This file includes the English translation (for information purposes only) of the 2018 Consolidated Annual Audited Accounts, 2018 Directors report and 2018 Non-Financial Information Statement

Este archivo incluye la traducción al inglés (únicamente con finalidad informativa) de las Cuentas Anuales Consolidadas y Auditadas de 2018, el Informe de Gestión de 2018 y el Estado de Información no Financiera de 2018

Telepizza Group, S.A. and Subsidiaries

Consolidated Annual Accounts

31 December 2018

Consolidated Directors' Report

2018

(With Independent Auditor's Report Thereon)

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

KPMG Auditores, S.L.
Paseo de la Castellana, 259
28046 Madrid

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

Independent Auditor's Report on the Consolidated Annual Accounts

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 2018, 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 2018 and of its consolidated financial performance and its 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.

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

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 non-financial assets subject to amortisation or depreciation and/or impairment

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

Key audit matter	*How the matter was addressed in our audit*
At 31 December 2018 the Group has recognised property, plant and equipment amounting to Euros 51,262 thousand, goodwill of Euros 397,261 thousand and other intangible assets mainly relating to trademarks and other intangible assets, totalling Euros 239,370 thousand and Euros 101,893 thousand, respectively. The Group estimates the recoverable amount of goodwill and of intangible assets with indefinite useful lives at each reporting date, and of property, plant and equipment and other intangible assets when there are indications of impairment. To estimate this recoverable amount, the Group used valuation techniques that require the Directors to exercise judgement and make assumptions and estimates. 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 stores, factories or countries where there could be a decline in the performance of the businesses. In the case of the “telepizza” and “Jeno's Pizza” trademarks, the recoverable amount has been determined on the basis of the new scenario in respect of the Pinta project (see note 1 to the consolidated annual accounts). In this connection, the “Jeno's Pizza” trademark now has a finite useful life and there are indications of impairment due to the new project. As a result of this valuation, the Group recognised an impairment loss of Euros 5,808 thousand. Due to the significance of the carrying amounts of these assets, the high level of judgement and the uncertainty associated with the assumptions and estimates used by the Directors in their analysis, this has been considered a key audit matter.	Our audit procedures included the following: • Evaluating the design and implementation of the controls associated with the process of valuing these assets. • Analysing the indications of impairment of the outlets and factories, as well as the contractual rights and other assets with finite useful lives identified by the Group’s Directors and management. • Assessing the reasonableness of the methodology used to calculate the recoverable amount and the main assumptions, with the involvement of our valuation specialists. • Contrasting the consistency of estimated growth, used as the basis to calculate the recoverable amount, with the business plan approved by the board of directors. • For a sample of outlets, comparing the cash flow forecasts estimated in previous years with the actual flows obtained. • Analysing 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.

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Recoverability of deferred tax assets See notes 4 (q) and 26 to the consolidated annual accounts	
Key audit matter	*How the matter was addressed in our audit*
At 31 December 2018 the Group has recognised deferred tax assets amounting to Euros 39,999 thousand mainly in respect of tax losses and non-deductible interest pending offset by the Spanish tax group. The recognition of deferred tax assets entails a high level 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 any tax planning opportunities considered by the Group. Due to the uncertainty associated with the recovery of the amounts recognised as deferred tax assets and the expected recovery period, we consider this to be a key audit matter.	Our audit procedures included the following: • 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. • Bringing in our tax specialists to assess tax planning strategies and the appropriateness of the criteria adopted by the Group in cases where the tax treatment may be uncertain or complex. • Contrasting the profit and loss forecasts used as a basis for recognising the deferred tax assets with the actual results obtained in the current year and evaluating the reasonableness of the time period in which the Group expects to offset these assets. • 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.

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Strategic agreement with Pizza Hut International LLC (Pinta Project) See note 1 to the consolidated annual accounts	
Key audit matter	*How the matter was addressed in our audit*
On 16 May 2018, the Group reached an agreement with Pizza Hut International LLC (hereinafter Pizza Hut) to enter into a strategic alliance and a multi-jurisdictional master franchise agreement, whereby the Group becomes the exclusive master franchisee of the "Pizza Hut" trademark in Latin America (excluding Brazil), the Caribbean, Spain, Portugal and Switzerland for a period of 25 to 50 years depending on the territory. This agreement was formalised on 18 December 2018, once the conditions precedent set out in the initial framework agreement had been meet, and it entered into force on 30 December 2018. The Group assumes the position of franchisor in the existing Pizza Hut franchise agreements in those territories and may open and operate new Pizza Hut establishments, either its own or as franchises. The Group has also granted Pizza Hut an option to purchase bare ownership of the "telepizza" trademark, which may or may not be exercised three years after signing the agreement. If Pizza Hut exercises the aforementioned purchase option, the Group will continue to operate the "telepizza" brand in Spain and Portugal, where the presence and recognition of the "telepizza" brand is most represented, for at least the duration of the alliance. Due to the different accounting assumptions and impacts associated with this new agreement, which substantially modifies the Group's business model and could therefore mainly affect the valuation of the Group's assets, we consider this to be a key audit matter.	Our audit procedures included the following: • Reviewing all agreements and contracts executed in relation to this matter, as well as the price-sensitive information reported to the markets and the board of directors' report on the terms and conditions of the strategic alliance. • Analysing the accounting implications of this agreement on the basis of a report prepared by an independent expert. • Analysing, together with our tax specialists, the tax implications of the agreement on the basis of a report prepared by an independent expert. • Analysing, together with our specialists, the valuation of the "telepizza" trademark, of the sale option thereon given to Pizza Hut and of the valuation of bare ownership made by the Group on the basis of a report prepared by an independent expert. • Reviewing the expenses incurred in the formalisation of this agreement and whether it has been appropriately classified by nature. • Assessing whether the information disclosed in the consolidated annual accounts in relation to the aforementioned strategic agreement meets the requirements of the financial reporting framework applicable to the Group.

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

Other Information: Consolidated Directors' Report

Other information solely comprises the 2018 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 as regards the content of the consolidated directors' report is defined in the legislation regulating the audit of accounts, which establishes two different levels:

a) A specific level applicable to the consolidated non-financial information statement and to certain information included in the Annual Corporate Governance Report, as defined in article 35.2. b) of Audit Law 22/2015, which consists solely of verifying that this information has been provided in the directors' report, or where applicable, that the directors' report makes reference to the separate report on non-financial information, as provided for in legislation, 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 section a) above has been provided in the consolidated directors' report, that the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2018, 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.

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

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.

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

- 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 audit committee of the Parent, 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.

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

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 our additional report to the audit committee of Telepizza Group, S.A. dated 11 March 2019.

Contract Period

We were appointed as auditor of the Group by the shareholders of Telepizza Group, S.A. at their general meeting on 28 June 2018 for a period of one year, specifically the year ended 31 December 2018. 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. 15765

11 March 2019

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statement of Financial Position
31 December 2018

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

Assets	2018	2017(*)
Property, plant and equipment (note 8)	51,262	50,456
Goodwill (note 9)	397,261	387,976
Other intangible assets (note 9)	341,263	337,125
Deferred tax assets (note 14)	39,999	30,438
Non-current financial assets (note 10)	32,493	35,455
Total non-current assets	862,278	841,450
Inventories (note 11)	10,208	10,903
Trade and other receivables (note 12)	40,916	41,117
Other current financial assets	2,745	2,730
Other current assets	1,402	3,227
Cash and cash equivalents (note 13)	56,698	87,279
Subtotal current assets	111,969	145,256
Non-current assets held for sale (note 6)	14,981	88
Total current assets	126,950	145,344
Total assets	989,228	986,794

(*) Restated figures

The accompanying notes form an integral part of the consolidated annual accounts for 2018.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statement of Financial Position
31 December 2018

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

Equity and Liabilities	2018	2017(*)
Share capital (note 15)	25,180	25,180
Share premium	533,695	533,695
Retained earnings	60,592	81,432
Own shares	(15,500)	-
Translation differences	(9,118)	(5,070)
Equity attributable to equity holders of the Parent and total equity (note 15)	594,849	635,237
Non-controlling interests	836	158
Equity	595,685	635,395
Loans and borrowings (note 18 (a))	197,743	196,687
Other financial liabilities (note 17)	9,544	8,576
Deferred tax liabilities (note 14)	81,955	83,375
Provisions (note 19)	4,558	85
Other non-current liabilities (note 1)	16,336	7,140
Total non-current liabilities	310,136	295,863
Loans and borrowings (note 18 (b))	962	895
Other financial liabilities (note 17)	3,291	500
Trade and other payables (note 21)	65,705	51,153
Provisions (note 19)	4,733	151
Other current liabilities	4,050	2,756
Subtotal current liabilities	78,741	55,455
Liabilities directly associated with non-current assets held for sale (note 6)	4,666	81
Total current liabilities	83,407	55,536
Total equity and liabilities	989,228	986,794

(*) Restated figures

The accompanying notes form an integral part of the consolidated annual accounts for 2018.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Income Statement
for the year ended
31 December 2018

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

	2018	2017 (*)
Revenues (note 22)	340,271	342,380
Merchandise and raw materials used (note 11)	(97,520)	(93,325)
Personnel expenses (note 23)	(94,921)	(90,756)
Amortisation and depreciation (notes 8 and 9)	(16,530)	(18,315)
Other expenses (note 24)	(118,600)	(93,055)
Impairment/(Reversal) of non-current assets (note 25)	(7,444)	1,876
Other losses	(1,042)	(1,642)
Operating profit	4,214	47,163
Finance income	1,230	810
Finance costs	(8,449)	(10,387)
Profit/(loss) before tax from continuing operations	(3,005)	37,586
Income tax expense (note 26)	(2,503)	(6,371)
Profit/(loss) for the year from continuing operations	(5,508)	31,215
Post-tax profit/(loss) of discontinued operations	(4,109)	467
Profit/(loss) for the year	(9,617)	31,682
Profit/(loss) attributable to non-controlling interests	(668)	161
Profit/(loss) for the year attributable to equity holders of the Parent		
Continuing operations	(6,176)	31,376
Discontinued operations	(4,109)	467
	(10,285)	31,843
Basic and diluted earnings per share (Euros)		
Profit/(loss) on continuing operations	(0.0622)	0.3115
Profit/(loss) on discontinued operations	(0.0413)	0.0046
Profit/(loss) for the year	(0.1035)	0.3162

(*) Restated figures

The accompanying notes form an integral part of the consolidated annual accounts for 2018.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statement of Comprehensive Income
for the year ended
31 December 2018

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

	2018	2017(*)
Profit/(loss) for the year	(9,617)	31,682
Other comprehensive income:		
Items that will be reclassified to profit or loss		
Translation differences of financial statements of foreign operations	(4,048)	(1,960)
Total comprehensive income for the year	(13,665)	29,722
Profit/(loss) attributable to non-controlling interests	(668)	161
Total comprehensive income/(loss) for the year attributable to equity holders of the Parent	(14,333)	29,883

(*) Restated figures

The accompanying notes form an integral part of the consolidated annual accounts for 2018.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statement of Changes in Equity
for the year ended
31 December 2018

