standardised dough that is used in the products it sells in all its stores, whether its own or franchises. The Group adapts the products it offers to its clients to the culture and tastes of each country in which it enjoys a presence. The main product on the Telepizza menu is pizza but it also includes other products, such as hamburgers, pasta, salads, sandwiches, etc.

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The Telepizza Group operates via three distribution channels in its stores: delivery, takeaway and sit-in, with delivery being the main sales channel. In addition, Telepizza has different store formats located on streets, in shopping centres and other formats.

Via its factory and logistics centre in Daganzo (Madrid), Tele Pizza, S.A. supplies all stores in Spain and Portugal operated directly by the Group or through its franchisees. Additionally, the Group has six other factories shared across other countries where it is active, and these also act as logistics centres. The high volume of purchases provides economies of scale and facilitates standardisation of the products purchased.

RISK MANAGEMENT SYSTEM

The Board of Directors is responsible for determining the Risk Management and Control Policy, which must include fiscal risks, and supervising internal information and control systems, as established in the Board's Regulation. The Telepizza Group's Board of Directors is committed to developing all of its abilities so that the relevant corporate risks of all of the Group's activities and business are suitably identified, assessed, managed and controlled, and to establish, via the Risk Management and Control Policy, the basic principles and mechanisms to be employed for suitable management of these with a level of risk that allows for:

- achievement of the strategic objectives the Group establishes with controlled volatility;
- contribution of the maximum level of guarantees to shareholders
- protection of the Group's results and reputation;
- defence of the interests of shareholders, customers, other stakeholders and society in general; and
- guarantee of sustained corporate stability and financial solidity.

The Management Committee is responsible for managing these risks. This Committee is formed by the Telepizza Group's Managing Director and members of Senior Management at the Group (representing both corporate and operational areas at the

Group). The Management Committee defines and sets risk management procedures and, if applicable, establishes the appropriate management mechanisms that ensure risks are maintained within the levels approved by the Board of Directors.

Article 31 of the Board's Regulation charges the Audit and Compliance Committee with supervising the efficacy of the internal control, internal audit and risk management systems, which must include fiscal risks.

ENVIRONMENTAL COMMITMENTS

The Telepizza Group, which is a leading company in the takeaway food industry, is a company committed to protecting the environment.

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General Management at the company has established an Environmental Policy, the basic pillars of which are compliance with applicable legislation, pollution prevention, and continuous improvement in all aspects related to the environment. This Policy must be translated into specific actions aimed at protecting the environment and it must be observed by all company areas.

In this regard, the actions carried out are as follows:

- **PREVENTION BUSINESS PLANS (ECOEMBES):** The Packaging Act establishes action principles in minimising and preventing packaging waste at source as a priority strategy.

Prevention Business Plans regulated by Royal Decree (782/1998) are designed as one of the main mechanisms implemented to encourage compliance with prevention and reduction objectives, given that the obligation for some companies to develop these already exists through trying to establish in their activities improvements aimed at preventing the generation of packaging waste and minimising their environmental impact.

Each year, Telepizza presents a series of measurements to reduce the generation of waste stemming from development of its activity.

- **ENERGY SAVING:** more efficient facilities (lighting) at the factory and Central Services, generation of hot water at the factory, automatic and controlled standby of IT equipment in stores.
- **REDUCTION OF GREENHOUSE GASES:** promotion of delivery by electric bicycle in areas where this form of delivery is possible, given their locations, as well as the purchase of more eco-friendly fleets of vehicles.

The main environmental risks facing the Group are based on factory waste and water management. The company has outsourced waste management to a specialised company, in compliance with applicable legislation. In addition, the factory has a water treatment plant and factory wastewater controls are performed.

COMMITMENTS TO EMPLOYEES

Human rights

The Telepizza Group has established the Human Rights Policy, which develops the values and principles contained in the Group's Code of Ethics. It aims to establish the general principles that should guide and inspire the action of all those who form a part of the company in order to guarantee equality and respect for the human rights of all citizens.

The Policy is inspired by the following regulatory instruments:

- (a) The Universal Declaration of Human Rights adopted by the United Nations (UN) in 1948 and the two International Agreements developing it:
 - (i) International Covenant on Civil and Political Rights (ICCPR); and

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- (ii) International Covenant on Economic, Social and Cultural Rights (ICESCR).
- (b) The International Labour Organization's Declaration on Fundamental Principles and Rights at Work (1998).

Application of this Policy is undertaken in compliance with the laws of the countries in which the Group operates. However, in the cases in which this Policy and all other internal standards are more precise and thorough than local laws, employees are expected to act in compliance with our standards. Likewise, in situations in which local legislation is less strict than the aforementioned International Declarations on Human Rights, the Group will be guided by the latter set of regulations.