(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	Own shares	Prior years' profit and loss	Other equity instruments	Translation differences	Non-controlling interests	Total Equity
Balances at 31/12/2016	25,180	533,695	-	51,294	-	(3,110)	-	607,059
Prior years corrections	-	-	-	(1,705)	-	-	-	(1,705)
Balances at 01/01/2017	25,180	533,695	-	49,589	-	(3,110)	-	605,354
Business combinations	-	-	-	-	-	-	319	319
Profit/(loss) for the year	-	-	-	31,843	-	(1,960)	(161)	29,722
Balances at 31/12/2017	25,180	533,695	-	81,432	-	(5,070)	158	635,395
Prior years corrections	-	-	-	(1,554)	-	-	10	(1,544)
Transition to new standards (note 2(d))	-	-	-	(5,209)	-	-	-	(5,209)
Balances at 1/01/2018	25,180	533,695	-	74,669	-	(5,070)	168	628,642
Transactions with own shares	-	-	(15,500)	-	-	-	-	(15,500)
Dividends	-	-	-	(6,370)	-	-	-	(6,370)
Share-based payments (note 20(b))	-	-	-	-	2,578	-	-	2,578
Profit/(loss) for the year	-	-	-	(10,285)	-	(4,048)	668	(13,665)
Balances at 31/12/2018	25,180	533,695	(15,500)	58,014	2,578	(9,118)	836	595,685

The accompanying notes form an integral part of the consolidated annual accounts for 2018.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statement of Cash Flows
for the year ended
31 December 2018

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

	2018	2017(*)
Cash flows from operating activities		
Post-tax profit/(loss) of discontinued operations	(4,109)	467
Profit/(loss) for the year from continuing operations	(3,005)	37,586
Adjustments for:		
Amortisation and depreciation (notes 8 and 9)	16,530	18,315
(Reversal of) impairment losses (note 25)	7,444	(1,876)
Finance income	(1,230)	(810)
Finance costs	8,449	10,387
Losses on disposal of property, plant and equipment and other losses	1,042	1,642
Share-based payment costs	3,365	-
Expenses/Reversals of provisions	8,418	-
Impairment of trade receivables (note 12)	1,000	526
Other adjustments of discontinued operations	431	629
	38,335	66,866
Change in working capital		
(Increase)/decrease in inventories	909	952
(Increase)/decrease in trade and other receivables	(3,365)	(2.228)
(Increase)/decrease in other current and non-current asset	4,772	(5,188)
Increase/(decrease) in trade and other payables	2,433	580
Increase/(decrease) in provisions	(151)	(99)
Increase/(decrease) in other current and non-current liabilities	(2,568)	1,009
Changes in working capital due to discontinued operations	(588)	(541)
Cash generated from operations	1,442	(5,515)
Interest received	1,230	810
Interest paid	(7,326)	(9,384)
Income tax paid	(6,455)	(5,166)
Net cash from operating activities	27,226	47,611
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment and intangible assets	7,483	6,919
Acquisition of property, plant and equipment	(15,735)	(19,404)
Acquisition of intangible assets	(5,424)	(4,701)
Acquisition of subsidiaries, net of cash and cash equivalents	(21,621)	(8,393)
Cash flows from (used in) discontinued operations	(482)	-
Net cash used in investing activities	(35,779)	(25,579)
Cash flows from financing activities		
Own shares	(15,500)	-
Dividends paid	(6,370)	-
Net cash from (used in) financing activities	(21,870)	-
Net increase/(decrease) in cash and cash equivalents	(30,423)	22,032
Cash and cash equivalents at 1 January	87,279	63,972
Effect of exchange differences	(158)	1,275
Cash and cash equivalents at 31 December	56,698	87,279

(*) Restated figures

The accompanying notes form an integral part of the consolidated annual accounts for 2018.

(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 2017 and raised to public deed on 5 February 2017, 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. These shares are freely transferable. The Company's registered office is located at 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”, “Jeno’s Pizza” and “Apache”, which sell food for consumption at home and on the premises. At 31 December 2018, this activity is carried out through 424 own premises and 1,234 franchises located mainly in Spain, Portugal, Poland, Chile, Colombia, Peru, Ecuador, Switzerland, Ireland, the Czech Republic and Paraguay. The Group also carries out its activity through master franchises located in Guatemala, El Salvador, Russia, Angola, Bolivia, Abu Dhabi, Iran and the 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)

The franchise activity consists mainly of advising on the management of third parties' outlets that operate under the “telepizza”, “Pizza World”, “Jeno’s Pizza” and “Apache” 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 2018, 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.

(a) Relevant events in 2018

(i) Pinta operation

In May 2018, the Telepizza Group announced it would enter into a long-term strategic alliance with Pizza Hut, a Yum! Brands group company. Once approval had been obtained from the European anti-trust authorities, the agreement entered into force on 30 December 2018 through a master franchise contract. Through this alliance, the Telepizza Group has become the largest master franchisee of Pizza Hut in the world by number of units, which has enabled it to double its current platform, expanding its target consumer base to a population of more than 500 million people in markets in which it has extensive experience and a solid history of operations.

Some of the most relevant aspects of the master franchise contract between the Group and Pizza Hut are as follows:

- The Group has become the exclusive master franchisee of Pizza Hut for the Iberian peninsula, Latin America (including the Caribbean, with the sole exception of Brazil) and Switzerland, except in Mexico where it is not the exclusive master franchisee.

- The master franchise contracts have a term of 30 years, with two 10-year extensions (30+10+10) in Spain, Portugal and Chile, and a term of 10 years plus extensions of 10 years and 5 years, respectively, (10+10+5) in other markets.

- The contract stipulates an initial franchise fee/transfer fees of Euros 11,850 thousand, payable by the Group to Pizza Hut at the end of the third year of the contract, which has been recognised as an intangible asset (see note 9).

- The Group will receive a royalty, generally of 6%, from the Pizza Hut franchisees and will pay Pizza Hut a royalty of 3.5% of the Pizza Hut chain's sales within the territories covered by the contract. The Group will also pay Pizza Hut an alliance fee amounting to 3.5% of sales by the "telepizza" chain.

- Over the next 17 years, the Group will benefit from deducting on a royalty credit of the expenses mentioned in the previous paragraph. Thus, in the first year no royalties are payable on the first USD 250 million in sales, an amount that declines over the remaining years.

- The Group is required to convert the outlets under the "telepizza" name in Latin America to "Pizza Hut" within a period of five to ten years. The Group is not required to convert these outlets in Spain and Portugal and as such both brands will continue to co-exist.

- The Group undertakes to open 1,300 new outlets within a period of 10 years, with annual targets agreed by the two parties.

- Once the targets for opening and converting outlets in each of the first three years have been met, the Group will receive an incentive fee with annual targets subject to achieving a total of US Dollars 25 million in these three years, which will be recognised as income to the extent that the conversion targets are met.

- The Group may open the outlets for the "telepizza" business in Spain that it considers necessary.

- In countries where the Telepizza Group operates under the "telepizza" brand but which are not covered by the master franchise contract, a period has been established for carrying out divestments (Poland, the Czech Republic and other minor countries where the Group only operates through a master franchisee) (see note 6).

- As part of the agreement, Tele Pizza, S.A. has contributed the bare ownership of the "telepizza" brand to a newly-created Group company TDS Telepizza, S.L. in which Pizza Hut holds a non-controlling interest. Tele Pizza, S.A. reserves the right to use and avail of the benefits of the brand through a 30-year usufruct agreement with the aforementioned new company, which has not led to any change in the brand in these consolidated annual accounts.

(Continued)

Telepizza Group has granted a call option for the aforementioned bare ownership to Pizza Hut for Euros 1,750 thousand, which may be exercised at a single time three years after signing the agreements for the agreed price. The price agreed is equal to the fair value of this asset at that moment, which reflects the residual value of the "telepizza" brand at the end of the master franchise contract indicated above (30+10+10 years) which would amount to Euros 10,100 thousand. Exercise of this option by Pizza Hut will not affect the Group's rights for the exclusive use of the brand (see note 4 (e)). This call option may only be settled through the physical delivery of non-financial consideration; consequently, it is not accounted for as a derivative financial instrument.

The business plan prepared by Group management, which considers this new global agreement (see note 9), was taken into account during the impairment tests of the majority of intangible assets, goodwill and brands, for the purpose of calculating the recoverable amount through the fair value less costs to sell method.

As part of the agreement, at 30 December 2018 the Group has added more than 950 outlets to its network, and now manages more than 2,550 outlets at the reporting date, compared to close to 1,600 at the end of 2017.

The alliance will have a wide-reaching impact on the Group in general and on how it will generate value for its shareholders in the future. However, given that work towards signing this highly important agreement has been carried out since late 2017 and especially throughout virtually all of 2018, results for the current year have been significantly impacted. In addition to a certain level of disruption to recurring business throughout the year and the aspects described above, the main impacts on the consolidated annual accounts have been as follows:

- <u>Project development costs</u>: In assessing the future strategic options for the Group, finalising the agreement and obtaining approval from the European anti-trust authorities, the Group has relied to a large extent on collaboration with consultants and law firms (see note 24).

- <u>Organisation and personnel</u>: Given the expected vertical launch of the alliance following the definitive signing, the Group has made investments to improve its organisational capacities by replacing certain employees. The Group has also rewarded the extra effort of a large number of employees for achieving the close of the operation (see note 23).

- <u>Outlet operation</u>: As a result of the alliance, the two brands will coexist in Spain and Portugal, whereas the "telepizza" outlets in Latin America will gradually become Pizza Huts. The obvious implication is that outlets with overlapping territories will close. In Latin America there have been general concerns about losing telepizza's trademark and being obliged to the franchisees to make changes as a result of the new Pizza Hut business. These situations have led to certain losses to current franchisees.

- Changes of suppliers: The Pizza Hut alliance significantly changes the Group's supply dynamic. Doubling its size will enable the Group to enter into new negotiations with suppliers to improve purchase conditions. However, both the new geographical division and the adoption of the different quality standards of Pizza Hut have led and will continue to lead to the need to terminate certain agreements with existing suppliers.

- Sales of businesses: As the agreement stipulates divestments out of certain countries mentioned above, the Group has entered into negotiations with AmRest for the sale of its businesses in Poland and the Czech Republic (see note 6).

- Impairment of the "Jeno's pizza" brand: In Colombia, the "Jeno's pizza" brand has a limited future, as the agreement foresees the conversion of these outlets to Pizza Hut. Although the Pizza Hut outlets will naturally be of great value, the value of the "Jeno's pizza" brand has been adjusted based on the limited useful life and the economic benefits that it will generate before it disappears from the market (see note 9).

Main accounting impacts

The transaction has been recognised as a collaboration agreement, whereby each party recognises the interest accrued and the costs incurred. Accordingly, the Group will recognise, as expenses, 3.5% of the royalties it must pay to Pizza Hut on sales made by "Pizza Hut" outlets and in respect of the fees defined in this strategic alliance for sales made by "telepizza" outlets. Given that these royalties and fees are fixed as a percentage of outlet sales, the expenses are recognised on an accruals basis. Moreover, the Group recognises 6% of the royalties from its franchisees of the Pizza Hut outlets as income, as indicated in the accounting policy on revenue from contracts with customers.

The Group paid Euros 11,850 thousand to Pizza Hut an initial franchise fee to acquire the franchise rights; this amount has been recognised as an intangible asset. In addition, the Group has incurred costs totalling Euros 12,146 thousand, which have been recognised under other expenses in the consolidated income statement.

(Continued)

As already mentioned, the Group has granted a Euros 1,750 thousand option call to Pizza Hut over the bare ownership of the brand, which may be exercised within 3 years. Consequently, and until the option is exercised, the Group retains full ownership of the brand and the operating rights in the territories included in the agreement, but from now on it may not operate in territories where the Group did not operate previously, and must cease to operate, subject to different deadlines, in those territories in which the Group operates that are not included in the agreement. At the 2018 reporting date, the “telepizza” brand therefore continues to have an indefinite useful life, notwithstanding the fact that the signing of the agreement may have implied an indication of impairment. As indicated in note 9, the Group has tested the brand for impairment using the royalty method and considering only the cash flows generated by the “telepizza” brand under the new agreement, and it has not been necessary to recognise any impairment.

If Pizza Hut were ultimately to exercise the option call, this would entail the derecognition of a portion of the carrying amount corresponding to the bare ownership of the brand, with the Group retaining usufruct for a period of 30 years and receiving consideration of Euros 10,100 thousand. The carrying amount to be derecognised would be determined by multiplying the proportional part representing the fair value of the bare ownership as a percentage of the total fair value of the brand by the carrying amount of the brand. The usufruct period is the maximum legal period stipulated in the Code of Commerce in Spain. Once this period has elapsed, it would be extended or a licensing contract would be obtained for no consideration, so as to continue operating the brand during the renewal periods under the Group’s control, as per the years stipulated in the Master Franchise contract. From then on, the brand would cease to have an indefinite useful life and will instead have a finite useful life (see note 4(e)).

(ii) Takeover bid

On 21 December 2018, the Company's main shareholder KKR Creditor Advisors (US) (see note 15 (a)) announced its intention to acquire all the shares in Telepizza Group, S.A., so as to delist the Parent from the Spanish stock market. The initial price offered was Euros 6 per share.

For the purposes of the close process for 2018, the Telepizza Group is required to continue operating its business in the best interest of all its stakeholders, as if this event had not occurred, primarily because the bid initially requires approval from the Spanish National Securities Market Commission (CNMV). Within the following 10 days, the board of directors of the Parent is required to issue an independent opinion on the economic viability of the bid presented.

(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 2018 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 give a true and fair view of the consolidated equity and consolidated financial position of Telepizza Group, S.A. and subsidiaries at 31 December 2018 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 2018, authorised for issue on 28 February 2019, will be approved with no changes by the shareholders at their annual general meeting.

(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, which are measured at the lower of their carrying amount and fair value less costs to sell.

(Continued)

(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.

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, is 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 (see note 4 (e)).

- The Group tests goodwill and brands 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 discounted cash flow methods to calculate these values, based on projections of the budgets approved by management. The cash flows take into consideration past experience and represent management's best estimate of future market performance. The key assumptions employed when determining fair value less costs to sell 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 notes 4 (g) and 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, including an analysis of expected loss, 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.

(Continued)

- The estimates made in connection with share-based payments are subject to a high degree of judgement and uncertainty (see note 20 (b)).
- The Group is subject to regulatory and legal processes and inspections by government bodies in various jurisdictions. The Group recognises a provision if it is probable that an obligation will exist at year end which will give rise to an outflow of resources embodying economic benefits and the outflow can be reliably measured. Legal processes usually involve complex issues and are subject to substantial uncertainties. As a result, the directors use significant judgement when determining whether it is probable that the process will result in an outflow of resources embodying economic benefits and estimating the amount.
- The calculation of provisions for onerous contracts and litigation is subject to a high degree of uncertainty. The Group recognises provisions for onerous contracts when estimated total costs exceed the economic benefits expected to be received under the contract (see note 19 (b)).

As a result of the Pinta operation indicated in note 1, significant accounting impacts requiring relevant judgments have arisen and will arise in future.

Although estimates are calculated by the Company’s directors based on the best information available at 31 December 2018, 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

During 2018, the Group acquired Alimentos de la Costa Costahut, S.A. and Sociedad de Turisto Sodetur, S.A., both in Ecuador.

During 2017 the Group acquired Mooncharm Limited and The Good Food Company Ltd in Ireland, Fortys Pizza s.r.o. in the Czech Republic, and Compañía de Negocios de Paraguay, S.A., in Paraguay.

(d) Standards and interpretations issued

Standards and interpretations effective since 2018

The modifications to the Group's accounting policies as a result of amendments to standards and interpretations or new standards introduced since 1 January 2018, and the corresponding impacts are as follows:

- IFRS 9 Financial instruments.

  IFRS 9 is applicable for annual periods beginning on or after 1 January 2018 and the Group is permitted to apply this standard for the first time prospectively.

Given the nature of the Group's financial assets and financial liabilities, the change in presentation criteria set out in IFRS 9 has not been relevant for the Group.

The new model for calculating impairment of financial assets is based on the expected credit loss model, whereby a loss allowance is recognised for expected credit losses in the next 12 months or based on lifetime expected losses.

For trade receivables, the Group calculates expected loss for each individual company on the basis of estimated unrecoverable receivables in recent years as a percentage of historical sales.

The Group applies the simplified approach permitted under IFRS 9, which requires that expected lifetime losses be recognised at the date of initial recognition of the receivables.

In addition to the changes in name, the impact of adopting IFRS 9 on the carrying amounts of the financial assets and financial liabilities at 1 January 2018 has entailed an increase in impairment losses amounted to Euros 5,209 thousand, details of which are as follows:

	Thousands of Euros			
Financial assets	Classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39	New carrying amount under IFRS 9
Trade and other receivables	Loans and receivables	Amortised cost	41,117	38,124
Cash and cash equivalents	Loans and receivables	Amortised cost	87,279	87,279
Other financial assets	Loans and receivables	Amortised cost	38,185	35,969
			166,581	161,372

	Thousands of Euros			
Financial liabilities	Classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39	New carrying amount under IFRS 9
Loans and borrowings	Amortised cost	Amortised cost	197,582	197,582
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss	126	126
Other financial liabilities	Amortised cost	Amortised cost	8,950	8,950
			206,658	206,658

(Continued)

- IFRS 15 Revenue from Contracts with Customers

  IFRS 15 establishes a comprehensive framework for determining and recognising revenue. It replaces the existing guidelines on revenue recognition, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

  The revenue recognition model established by IFRS 15 is based on the following five steps:

  - Identify the contract
  - Identify the performance obligations
  - Determine the price
  - Allocate the price to the performance obligations
  - Recognise revenue as the performance obligations are satisfied.

  For sales at own outlets, performance obligations are satisfied through the delivery of the products and are documented through the issue of a receipt/invoice. The obligations in the contract arise with the delivery of the goods. The price is linked to the product delivered and recognised as revenue upon delivery of the goods.

  In the case of factory sales of products to franchise outlets and master franchisees, the contracts do not include a minimum order and as a result each good is a separate performance obligation. This performance obligation is identified at the date of the order, which is not contractually determined.

  As regards to loyalty programmes, the Group does not generally have any programmes with customers and they therefore have virtually no impact.

  IFRS 15 is applicable for annual periods beginning on or after 1 January 2018, early adoption is permitted. The Group has opted to apply IFRS 15 retrospectively, recognising the cumulative effect of initial application at the date of initial application, without therefore restating the information presented in 2017 under the previous standards.

  There has been practically no impact on the Group's consolidated financial statements in 2018 derived from adoption of IFRS 15 and it mainly relates to the initial franchise fee/transfer fees and renewal fees that are invoiced to franchisees and master franchisees, as franchise contracts are considered to be an access licence and therefore, in accordance with IFRS 15, the accounting treatment differs from the previous criteria used for recognising this revenue. Consequently, the revenues from fees will be recognised over the term of the contract, considering renewals that entail a material option for the customer. However, given that the Telepizza Group has practically eliminated the practice of invoicing this type of fees, the changes introduced by IFRS 15 have had practically no impact.

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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 2019 and subsequent years (depending on the effective date of each standard):

- IFRS 16 Leases

  IFRS 16 introduces a single accounting model for the recognition of leases in the balance sheet by lessees. The lessee recognises an asset for the right of use of the underlying asset and a liability for the lease due to the obligation to make the lease payments. There are optional exceptions for short-term leases and the leasing of articles of little value. The lessor accounting method remains similar to that under the current standard; i.e. lessors will continue to classify leases as finance leases or operating leases.

  IFRS 16 replaces the existing guidelines for leases, such as 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 shall be applied for annual periods beginning on or after 1 January 2019, although early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers, on or before the date of first application of IFRS 16.

  The Group will apply IFRS 16 for the first time on 1 January 2019. To this end, during 2018 the Group undertook a process for its implementation which, inter alia, enabled it to quantify the estimated impact that this new standard will have on its consolidated annual accounts at the start of 2019. The main policies, estimates and criteria as regards application of IFRS 16 are as follows:

  - Method of transition: The Group has opted to adopt IFRS 16 applying the modified retrospective approach, recognising the right-of-use asset for an amount equal to the lease liability. As a result of the applying this approach, the Group will not restate the comparative information.

  - Discount rates: the incremental borrowing rate has been applied for the initial measurement of the lease liability.

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- Lease term for each contract: the term considered for the leases depends mainly on whether the lease contract includes a non-cancellable period. In this regard, in determining the term, the Group has considered, as a key variable, the average periods of return on investments for a portfolio of outlets at country level and their subsequent investment cycles. As a result of this analysis, the Group has determined the term cycles by country such that the probable date of termination of each lease will be the first date after 1 January 2019 resulting from applying the cycle established, from the commencement date of the contract. In the case of warehouses and offices, the probable date of termination is determined specifically based on the reasonable lease term. However, the probable date of termination shall not be before the end of the contractual non-cancellable period.

- Accounting policies applicable in the transition. The Group has decided to use the following practical expedients when applying the simplified approach for leases previously classified as operating leases:

  - Use of a single discount rate for a portfolio of outlets at country level.

  - Exclusion of leases in which the underlying asset is of low value.

  - Instead of performing an impairment review at the date of initial application, the Company has relied on its assessment of whether the leases are onerous, by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application, such that the right-of-use asset has been adjusted at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application.

In the case of subleases, if they are considered as finance leases, the right of use arising from the head lease transferred shall be derecognised and the net investment in the sublease shall be recognised (financial asset). The difference between the right of use and the net investment in the sublease shall be recognised in the income statement, the financial liability associated with the head lease shall be maintained, and finance income (associated with the net investment held for the sublease) and a finance cost (associated with the liability held for the sublease) shall be recognised over the lease term.

In determining the estimated effect of implementation at 31 December 2018, the Group has non-cancellable operating lease commitments relating to property amounting to Euros 86,022 thousand (see note 24). In addition to these non-cancellable commitments, the Group expects to recognise liabilities for the lease periods beyond the non-cancellable period but for which it considers that it is reasonably certain that the right to terminate the contract early will not be exercised. As a result, at 1 January 2019 the Group expects to recognise rights-of-use assets amounting to approximately Euros 87 million, a net investment in subleases totalling approximately Euros 61 million, lease liabilities of approximately Euros 160 million and a loss of Euros 7 million for the difference between the rights-of-use assets and the net investment in subleases. The difference between lease liabilities and future minimum payments under these leases, including those payments that will accrue over the lease period established in the lease agreements, is mainly due to the effect of discounting the former.

The Group does not expect that adoption of IFRS 16 will have a very significant impact on the net profit after tax.

- IFRIC 23 Uncertainty over Income Tax Treatments

  IFRIC 23 clarifies how to recognise and measure current and deferred tax assets and liabilities when there is uncertainty over income tax treatments. The Group will apply this standard for the first time on 1 January 2019 and does not expect its adoption will have an impact on its consolidated annual accounts.