Workers' rights to information and consultation

Telepizza is aware of the importance of achieving transparent, flexible, two-way communication with all of its employees. As such, it has different communication channels and tools aimed at fulfilling this objective, and these are detailed as follows:

1. WeTalk: Direct communication channel with employees via which they receive information on the company's day-to-day affairs, which may apply to their area of responsibility. WeTalk encourages employees to provide feedback, with an email address made available to them so they may send emails to request further details or clarification on different communications.
2. WhatsApp People: Using this communication tool as a platform, the company offers employees a direct channel for any matter that may arise and require a response from Telepizza. A response within 24 hours is guaranteed on this channel.
3. Quarterly, informative, in-person sessions (We Session): The company's management team organises quarterly employee meetings to share information with them on the company's development. At these sessions the company encourages spaces where debate forums are opened between employees and management.
4. People@telepizza.com: This email address was created to manage employee questions on any process/tool linked to staff management.

Furthermore, Telepizza offers all its employees a channel where they can securely and confidentially communicate issues that may arise when applying internal standards or report the existence of any irregularity or incident of non-compliance with standards, either by email or post.

This channel, known as the Ethical Line, is managed by the Group's Internal Audit Manager and its functioning will be governed by the action procedure established by the company via the Ethics Committee.

This Committee will comprise the Director of Human Resources, the Director of the Legal Department, the Director of Staff, and the Internal Audit Manager.

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The President of the Telepizza Group may participate in the Ethics Committee when he or she deems it appropriate, in which case he or she will appear as the President of the Committee.

Equality

When Law 3/2007, of 22 March, on the effective equality of women and men was published in 2007, Telepizza drew up a policy that must govern this area of the work lives of its employees within the company.

Telepizza is extremely committed to respect for equal opportunities between men and women, which is why it aims to achieve the following objectives:

- (a) Guarantee equal pay in the development of equivalent work duties.
- (b) Eliminate discrimination, harassment and violence from the workplace. The company will not tolerate any practice that discriminates based on race, colour, gender, sexual orientation, age, religion, ethnicity, national or social origin, wealth, political opinion, disability or any other condition.
- (c) Facilitate communication to the company of possible situations related to the previous point.
- (d) Guarantee dignified conditions of health and safety at work.

With the aim of putting into practice the content and spirit of the Equality Policy and ensuring commitment to its contents, Telepizza founded, alongside the trade unions with the greatest representation at the company, the Equal Opportunities Committee at Telepizza Group companies on 7 April 2011.

In addition, it forms a part of the Equal Opportunities and No Discrimination Committee established via article 76 of the State Agreement for Producers of Products Cooked for Takeaway Sales.

EQUALITY PLAN

Telepizza drew up the first Equality Plan in May 2007. This plan was reviewed in November 2013 with the aim of checking the result of the measures derived from the initial plan's diagnosis.

Comparing the initial diagnosis and the diagnosis performed in the 2013 review, positive developments in relation to solving the problems detected in 2007 were noted.

The increase in women who accessed a management post thanks to the policies implemented was highly significant, with the number jumping from 1 to 6 over the course of the reference period.

Likewise, in the role of establishment manager there was an increase from 49% to 55.71%, which is considered a very important development given that the base from which access to this post was fed (the post of establishment deputy manager) was around 69% in favour of women in 2013 yet, despite this, promotions to manager were mainly awarded to men, who only occupied 31% of deputy manager posts.

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In this category of establishment deputy manager, a trend towards balance between men and women was noted, changing from the aforementioned 69% vs. 31% to 63.95% vs. 36.05% in 2013.

A review of the Equality Plan's indicators will be performed in 2018 using the data closed from 2017.

PROTOCOLS AGAINST WORKPLACE HARASSMENT

Within the Equality Plan and as a complement to the provisions established in article 55 of the Collective Agreement, Telepizza has drawn up a protocol for action should it receive communications or claims of harassment in the workplace.

In 2014, a notice board was created and all of Telepizza's own stores have access to this, which establishes the most important points to be considered when encountering a possible situation of harassment and which indicates the email addresses staff should write to if they have any questions, complaints or claims.

Since the Equality Plan was launched in 2007, a total of 20 investigation requests have been received for cases in which situations of harassment or mobbing were highlighted.

With the exception of one case, in which the claim was processed by the employee via lawsuit in the work environment, the remaining 19 cases were the subject of internal investigation, with the result indicating no situation of workplace harassment or mobbing was detected.

These procedures identified a lack of team management ability and empathy in some managers at the centres affected, so suitable measures were taken to correct these situations.

Occupational health and safety

Telepizza is actively committed to occupational health and safety. Health and safety fall under business management in its activities and decisions, as well as in technical processes, for example the organisation of work, such that the business owner and employees accept responsibilities in the matter, understanding that work must be undertaken in a manner that is safe and healthy for both the individual and the wider group

In light of the foregoing, Telepizza has an Occupational Health and Safety Policy

Telepizza is actively committed to fulfilling health and safety aims, which include:

Recognising the value of people and their working conditions for the development and success of the company, looking out for the health of its employees by resolving their needs with an open attitude. Safety is essential in our work.