(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 2018 include comparative figures for 2017, which differ from those included in the consolidated annual accounts for that year, which were approved by the shareholders at their general meeting held on 28 June 2018, details of these differences are provided below.

The balances in the consolidated income statement and consolidated statement of cash flows for 2017 have been restated in order to make them comparable with the figures for 2018 as the Group has classified certain operations as discontinued operations in the consolidated income statement for 2018 (see note 6).

As detailed in note 7, the consolidated statement of financial position at 31 December 2017 and the consolidated income statement for 2017 have been restated to reflect the definitive business combination arising from the acquisition of the franchise business in Ireland. Details of the restated assets and liabilities at 31 December 2017 are as follows:

	Thousands of Euros		
	Balances at 31.12.2017	Restatement	Restated balances at 31.12.2017
Assets			
Goodwill	392,539	(4,563)	387,976
Other intangible assets	326,923	10,202	337,125
Total assets	981,155	5,639	986,794
Deferred tax liabilities	82,100	1,275	83,375
Other financial liabilities	4,212	4,364	8,576
Total liabilities	981,155	5,639	986,794

(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 Profit of the Parent

The Parent's board of directors have proposed that the Euros 2,290,807 profit of Telepizza Group, S.A. be transferred in full to voluntary reserves. This proposal is pending approval by the Shareholders at their general meeting.

The distribution of the Euros 10,143,245 profit for 2017, approved by the Shareholders at the general meeting held on 28 June 2018, is as follows:

	Euros
Basis of allocation	
Profit for the year	10,143,245
Distribution	
Voluntary reserves	3,773,500
Dividends	6,369,745
	10,143,245

(4) Accounting Principles

(a) Subsidiaries

Subsidiaries are entities over which the Parent, either directly or indirectly, exercises control. 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 the date of acquisition, which is when the Group takes control, until the date that control ceases.

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.

(b) 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.

(Continued)

The Group applies the acquisition method for business combinations.

The acquisition date is the date on which the Group obtains control of the acquiree.

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.

If the business combination can only be determined provisionally the identifiable net assets are initially recognised at their provisional values and adjustments made during the measurement period are recognised as if they had been known at the acquisition date. Comparative figures for the previous year are restated where applicable. In any event, adjustments to provisional amounts only reflect information obtained about facts and circumstances that existed at the acquisition date and, if known, would have affected the measurement of the amounts recognised at that date. After this period, 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.

If the Group has no previously held interest in the acquiree, the excess between the amount allocated to non-controlling interests, and the net assets acquired and liabilities assumed is recognised as goodwill. Any shortfall is recognised in profit or loss, after assessing the value assigned to non-controlling interests, and the identification and measurement of net assets acquired.

(Continued)

Contingent consideration is classified in accordance with the underlying contractual terms as a financial asset, financial liability, equity instrument or provision. Subsequent changes in the fair value of a financial asset or financial liability are recognised in profit or loss, provided that they do not arise from a measurement period adjustment. Contingent consideration classified as equity is not remeasured, and subsequent settlement is accounted for in equity. Contingent consideration classified as a provision is subsequently recognised at fair value through profit or loss.

(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.

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.

(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.

(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 and contingent liabilities assumed from the acquiree. 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.

(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.

(Continued)

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. Following the Pinta operation (see note 1) and although an option call has been granted that may or may not be exercised after the third year of the agreement, the Parent's directors consider that the "telepizza" brand continues to have an indefinite useful life. In the event that the aforementioned option is exercised after the third year, the use of the brand will have a finite useful life, whereupon it will begin to be amortised over its remaining useful life.

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 is the cost of an 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 (see note 9).

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.

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.

(Continued)

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 prior periods since 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.

(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 consolidated annual accounts (see notes 2 (e) and 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 prior periods since 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.

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.

(Continued)

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 or group of cash-generating assets 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.

Until 31 December 2017, for the purpose of verifying the impairment of intangible assets with indefinite useful lives, primarily comprising the “telepizza” brand, this was considered a global asset and the impairment analysis was therefore carried out by comparing the carrying amount of all the Group’s assets with their recoverable amount. As a result of the Pinta operation (see note 1), and due mainly to the fact that “telepizza” restaurants in Latin America will gradually be converted into “Pizza Hut” restaurants, the value of these assets will continue to be significant only on the Iberian Peninsula. Consequently, no impairment has arisen as a result of comparing the carrying amount of the “telepizza” brand with its fair value in the aforementioned new scenario (see note 9).

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.

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.

(Continued)

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

Leases in which, upon inception, the Group transfers to third parties substantially all the risks and rewards incidental to ownership of the assets are classified as finance leases, 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 presented 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.

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

(ii) Lessee accounting

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) Recognition and classification of instruments

The changes introduced by the new IFRS 9 have not required any significant changes as regards the accounting policies applicable in prior years.

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".

The Group recognises financial instruments when it becomes party to the contract or legal transaction, in accordance with the terms set out therein.

Since 1 January 2018, the Group has classified a financial asset as at amortised cost when it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The Group classifies financial liabilities held for trading as at fair value through profit or loss.

The Group designates a financial liability at initial recognition as measured at fair value through profit or loss when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases or when a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel.

The Group classifies other financial liabilities as financial liabilities at amortised cost, except for financial guarantee contracts, commitments to provide a loan at a below-market interest rate or financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

(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. In order for the Group to currently have a legally enforceable right, it must not be contingent on a future event and must be legally enforceable in the normal course of business, or in the event of default, or in the event of insolvency or bankruptcy.

(iii) *Financial assets and financial liabilities at amortised cost*

Financial assets and financial liabilities at amortised cost are initially recognised at fair value, plus or minus transaction costs, and are subsequently measured at amortised cost using the effective interest method.

(iv) *Reclassifications of financial instruments*

The Group reclassifies financial assets when it changes its business model for managing them. The Group does not reclassify financial liabilities.

If the Group reclassifies a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, the difference between the fair value and the carrying amount is recognised in profit or loss. From the reclassification date, the Group does not recognise the interest separately from the financial asset.

If the Group reclassifies a financial asset out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, the difference between the fair value and the carrying amount is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification. However, the cumulative gain or loss on expected credit losses is recognised in other comprehensive income and disclosed in the notes.

(v) *Impairment*

The Group recognises in profit or loss a loss allowance for expected credit losses on financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income, finance lease receivables, contract assets, loan commitments and financial guarantees.

Since 1 January 2018 the Group has assessed prospectively the expected credit losses associated with its debt instruments measured at amortised cost. The Group uses the practical expedients provided for in IFRS 9 to measure expected credit losses on trade receivables through a simplified approach, thereby eliminating the need for an assessment when there has been a significant increase in credit risk. Under the simplified approach, expected losses must be recognised upon initial recognition of the accounts receivable, such that the Group determines the expected credit losses as a probability-weighted estimate of these losses over the expected life of the financial instrument.

The practical expedient used consists of the use of a provision matrix, based on segmentation into groups of homogenous assets, applying historical information on default rates for those groups and reasonable information on future economic conditions.

(Continued)

The default rates are calculated based on actual experience of defaults in the prior year, as this is a highly dynamic market, and adjusted for differences between current and historical economic conditions and considering projected information that is reasonable available.

The Group recognises expected credit losses over the life of the instrument for trade receivables, contract assets and finance lease receivables.

Expected credit losses represent the difference between contractual and expected flows, both with regard to amount and term.

The Group has determined the impairment of cash and cash equivalents for the 12-month expected credit losses. The Group considers that cash and cash equivalents have low credit risk based on the credit risk ratings of financial institutions where the cash or deposits are deposited.

(vi) Derecognition, modification and cancellation 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.

(vii) Derecognition 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.

(j) Parent own shares

The Group's acquisition of equity instruments of the Parent is recognised separately at cost of acquisition in the consolidated statement of financial position as a reduction in equity, irrespective of the reason for the purchase. Any gains or losses on transactions with own equity instruments are not recognised.

The subsequent redemption of the Parent instruments entails a capital reduction equivalent to the par value of the shares. Any positive or negative difference between the purchase price and the par value of the shares is debited or credited to reserves.

(Continued)

Transaction costs related to own equity instruments, including issue costs related to a business combination, are accounted for as a reduction in equity, net of any tax effect.

(k) Distributions to shareholders

Dividends, whether in cash or in kind, are recognised as a reduction in equity when approved by the shareholders at their annual general meeting.

(l) 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, the cost of goods for resale and costs of conversion are allocated to each inventory unit on a weighted average cost basis.

(Continued)

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.

(m) 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.

(n) 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 minus 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.

(o) Government grants

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

(Continued)

- 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: Operating grants are recognised as a reduction in the expenses that they are used to finance.

(p) 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.

(Continued)

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.

(q) 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.

(i) *Provisions for onerous contracts*

Provisions for onerous contracts are based on the present value of unavoidable costs, determined as the lower of the contract costs, net of any income that could be generated, and any compensation or penalties payable for non-completion. Nonetheless, before recognising the provision, the Group recognises the impairment loss of non-current assets directly linked to the contracts.

(Continued)

(r) Revenue recognition

The Group operates a chain of outlets engaged in the retail sale of food. The Group recognises the sales of goods when it sells products to the customer. The transaction price is collected in cash, and there is no policy for sales returns.

The Group also sells products to its franchisees, and sales are recognised when control of the products is transferred, i.e. when the goods are delivered to the wholesaler, and there is no unfulfilled obligation that could affect wholesaler acceptance of the product. Delivery is made when the products are sent to the destination indicated by the franchisee, the risk of loss and obsolescence have been transferred thereto and the franchisee has accepted the products in accordance with the sale contract, the acceptance clauses have expired or the Group has objective evidence that all the acceptance criteria have been met.

Once the product has been delivered to the customer, an account receivable is recognised to the extent that an unconditional right to receive payment arises at that time.

Income from royalties and amounts invoiced for advertising, given that consideration takes the form of royalties based on sales of rights-of-use, are recognised as and when the sales take place. Amounts invoiced for advertising are not considered distinct goods or services that are separable from the rights-of-use of the intellectual property licence.

Initial franchise fee/transfer fees and renewal fees that are invoiced to franchisees and master franchisees are considered as an access licence and are recognised gradually over the term stipulated in the franchise contract, considering the renewal periods that entail a significant right for the customer.

(s) Income tax

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

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 comprises Tele Pizza, S.A., Mixor, S.A., Circol, S.A. and Luxtor, S.A. at 31 December 2018.

(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, are not recognised.

- 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.

(Continued)

(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.

(iv) *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.

(t) Share-based payments for services

The Group recognises the services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. It recognises an increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability with a balancing entry in the income statement or assets if the goods or services were acquired in a cash-settled share-based payment transaction.

(Continued)

The Group recognises equity-settled share-based payment transactions, including capital increases through non-monetary contributions, and the corresponding increase in equity at the fair value of the goods or services received, unless that fair value cannot be reliably estimated, in which case the value is determined by reference to the fair value of the equity instruments granted.

Equity instruments granted as consideration for services rendered by Group employees or third parties that supply similar services are measured by reference to the fair value of the equity instruments offered.

(i) *Equity-settled share-based payment transactions*

Equity-settled payment transactions are recognised as follows:

- If the equity instruments granted vest immediately on the grant date, the services received are recognised in full, with a corresponding increase in equity;

- If the equity instruments granted do not vest until the employees complete a specified period of service, those services are accounted for during the vesting period, with a corresponding increase in equity.

The Group determines the fair value of the instruments granted to employees at the grant date.

Market conditions and other non-vesting conditions are taken into account when measuring the fair value of the instrument. The remaining vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for services received is based on the number of equity instruments that eventually vest. Consequently, the Group recognises the amount for the services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and revises that estimate if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates.

Once the services received and the corresponding increase in equity have been recognised, no additional adjustments are made to equity after the vesting date, although any necessary reclassifications in equity may be made.

(Continued)

(ii) *Cash-settled share-based payments to employees*

For cash-settled share-based payment transactions, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period, with any changes in fair value recognised in profit or loss. In order to determine the fair value of the liability, the Group applies the same criteria as indicated previously for equity-settled payments. Services received or goods acquired and the liability payable are recognised over the vesting period or immediately if vesting is immediate. The Group only recognises as personnel expenses the portion of the grant-date fair value of the payment that has been accrued as per the vesting schedule. The residual amount accrued is recognised as a finance cost or as finance income.

(iii) *Tax effect*

In accordance with prevailing tax legislation in Spain, share-based payments to employees are income tax deductible for the intrinsic amount of the share options when they are exercised, thus giving rise to a deductible temporary difference for the difference between the amount the taxation authorities will admit as a future deduction and the net carrying amount of the share-based payments. At the close of the reporting period, the Group estimates the future tax deduction based on the price of the shares at that time. The amount of the tax deduction is recognised as current or deferred income tax with a balancing entry in the income statement, and any excess is taken to equity.

(u) 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.

(Continued)

(v) 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 12 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 12 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 12 months after the reporting date or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

- Financial liabilities are classified as current when they are due to be settled within 12 months after the reporting date, even if the original term was for a period longer than 12 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.

(w) 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.

Non-current assets 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).

(Continued)

(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 2018 and 2017, 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.

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

(Continued)

	2018					
	Thousands of Euros					
	Spain	Rest of Europe	Latin America	Master franchise and rest of the world	Eliminations	Total
Revenue						
Own outlet sales	76,684	36,223	49,825	134	-	162,866
Factory sales to franchisees	92,754	10,621	13,154	573	-	117,102
Royalties	26,765	4,998	3,692	10		35,465
Revenue from franchising activity	5,889	346	5,248	1	-	11,484
Other services rendered to franchisees	2,320	326	1,543	-	-	4,189
Revenue from initial fees	-	35	13	-	-	48
Sublease income	8,053	119	945	-	-	9,117
To other segments	34,578	-	-	-	(34,578)	-
Total revenues	247,043	52,668	74,420	718	(34,578)	340,271
Amortisation and depreciation	(11,387)	(1,224)	(3,889)	(30)	-	(16,530)
Impairment/(Reversal) of non-current assets	(4,944)	-	(2,500)	-	-	(7,444)
Other net gains/(losses)	(280)	115	(733)	(144)	-	(1,042)
Operating profit/(loss)	10,510	5,583	(11,745)	(134)	-	4,214
Net finance income/(cost)	(5,820)	102	(1,491)	(10)	-	(7,219)
Income tax	3,732	(7,249)	1,021	(7)	-	(2,503)
Profit/(loss) from continuing operations	13,844	(4,229)	(14,828)	(295)	-	(5,508)
Profit/(loss) from discontinued operations	(234)	(3,875)	-	-	-	(4,109)
Non-controlling interests	-	751	(83)	-	-	668
Profit/(loss) attributable to the Parent	13,611	(8,855)	(14,746)	(295)	-	(10,285)
Segment assets	906,904	40,253	26,744	346	-	974,247
Assets from discontinued operations or held for sale	40	14.823	5	113	-	14,981
Group assets	912,869	48,971	26,961	427	-	989,228
Segment liabilities	20,833	62,468	18,759	861	-	102,921
Liabilities from discontinued operations or held for sale	-	4,482	54	130	-	4,666
Unassigned liabilities	-	-	-	-	-	881,641
Group liabilities	20,833	66,950	18,813	991	-	989,228
Investments in property, plant and equipment and intangible assets	27,756	3,278	26,694	-	-	57,729

(Continued)

	2017					
	Thousands of Euros					
	Spain	Rest of Europe	Latin America	Master franchise and rest of the world	Eliminations	Total
Revenue						
Own outlet sales	99,918	32,458	52,211	-	-	184,587
Factory sales to franchisees	84,116	7,669	10,514	868	-	103,167
Royalties	23,547	-	3,663	1,084	-	28,294
Revenue from franchising activity	6,892	708	7,046	-		14,646
Other services rendered to franchisees	3,471	258	-	-	-	3,729
Sublease income	6,570	-	1,066	-	-	7,636
Revenue from initial fees	237	84	-	-	-	321
To other segments	20,134	-	-	-	(20,134)	-
Total revenues	244,885	41,177	74,500	1,952	(20,134)	342,380
Amortisation	(13,418)	(1,034)	(3,863)	-	-	(18,315)
Impairment/(Reversal) of non-current assets	2,782	(260)	(646)	-	-	1,876
Other net gains/(losses)	(1,588)	424	(478)	-	-	(1,642)
Operating profit/(loss)	31,740	7,840	6,397	1,186	-	47,163
Net finance income/(cost)	(7,646)	(72)	(1,893)	34	-	(9,577)
Income tax	(5,644)	(227)	(461)	(39)	-	(6,371)
Profit/(loss) from continuing operations	19,959	7,152	2,923	1,181	-	31,215
Profit/(loss) from discontinued operations	-	(467)	-	-	-	(467)
Non-controlling interests	-	161	-	-	-	161
Profit/(loss) attributable to the Parent	19,959	7,780	2,923	1,181	-	31,843
Segment assets	834,314	58,376	94,016	-	-	986,706
Assets from discontinued operations or held for sale	88	-	-	-	-	88
Group assets	834,402	58,376	94,016	-	-	986,794
Segment liabilities	50,154	13,968	7,335	-	-	71,457
Liabilities from discontinued operations or held for sale	81	-	-	-	-	81
Unassigned liabilities	-	-	-	-	-	915,256
Group liabilities	50,235	13,968	7,335	-	-	986,794
Investments in property, plant and equipment and intangible assets	13,777	11,992	7,444	-	-	33,213

(Continued)

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

The global agreement between the Telepizza Group and Pizza Hut (see note 1) sets forth the obligation for the Telepizza Group to make its best efforts to sell its assets in Poland and the Czech Republic to the AmRest group, a master franchisee of Pizza Hut in those markets. AmRest and the Telepizza Group therefore entered into negotiations to this end, coming to a binding agreement in July 2018 whereby AmRest was to acquire the Group's operations in Poland.

This sale-purchase transaction was subject to approval from the pertinent Polish authorities. Furthermore, the deadline for formally completing the purchase was set as 30 November 2018, and AmRest would not be obliged to complete the transaction if the pertinent authorities had not given their approval at that date, as was indeed the case. At the date of issue of these accounts, this transaction is still under negotiation.

Regarding the Czech Republic, in August 2018 AmRest and Telepizza reached an agreement to purchase the assets of Forty's Pizza. However, as Telepizza first had to acquire 20% of the company's shares held by its local shareholder, the agreement ultimately signed was non-binding. On completion of the business due diligence at the end of 2018, AmRest confirmed its interest in acquiring the Czech assets. At present, the two parties are discussing the conclusions drawn in the due diligence before entering into a formal agreement. The transaction would not be subject to approval from the pertinent Czech authorities.

In view of the foregoing, the Telepizza Group's businesses in Poland and the Czech Republic have been classified as held for sale in the consolidated statement of financial position and as profit/loss from discontinued operations in the consolidated income statement, as required by the applicable standards. The sales transactions are expected to be effective in 2019.

The non-current assets held for sale of the Polish and Czech subsidiaries are measured at their carrying amount, inasmuch as the fair value estimated in the sale transaction is higher.

Moreover, at 31 December 2018 the Company has classified its two subsidiaries in Morocco and Panama, which are currently in liquidation, under non-current assets held for sale and their operations are included in discontinued operations in the consolidated income statement.

(Continued)

Details of assets and liabilities held for sale in relation to the discontinued operation are as follows:

	Thousands of Euros	
	2018	2017
Assets held for sale:		
Technical installations and machinery (note 8)	3,489	88
Goodwill (note 9)	6,105	-
Other intangible assets (note 9)	128	-
Other non-current assets	321	-
Inventories	116	-
Other current assets	4,071	-
Cash	751	-
Total assets	14,981	88
Liabilities directly associated with non-current assets held for sale:		
Loans and borrowings	198	81
Trade and other payables	4,468	-
Total liabilities	4,666	81

Details of profit/loss from discontinued operations presented in the consolidated income statement relating to the discontinued operation are as follows:

	Thousands of Euros	
	2018	2017
Revenue	21,079	18,622
Merchandise and raw materials used	(7,100)	(6,672)
Employee benefits expense	(4,999)	(4,455)
Depreciation and amortisation	(477)	(629)
Other expenses	(12,146)	(6,307)
Other losses	(364)	(272)
Operating profit/(loss)	(4,007)	287
Finance income	100	187
Finance costs	(197)	-
Profit/(loss) before income tax	(4,104)	474
Income tax expense/(tax income)	(5)	(7)
Post-tax profit/(loss) of discontinued operations	(4,109)	467

(Continued)

(7) Business Combinations

In 2018, the Group acquired a franchise business in Ecuador under the “Pizza Hut” trademark, as well as several operating outlets, primarily in Spain, Portugal and Colombia.

In 2017, the Group acquired proprietary outlets and franchises in Ireland, the Czech Republic and Paraguay, as well as several operating outlets, mainly from franchisees in Chile, Portugal and Colombia. These outlets were acquired as part of the Group’s global strategy, whereby it aims to maximise the balance between proprietary outlets and franchises in different geographical areas, and also due to entering new geographical markets.

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

	Thousands of Euros	
	2018	2017
Cost of the combinations, cash paid	21,626	13,982
Less, fair value of net assets acquired	(2,009)	(10,064)
Goodwill (note 9)	19,617	3,918

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

Tax-deductible goodwill generated on business combinations in 2018 amounts to Euros 5,998 thousand.

The acquisition cost of the business combinations carried out in 2018 amounts to Euros 45 thousand was recorded in other expenses of the Consolidated Income Statement.

(Continued)

The amounts recognised in 2018 and 2017, by significant class of asset and liability at the acquisition date, are as follows:

	Thousands of Euros	
	Fair value	
	2018	2017
Intangible assets (note 9)	686	10,206
Property, plant and equipment (note 8)	4,417	623
Inventories	214	232
Trade and other receivables	1,777	970
Cash and cash equivalents	5	113
Total assets	7,099	12,144
Deferred tax liabilites (note 14)	-	(1,725)
Trade and other payables	(5,090)	(355)
Total net assets acquired	2,009	10,064
Cash paid	21,626	13,982
Cash and cash equivalents of the acquiree	(5)	(113)
Cash outflow for the acquisition	21,621	13,869

The fair value of the assets and liabilities acquired in business combinations does not differ from their carrying amount; neither do the contractual gross amounts receivable differ from the carrying amount. The assets acquired include the "Apache" brand that arose from the business combination and the deferred tax asset associated with it.