Provide the **appropriate resources** to implement the preventive programme. Establish and maintain a **prevention management and continuous improvement programme** in our stores, factories and central services.

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Perform audits and periodic assessments of our Health and Safety Management System **to guarantee its efficacy and continuous improvement, exceeding the minimums required by applicable legislation.**

PRACTICAL MEASURES FOR APPLICATION OF THE POLICY

In 2011, Telepizza internally created the **Prevention Committee**. This Committee was established with the fundamental aim of guaranteeing the health and safety of all Group employees, as established in the Company's Safety Policy Declaration. This Committee is formed by the people who pertain to the Management Committee, and the Prevention Service is the consulting and advisory body that will transfer to this Committee all the necessary proposals that help guarantee the health and safety of all employees in the network of stores, factories and central services.

In a bid to implement the contents and spirit of the Health and Safety Policy, and to bring to reality the commitment to its contents, under article 83, section 3 of the Workers' Statute and article 35.4 of Law 31/1995, Telepizza has formed a part of the **Sectorial Health and Safety Commission** since 2011, as established in articles 53 and 54 of our Collective Agreement.

In addition, in May 2014 Telepizza founded the **Inter-Centre Health and Safety Committee**, with this committee meeting periodically to address the issues that affect company employees in this area in general.

ACTIONS UNDERTAKEN

- Review and improvement of the contents of the first Health and Safety Policy text in 2011.
- **Adopting of the European Road Safety Charter on 30 April 2010 and the Declaration of Luxembourg in May 2015**, as a commitment to establish and maintain prevention management and continuous improvement programmes for employees in our stores, factories and central services.
- Finalising implementation, by the Prevention Service, of a new training system in 2017 via **Campus Telepizza**, which began in 2016 and which guarantees that all employees receive suitable training and information in risk prevention and skills to complete the tasks they perform. Redesign of the whole training process, methodologies, contents and educational tools.

The results of this system were recognised with the Mutua Asepeyo Award for Best Practice in Risk Management in 2017 given that, after implementation, there was an 18% fall in the incident rate within one year and the average duration of cases decreased by more than 7.5%.

Specifically in relation to road risk, there was a decrease in traffic accidents of 20% and accidents on the way to work by 47%.

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- Continued hosting of **Inter-Centre Committee and Provincial Committee meetings** to guarantee employees are consulted and take part in decisions that affect working conditions.

In 2017 the Occupational Risk Prevention System was assessed and subjected to the **Regulatory Audit** established in article 30 of Royal Decree 39/97 on Prevention Services, which it passed with a favourable result thanks to compliance with, according to the technical criteria of INPREMED, S.L., the legal requirements established in Law 31/1995 on Occupational Risk Prevention and its implementing regulations.

The aim of this audit was to **guarantee the efficacy of the system and its continuous improvement**, exceeding the minimums required by applicable legislation.

COMMITMENTS TO SOCIETY

Code of Ethics

In 2016, Telepizza's Board of Directors approved the Telepizza Group's first Code of Ethics (hereinafter the "Code"), implementing a policy of compliance from Senior Management, which guides employees through lines of conduct and behaviour.

There are five principles the Telepizza Group is committed to obeying in the new Code of Ethics: Commitment to society, the company, the working environment, customers and franchisees, in addition to collaborators.

Among the values that are considered in these principles are compliance with the law to which the Group is subject, implementing anti-corruption measures, issuing reliable information, competing in a free market, responsibility regarding company resources, occupational safety, personal data protection, transparent and objective selection and hiring of suppliers, etc.

With regards to financial reporting, as stated in the Code, the Telepizza Group will comply with a series of legal and ethical obligations that guarantee the transparency and integrity of financial reporting. To do so, the Group will always provide truthful, clear, useful and precise information, both when marketing products and services and when issuing corporate information to third parties, investors and shareholders, upholding the principles of veracity, transparency and equity of information in communications at all times.

The Code is applicable to all Telepizza Group employees, regardless of their hierarchical level, as are all other Group standards. The Code is available to all Group employees. Telepizza expects to draw up a Training Plan in relation to the Code of Ethics, and this will include a Code understanding certificate, with all employees committed to complying with this plan.

Telepizza Group employees have a channel (Ethical Line) via which they may securely and confidentially communicate any incident of non-compliance with the Code of Ethics or current standards, as well as resolve any questions that may arise when applying the Code of Ethics.

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Anti-Corruption Policy

The Telepizza Group's Anti-Corruption Policy was drawn up in compliance with the national and international standards that prohibit and punish corruption, in particular, Law 10/1995, of 23 November, on the Criminal Code, and which complement and develop the values and principles contained in the Telepizza Group's Code of Ethics.

Its aim is to inform all people linked to the company with regard to the risks of corruption to which they are exposed and the consequences that corruption may generate for the company and its employees. It also seeks to establish a series of good practices that must be observed at all times.