The business combination consisting of the purchase of a franchise business in Ecuador has been determined provisionally because it took place in the last quarter of 2018 and sufficient information is not available. Consequently, the identifiable net assets have been recognised initially at their provisional amounts. 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 business combination consisting of the purchase of a franchise business in Ireland was determined provisionally at 31 December 2017 because it was formally completed at the end of that year and sufficient information was not available. Consequently, the identifiable net assets were recognised initially at their provisional amounts.

In 2018, the business combination in Ireland was recognised at its definitive amount. Moreover, an independent expert valuation brought to light the "Apache" trademark, which has been valued at Euros 10,202 thousand. A deferred tax liability of Euros 1,275 thousand has also arisen, in respect of which the 2017 figures have been restated (see note 2 (e)).

With regard to this business combination of franchises in Ireland, an amount of Euros 6,937 thousand was payable at 31 December 2017 (see note 17).

The businesses acquired in 2018 generated consolidated revenues of Euros 10,409 thousand and consolidated losses of Euros 61 thousand for the Group for the period from the acquisition date to the reporting date. Inasmuch as the acquisition of the business in Ireland was carried out in December 2017, it generated practically no revenue or profit/loss for the Group in 2017. The business combinations carried out in 2017 gave rise to losses due to the expenses associated with converting the Forty's trademark in the Czech Republic to Telepizza. The businesses acquired in 2017 generated consolidated revenues of Euros 5,401 thousand and consolidated losses of Euros 434 thousand for the Group for the period from the acquisition date to the reporting date.

Had the 2018 acquisition taken place at 1 January 2018, the Group would have posted revenue and a consolidated loss for the year ended 31 December 2018 of Euros 355,700 thousand and Euros 8,252 thousand, respectively.

Had the 2017 acquisition taken place at 1 January 2017, the Group would have posted revenue and a consolidated profit for the year ended 31 December 2018 of Euros 366,070 thousand and Euros 33,079 thousand, respectively.

(Continued)

(8) Property, Plant and Equipment

Details and movement are as follows:

	Thousands of Euros					
Details	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	Total
Cost						
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)
Translation differences	(45)	(1,617)	(180)	15	(353)	(2,180)
Balance at 31/12/2017	6,925	101,722	14,142	963	15,617	139,369
Additions	389	11,515	1,443	935	1,453	15,735
Additions due to business combinations	162	3,865	322	-	68	4,417
Disposals	-	(15,363)	(2,633)	(1,672)	(3,234)	(22,902)
Transfers to assets held for sale	(2,079)	(5,035)	(726)	(6)	(1,014)	(8,860)
Translation differences	(225)	(1,074)	(134)	(5)	(139)	(1,577)
Balance at 31/12/2018	5,172	95,630	12,414	215	13,751	126,182
Depreciation or impairment						
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	12,080
Translation differences	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)
Depreciation for the year	(273)	(6,298)	(833)	-	(1,280)	(8,684)
Depreciation for the year of discontinued operations	(32)	(289)	(41)	-	(69)	(431)
Disposals	-	11,418	1,602	-	2,923	15,943
Transfers from held for sale	722	3,648	509	-	492	5,371
Translation differences	103	704	111	-	17	935
Impairment	373	486	-	-	-	859
Depreciation at 31/12/2018	(4,442)	(53,350)	(7,553)	-	(7,766)	(73,111)
Impairment at 31/12/2018	-	(1,152)	(657)	-	-	(1,809)
Carrying amount						
At 31.12.2016	2,520	34,638	3,339	2,658	2,887	46,042
At 31/12/2017	1,590	37,551	4,584	963	5,768	50,456
At 31/12/2018	730	41,128	4,204	215	4,985	51,262

(Continued)

In 2018 and 2017 significant additions were made to technical installations and machinery, mainly reflecting the investments related to new outlets opened, the purchase of franchised outlets, and improvements to existing outlets and to plants. Additions were also made to furniture and motorcycles.

Other installations, equipment and furniture mainly reflect the acquisition of motorcycles and IT equipment for outlets.

Disposals in 2018 and 2017 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 2018 and 2017 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 unused property, plant and equipment for significant amounts.

In 2018 the Group recognised income from the reversal of impairment totalling Euros 859 thousand (an impairment loss of Euros 2,052 thousand in 2017) (see notes 1 and 25). Also in 2017, impairment losses of Euros 342 thousand were recognised on sales of outlets to franchisees. The impairment losses recognised and reversed are basically due to the impairment of assets used in the Group's outlets. Impairment losses have been determined based on value in use. Value in use has been calculated based on future cash flows, and details of the most significant assumptions used in the projections are provided in note 9. The impaired assets are primarily outlet fixtures.

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 2018 and 2017 are as follows:

	Thousands of Euros	
	2018	2017
Technical installations and machinery	30,664	33,186
Other	13,661	16,313
	44,325	49,499

Property, plant and equipment leased by the Group to third parties under operating leases consist of assets in sublet outlets, which were carried at the following amounts at 31 December 2018 and 2017:

	Thousands of Euros	
	2018	2017
Cost	4,933	4,577
Accumulated depreciation at 1 January	(4,035)	(4,290)
Depreciation charge for the year	(61)	(48)
Carrying amount	837	239

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 contract 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 for 2018 and 2017 total Euros 9,117 thousand and Euros 7,365 thousand, respectively. They are recognised as “other income” (see note 22).

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

	Thousands of Euros	
	2018	2017
Up to one year	10,895	6,902
One to five years	36,878	24,810
More than five years	21,132	18,445
	68,905	50,157

(9) Intangible Assets and Goodwill

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

	Thousands of Euros
Cost	
Balance at 31/12/2016	387,322
Goodwill on business combinations for the year (note 7)	3,918
Translation differences	(518)
Disposals	(2,570)
Impairment losses for the year (note 25)	(176)
Balance at 31/12/2017	387,976
Goodwill on business combinations for the year (note 7)	19,617
Translation differences	(380)
Disposals	(2,296)
Transfers to assets held for sale (note 6)	(6,105)
Impairment losses for the year (note 25)	(1,551)
Balance at 31/12/2018	397,261

Details of goodwill by country at 31 December 2018 and 2017 are as follows:

	Thousands of Euros	
	2018	2017
Spain	266,671	266,389
Portugal	62,529	61,916
Poland	-	4,620
Chile	40,413	41,723
Colombia	10,324	8,417
Panama	-	228
Switzerland	2,045	1,986
Ireland	752	752
Paraguay	581	561
Czech Republic	-	1,071
Ecuador	13,946	313
	397,261	387,976

As a result of the Pinta operation (see note 1), the Group has drawn up a new 10-year strategic plan, as all the activities, conversions and outlet opening commitments included in the agreement will be undertaken during this period. Therefore, the recoverable amount of a CGU or a group of CGUs is therefore determined based on calculations of the fair value less cost to sell. These calculations are based on cash flow projections from the financial budgets approved by the directors for a period of 10 years. Cash flows subsequent to this 10-year period are extrapolated using the estimated 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 and growth rate assumptions used when calculating the fair value in 2018 or the value in use in 2017 are as follows:

	2018			
	Spain	Portugal	Chile	Colombia
Discount rate (WACC)	7.25%	7.65%	8.95%	10.45%
Growth rate of income in perpetuity (g)	1.85%	1.75%	3.15%	3.25%

	2017			
	Spain	Portugal	Chile	Colombia
Discount rate (WACC)	6.89%	7.86%	9.37%	9.00%
Growth rate of income in perpetuity (g)	2.15%	2.20%	3.75%	4.00%

Details of the pre-tax discount rates of each CGU, taking into account the WACC used in the impairment tests if the groups of pre-tax cash flows had been considered for 2017, are as follows:

	2017			
	Spain	Portugal	Chile	Colombia
Pre-tax WACC	8.47%	9.42%	10.96%	10.35%

To calculate the fair value of the different groups of CGUs over the 10-year budget periods, the directors' business operating assumptions were the net annual revenue growth rates shown below, taking into account the features of each market and estimated inflation. This growth in annual sales has a practically proportional impact on other business operating assumptions, such as the gross margin and EBITDA.

	Average sales growth rate	
	2018	2017
Spain	4.5%	4.4%
Portugal	4.9%	3.3%
Chile	4.6%	4.5%
Colombia	7.0%	3.8%
Switzerland	9.0%	8.3%

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 2018 on the businesses acquired in Ecuador because they were acquired in 2018 and the business combination is provisional. The annual impairment test was also not performed on the goodwill generated in 2017 on the businesses acquired in the Czech Republic, Paraguay and Ireland because they were acquired in 2017 and the business combinations were provisional.

A sensitivity analysis of goodwill impairment per CGU group, considering reasonably possible variations of between 75 and 50 basis points in the discount rate, between 75 and 50 basis points in the growth rate of income in perpetuity and between 75 and 50 basis points in the business operating assumptions, would have had no impact on the consolidated annual accounts at 31 December 2018 and 2017.

(Continued)

Details of other intangible assets and movement are as follows:

	Thousands of Euros					
	Concessions, patents and licences	Trademarks	Contractual and other rights	Other intangible assets	Computer software	Total
Cost						
Balance at 31/12/2016	1,632	253,502	151,359	498	24,328	431,319
Additions (note 7)	137	10,202	15	-	4,553	14,907
Disposals	(2)	-	(4)	-	(70)	(76)
Translation differences	(2)	-	(18)	(6)	73	47
Balance at 31/12/2017	1,765	263,704	151,352	492	28,884	446,197
Additions	12,063	-	-	41	5,170	17,274
Disposals	-	-	-	(6)	(312)	(318)
Transfers from/to held for sale (note 6)	1	-	-	-	(744)	(743)
Additions due to business combinations (note 7)	686	-	-	-	-	686
Translation differences	24	-	-	(4)	(144)	(124)
Balance at 31/12/2018	14,539	263,704	151,352	523	32,854	462,972
Amortisation or impairment						
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
Translation differences	(12)	-	129	-	(70)	47
Amortisation at 31/12/2017	(970)	(18,526)	(68,018)	(351)	(21,199)	(109,064)
Impairment at 31/12/2017	(8)	-	-	-	-	(8)
Amortisation for the year	-	-	(4,549)	(12)	(3,286)	(7,847)
Disposals	-	-	1	1	272	274
Transfers from/to held for sale (note 6)	-	-	-	-	617	617
Translation differences	-	-	(9)	-	136	127
Impairment	-	(5,808)	-	-	-	(5,808)
Amortisation at 31/12/2018	(970)	(18,526)	(72,575)	(362)	(23,460)	(115,893)
Impairment at 31/12/2018	(8)	(5,808)	-	-	-	(5,816)
Carrying amount						
At 31/12/2016	670	234,976	88,959	146	5,472	330,223
At 31/12/2017	787	245,178	83,334	141	7,685	337,125
At 31/12/2018	13,561	239,370	78,777	161	9,394	341,263

Additions to concessions, patents and licences in 2018 mainly reflect the Euros 11,850 thousand entry fee under the agreement with Pizza Hut (see note 1).

Under trademarks, the Company has recognised an intangible asset with an indefinite useful life, namely the "telepizza" brand, with an original value of Euros 247,028 thousand and a carrying amount at 31 December 2018 and 2017 of Euros 228,502 thousand (see note 4 (e)); the "Jeno's Pizza" brand, with a pre-impairment value of Euros 6,474 thousand, which has been allocated to the group of CGUs in Colombia; and the "Apache" brand, also with an indefinite useful life, with a value of Euros 10,202 thousand at 31 December 2018 and 2017, and which has been allocated to the group of CGUs in Ireland.

In 2006, the Group acquired the "telepizza" trademark through a business combination. When allocating a purchase price to the shares of Tele Pizza, S.A., owner of the trademark, 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 originally totalled Euros 132,960 thousand. As a result of the Pinta operation mentioned in note 1, no events have come to light that change the consideration of this trademark as having an indefinite useful life.

In 2018 the Group recognised impairment of Euros 5,808 thousand for the "Jeno's Pizza" brand (see notes 1 and 25) inasmuch as one of the obligations included in the agreements reached with Pizza Hut was that all of the Group's outlets in Colombia be converted to the "Pizza Hut" brand within a maximum period of five years. Under these same agreements, the useful life of the "Jeno's Pizza" brand was changed from indefinite to an estimated three years.

The recoverable amount of "telepizza" brand intangible assets with an indefinite useful life is determined by calculating the fair value, considering the new scenario relating to the Pinta project (see note 1). These calculations are based on the cash flow projections of the aforementioned 10-year strategic plan, which was approved by the directors of the parent. Beyond the 10-year period, cash flows are extrapolated using specific industry growth rates in each country that do not exceed the average long-term growth rate for the business. As a result of the Pinta project, most of the value of the "telepizza" brand resides in the businesses in Spain and Portugal.

Based on the estimates and projections available to the Parent's directors, the forecast net cash flows fully justify the carrying amount of the intangible assets with an indefinite useful life that have been recognised. The discount rate assumptions used when calculating value in use in 2018 and 2017 for intangible assets with an indefinite useful life are as follows:

	2018	2017
Discount rate (WACC)	7.55%	7.12%
Growth rate of income in perpetuity (g)	2.07%	2.32%

To calculate fair value over the 10-year budget periods, the directors' operating assumptions for the business consider average growth of net revenues of 4.7%. These rates of growth of annual sales have an almost proportionate impact on the other operating assumptions of the business such as gross margin and EBITDA.

In 2017 the recoverable amount of intangible assets with indefinite useful lives was determined based on calculations of value in use. These calculations used cash flow projections based on financial budgets approved by management of the parent spanning a five-year period, and on business operating assumptions of average growth of net annual revenues, with no new store openings or acquisitions, of between 2% and 4%.

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.

A sensitivity analysis of impairment of intangible assets with an indefinite useful, considering reasonably possible variations of between 75 and 50 basis points in the discount rate, between 75 and 50 basis points in the growth rate of income in perpetuity and between 75 and 50 basis points in the business operating assumptions, would have no impact on the consolidated annual accounts at 31 December 2018 and 2017.

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

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

	Thousands of Euros				
Description of the asset	Remaining useful life	Amortisation for the year	Accumulated amortisation	Impairment	Carrying amount
2018					
"telepizza" brand	Indefinite	-	18,526	-	228,502
"Jeno's Pizza" brand	3	-	-	(5,808)	666
"Apache" brand	Indefinite	-	-	-	10,202
Contractual rights	18	4,296	55,623	-	77,337
		4,296	74,149	(5,808)	316,707
2017					
"telepizza" brand	Indefinite	-	18,526	-	228,502
"Jeno's Pizza" brand	Indefinite	-	-	-	6,474
"Apache" brand	Indefinite	-	-	-	10,202
Contractual rights	19	4,296	51,326	-	81,633
		4,296	69,852	-	326,811

At 31 December 2018 and 2017 the Group has no commitments to purchase intangible assets.

Details of the cost of fully amortised intangible assets at 31 December 2018 and 2017 are as follows:

	Thousands of Euros	
	2018	2017
Computer software	16,610	16,143
Other	1,802	995
	18,412	17,138

(Continued)

(10) Non-current Financial Assets

Details of other non-current financial assets at 31 December 2018 and 2017 are as follows:

	Thousands of Euros	
	2018	2017
Security and other deposits	5,869	6,062
Non-current trade receivables	24,702	25,424
Other loans and receivables	4,138	3,969
Impairment losses (note 12)	(2,216)	-
	32,493	35,455

These non-current financial assets are measured at amortised cost and their carrying amount does not differ significantly from their fair value.

Non-current trade receivables mainly reflect revenue receivable from franchising activities. The payment method for these sales transactions depends on what is contractually agreed with each franchisee. Deferred collection is usually agreed, with due dates falling between one and ten years, secured by the franchisees' operating businesses.

The average maturity of non-current trade receivables at 31 December 2018 and 2017 is 4.48 years and 5.27 years, respectively.

At 31 December 2018 and 2017 the Group had granted loans to the directors and personnel amounting to Euros 3,879 thousand and Euros 3,847 thousand, respectively, which fall due in 2021 and earn a market rate of interest. Interest accrued in 2018 and 2017 and capitalised with the principal totals Euros 116 thousand and Euros 84 thousand, respectively.

(11) Inventories

Details at 31 December 2018 and 2017 are as follows:

	Thousands of Euros	
	2018	2017
Merchandise	9,204	10,258
Raw materials	761	356
Finished goods	243	289
Total inventories	10,208	10,903

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

	Thousands of Euros	
	2018	2017
Net purchases	97,958	94,033
Change in inventories	(438)	(708)
	97,520	93,325

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 2 million on the consolidated income statement. This circumstance is not expected to arise.

At 31 December 2018 and 2017 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	
	2018	2017
Trade receivables	44,769	40,745
Other receivables	3,321	4,475
Public entities	4,227	5,117
Impairment losses	(11,401)	(9,220)
Trade and other receivables	40,916	41,117

Trade and other receivables comprise financial assets at amortised cost and their carrying amount does not differ significantly from their fair value.

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

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

	Thousands of Euros		
	Assets at amortised cost		
	2018	2018	2017
	Non-current	Current	Current
Current			
Balance at 1 January	-	(8,758)	(8,232)
Transition to new standards (IFRS 9)	(2,216)	(2,993)	-
Charge	-	(1,000)	(535)
Application/reversal	-	-	9
Transfers to assets held for sale	-	1,350	-
Balance at 31 December	(2,216)	(11,401)	(8,758)

(13) Cash and Cash Equivalents

Details at 31 December 2018 and 2017 are as follows:

	Thousands of Euros	
	2018	2017
Cash in hand and at banks	56,698	87,279
Cash and cash equivalents	56,698	87,279

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.

(Continued)

(14) Deferred Tax

Details of deferred tax assets are as follows:

	Thousands of Euros				
Deferred tax assets	Non-deductible amortisation/depreciation	Tax credits and deductions	Finance costs	Other	Total
Balance 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)
Balance at 31/12/2017	1,415	8,798	19,931	294	30,438
Taken to the income statement (note 26)	622	(1,292)	7,864	2,367	9,561
Balance at 31/12/2018	2,037	7,506	27,795	2,661	39,999

The deferred tax assets recognised in the consolidated statement of financial position mainly reflect tax loss carryforwards and finance costs to be deducted in future years 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.

Based on estimated profit and loss for the coming years, the budgets approved by the board of directors, and considering the estimated tax adjustments to be applied to accounting profit/loss, the tax credits are expected to be recovered in 2022, while the tax credits associated with finance costs are expected to be recovered in 2026.

(Continued)

Details of deferred tax liabilities by item are as follows:

	Thousands of Euros			
Deferred tax liabilities	Accelerated depreciation/amortisation	Intangible assets	Other	Total
Balance at 31/12/2016	261	82,244	361	82,866
Taken to the income statement (note 26)	(138)	313	334	509
Balance at 31/12/2017	123	82,557	695	83,375
Taken to the income statement (note 26)	(99)	(1,074)	(247)	(1,420)
Balance at 31/12/2018	24	81,483	448	81,955

The deferred tax liability related to intangible assets is due to the tax effect of various intangible assets, primarily trademarks, and the 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 in line with the amortisation of intangible assets with a finite useful life, and will not give rise to any cash outflow for the Group.

Under Royal Decree-Law 3/2017, the limits for the offset of tax loss carryforwards have been amended to 25% of the taxable income. Nevertheless, in any event tax loss carryforwards up to a maximum of Euros 1 million may be offset in each tax period.

(15) Equity

(a) Capital

At 31 December 2018 and 2017 the share capital of Telepizza Group, S.A. was 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.

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. According to the public information registered with the Spanish Securities Market Commission, the members of the board of directors controlled approximately 0.546% of the Parent's share capital at 31 December 2018 and 2017.

The company that holds a direct or indirect interest of 10% or more in the share capital of the Parent at 31 December 2018 and 2017 is as follows:

	2018	2017
KKR Credit Advisors (US) LLC	26.32%	20.24%

Like other groups in the sector, the Telepizza Group, S.A. controls its capital structure on a leverage ratio basis. This ratio is calculated as net debt divided by adjusted EBITDA. Net debt is the sum of financial liabilities less cash and cash equivalents. Adjusted EBITDA is the sum of the consolidated income statement items “Profit/(loss) for the year from continuing operations” plus/minus “Income tax expense”, “Finance income”, Finance cost, “Impairment/(Reversal) of non-current assets”, “Other losses” and “Depreciation and amortisation”. This debt ratio for 2018 and 2017 was calculated as follows:

	Thousands of Euros	
	2018	2017
Total bank loans and borrowings	198,705	197,582
Less: cash and cash equivalents	(56,698)	(87,279)
Net debt	142,007	110,303
Adjusted EBITDA	29,230	65,244
Debt ratio	4.86	1.69

Adjusted EBITDA for 2018 and 2017 is calculated as follows:

	Miles de euros	
	2018	2017
Adjusted EBITDA		
Profit/(loss) for the year from continuing operations	(5,508)	31,215
Income tax expense	2,503	6,371
Finance income	(1,230)	(810)
Finance costs	8,449	10,387
Impairment/(Reversal) of non-current assets	7,444	(1,876)
Other losses	1,042	1,642
Depreciation and amortisation	16,530	18,315
	29,230	65,244

(Continued)

(b) Share premium

At 31 December 2018 and 2017, the share premium is freely distributable. In 2016 the Company increased share capital on two occasions, raising the share premium by Euros 215,405 thousand.

In 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) Retained earnings

- 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 2018 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 2018 and 2017.

- Shareholder contributions

These consist of the monetary and non-monetary contributions received in 2014, which amounted to Euros 157,615 thousand and Euros 3,616 thousand, and the capital increase costs in 2008, 2010, 2011, 2013 and 2014, net of the tax effect.

The increase in this caption in the Parent in 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 then sole shareholder.

- Other retained earnings/cumulative losses

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

(d) Translation differences

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

(e) Own shares

The minutes containing the decisions of the sole shareholder dated 31 March 2018 reflect the authorisation for the board of directors to acquire a number of shares of the Parent not exceeding 10% of issued capital, at a minimum price equal to the par value and a maximum price equal to the weighted average price at the last stock market trading session prior to the transaction, plus 10%. Authorisation was granted for a five-year period effective from the date the agreement was made.

On 24 May 2018 the Company's board of directors agreed to carry out a temporary own share buy-back programme pursuant to the authorisation granted to the board on 31 March 2016. The buy-back programme will apply to a maximum of 3,435,946 own shares, representing approximately 3.41% of the Parent's share capital, for a maximum monetary amount of Euros 15,500,000.

Movement in Parent shares in 2018 is as follows:

		Euros	
	Number	Nominal amount	Average purchase price
Balance at 1.1.2018	-	-	-
Acquisitions	2,737,979	15,500,004	5.66
Balance at 31.12.2018	2,737,979	15,500,004	5.66

These shares are earmarked to cover the commitments undertaken through share-based payment plans.

(16) Earnings per Share

(a) Basic

Basic earnings/losses per share are calculated by dividing the profit or 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, where applicable.

	2018	2017
Profit/(loss) for the year attributable to equity holders of the Parent (in Euros)	(10,285,517)	31,843,725
Weighted average number of ordinary shares outstanding (number of shares)	99,394,488	100,720,679
Basic earnings/(losses) per share (in Euros)	(0.1035)	0.3162

(Continued)

The weighted average number of ordinary shares outstanding in 2018 was determined as the weighted average number of ordinary shares considering own shares purchased during the year.

(b) Diluted

At 31 December 2018 and 2017 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.

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

Details of derivative financial instruments measured at fair value at 31 December 2018 and 2017 are as follows:

		Thousands of Euros	
2018		Fair values	
		Liabilities	
	Notional amount	Non-current	Current
Derivatives			
Interest rate swaps	(100,000)	(562)	-
Total derivatives at fair value through consolidated profit or loss	(100,000)	(562)	-

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

In 2016 the Company arranged an 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 became effective on 29 April 2018 and expires on 29 April 2021. At 31 December 2018 it had a negative fair value of Euros 562 thousand (a negative Euros 126 thousand at 31 December 2017).

Expenses incurred on financial instruments amount to Euros 436 thousand in 2018. Interest accrued on financial instruments totalled Euros 204 thousand in 2017.

The derivative financial instrument in the form of an interest rate swap has been arranged with financial institutions with sound credit ratings and the fair value of derivatives is calculated using valuation techniques based on observable market data (level 2).

(Continued)

At 31 December 2017 this item included the Euros 6,973 thousand debt payable to the former shareholder of the company acquired in Ireland in 2017 – The Good Food Company, Ltd. (see note 7).

(18) Interest-bearing Loans, Borrowings and Bonds

(a) Non-current loans and borrowings

On 8 April 2016, the Parent together with its subsidiary Tele Pizza, S.A. and various financial institutions, with Banco Santander acting as the agent bank, signed a syndicated loan of Euros 200,000 thousand falling due in 2021, the effective date of which was conditional upon the initial public offering, and a revolving facility with a limit of Euros 15,000 thousand. At 31 December 2018 and 2017 the fair value of this loan was Euros 197,743 thousand and Euros 196,687 thousand, respectively, and the nominal amount at those dates was Euros 200,000 thousand. The difference between the fair value and nominal amount is due to the loan origination and arrangement fees, which amounted to Euros 5,023 thousand at the outset. 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 April 2016 date.

The finance costs accrued on the syndicated loan amounted to Euros 5,737 thousand and Euros 6,250 thousand in 2018 and 2017, respectively.

At 31 December 2018 and 2017 the accrued interest payable on these loans amounted to Euros 805 thousand and 895 thousand, respectively (see note 18 (b)).

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

	Thousands of Euros			
	2018		2017	
	Principal	Interest	Principal	Interest
Less than one year (note 18 (b))	-	805	-	895
Two to five years	197,743	-	196,687	
	197,743	805	196,687	895

Details of non-current loans and borrowings at 31 December 2018 are as follows:

		Thousands of Euros		
Type	Final maturity date	Limit	Balance at 31/12/2017	Euribor spread
Senior				
Senior Facility	2021	200,000	200,000	EUR+ 2.25%
Revolving	2021	15,000	-	EUR+ 2.25%
Loan arrangement costs			(2,257)	
Balance at 31 December			197,743	

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

		Thousands of Euros		
Type	Final maturity date	Limit	Balance at 31/12/2017	Euribor spread
Senior				
Senior Facility	2021	200,000	200,000	EUR+ 2.50%
Revolving	2021	15,000	-	EUR+ 2.50%
Loan arrangement costs			(3,313)	
Balance at 31 December			196,687	

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

The Group has pledged the shares of Tele Pizza, S.A., Telepizza Chile, S.A. and Luxtor, S.A. and has undertaken a pledge commitment with respect to the shares of Telepizza Portugal Comercio de Productos Alimentares, S.A. to secure the above-mentioned loan. The aforementioned shares directly or indirectly make up practically all of the assets and liabilities pledged as collateral.

The Group is also required to comply with a certain financial ratio. At 31 December 2018 the Group complies with this ratio.

Liability balances classified under financing activities are reconciled as follows:

	Thousands of Euros		
	Non-current financial debt	Current financial debt	Total
Balance at 1 January 2017	195,611	968	196,579
Accrued interest	-	9,311	9,311
Interest paid	-	(9,384)	(9,384)
Amortised cost (arrangement costs)	1,076	-	1,076
Balance at 31 December 2017	196,687	895	197,582
Accrued interest	-	7,393	7,393
Interest paid	-	(7,326)	(7,326)
Amortised cost (arrangement costs)	1,056	-	1,056
Balance at 31 December 2018	197,743	962	198,705

(b) Current loans and borrowings

Details of current loans and borrowings at 31 December 2018 and 2017 are as follows:

	Thousands of Euros	
	2018	2017
Accrued interest (note 18 (a))	805	895
Other payables	157	-
	962	895

(19) Provisions

Details of other provisions and their classification as current or non-current are as follows:

	Thousands of Euros			
	2018		2017	
	Non-current	Current	Non-current	Current
Onerous contracts	3,485	1,078	-	-
Litigation, claims and inspections	200	3,655	-	-
Other provisions	85	-	85	151
Share-based payments	788	-	-	-
Total	4,558	4,733	85	151

Details of provisions and movement in 2017 and 2018 are as follows:

	Thousands of Euros				
	Litigation, claims and inspections	Onerous contracts	Other provisions	Share-based payments (note 20 (b))	Total
At 1 January 2017	-	-	335	-	335
Applications	-	-	(99)	-	(99)
At 31 December 2017	-	-	236	-	236
Allowances	3,885	4,943	-	788	9,616
Payments	-	-	(151)	-	(151)
Financial effect of discounting	-	(380)	-	-	(380)
At 31 December 2018	3,885	4,563	85	788	9,321

(a) Litigation, claims and inspections

The provision for litigation, claims and inspections primarily includes the liability resulting from a tax inspection at a foreign subsidiary, which will be taken to arbitration. Based on legal advice received, the directors do not consider that the liabilities resulting from this arbitration will differ significantly from the amounts provided for at 31 December 2018.

Moreover, the Group has certain administrative claims ongoing, which it estimates could give rise to a payable of approximately Euros 200 thousand.

(b) Onerous contracts

The Group has entered into various non-cancellable operating lease contracts for several outlets which, due to a change in activity, their location or size, are no longer used. It is hoped that they may be sub-let, but in any case the sublease rental income is expected to be lower than the rental costs paid. The provision recognised at 31 December 2018 reflects the net obligation arising from this transaction, which has been determined as the net cost of fulfilling it.

(c) Contingencies

The Group has contingent liabilities for bank and other guarantees related to its normal business operations amounting to Euros 6,052 thousand at 31 December 2018 (Euros 5,154 thousand at 31 December 2017). No significant liabilities are expected to arise from these guarantees.

(Continued)

(20) Employee Benefits

(a) Termination benefits

The total expense recognised in 2018 and 2017 for termination benefits is Euros 2,552 thousand and Euros 918 thousand, respectively (see note 23).

(b) Share-based payments

(i) 2016 share-based payment plan

On 31 March 2016 the board of directors of the Parent approved an incentive plan for management personnel of Telepizza Group companies (the "2016 Plan").

The term of the incentive plan was set at five years and three cycles were defined, each being a period of three years, as follows:

- 1st cycle: start date 27 April 2016 and end date 26 April 2019.
- 2nd cycle: start date 27 April 2017 and end date 26 April 2020.
- 3rd cycle: start date 27 April 2018 and end date 26 April 2021.

The beneficiaries of the incentive plan may opt to receive (percentage) of their gross annual fixed salary through the scheme, for each of the three cycles.

To comply with the terms and conditions of the plan reflected below, the share value at the start date of the first cycle was set at Euros 7.75. The share value at the start date of the second and third cycles, and at the end of each cycle, shall be calculated based on the average listed share price at the end of trading on the last 20 days prior to the start date of the second and third cycles, respectively.

Settlement shall be made, based on any amounts accrued for each cycle, by paying the beneficiary 60% of the total in cash and 40% of the total in company shares (valued at their listed price on the accrual date).

The shares delivered to the beneficiary at the settlement date for each cycle shall be subject to a 12-month blocking period.

The plan prerequisite shall be deemed to have been met if at the end of each cycle the share price has increased by 22.50% of its value at the start date of each cycle.

(ii) 2018 share-based payment plan

On 24 May 2018 the board of directors, at the proposal of the appointments and remuneration committee, approved a long-term incentive plan for 2018-2021, consisting of the delivery of shares in the Parent provided certain targets are met (hereinafter the 2018 Plan). This plan is aimed at the steering committee and certain management personnel and employees of Telepizza Group, S.A. and its subsidiaries. The plan entailed the cancellation of the third cycle of the previous 2016 Plan, which it replaces.

The plan consists of the delivery of shares in the Company provided a target increase in the price of such shares is achieved.

The plan is divided into two separate cycles ("Cycles") with a measurement period ("Measurement Period") of three years for each cycle:

- 2018 Cycle: from 1 January 2018 to 31 December 2020 ("First Cycle").
- 2019 Cycle: from 1 January 2019 to 31 December 2021 ("Second Cycle").

In each Cycle of the plan a reference amount shall be allocated to each beneficiary, determined based on their salary, which shall serve as a basis for awarding a certain number of restricted stock units (RSUs), which shall in turn be the benchmark to determine the final number of shares to be delivered to each beneficiary.

The initial reference value used in determining the RSUs to be allocated at the start of each Cycle of the plan shall be calculated as the average listed price of Telepizza shares at the end of trading for the first 30 trading sessions of the opening year of each Cycle.

The final reference value used in determining whether the target increase in the share price has been achieved shall be calculated as the average listed price of Telepizza shares at the end of trading in December 2020 for the First Cycle and December 2021 for the Second Cycle.

No more than 3,435,946 shares may be delivered under the plan, divided into a total of 1,717,973 shares for each Cycle.

Should Telepizza Group, S.A. undergo a change of control while the plan is in force, the plan would be subject to early settlement.

(iii) Measurement of share-based payment plans

	Thousands of Euros	
	2018	
Plan	Equity instruments	Liability instruments
2016 Plan, 1st Cycle	139	-
2016 Plan, 2nd Cycle	156	788
2016 Plan, 3rd Cycle	125	-
2018 Plan, 1st Cycle	1,827	-
2018 Plan, 2nd Cycle	329	-
	2,576	788

The fair value of the options granted during the year has been determined by applying a valuation methodology based on Monte Carlo simulations, using 10,000 independent trajectories to estimate the future delivery value. The simulation assumes that the shares follow the stochastic process developed by Black-Scholes.

For the three cycles of the 2016 Share Revaluation Plan, the valuation date is the award date: 27 April 2016. The main inputs in the model were a price of Euros 6.35 per share at the plan award date, the strike price for the first cycle (set at Euros 9.5), the strike price for the second cycle (122.5% of the average listed price for the 20 days preceding the start of the cycle), the annualised risk-free interest rate (-0.36%), forecast earnings per share (0.00€/share), the expected life of the option and the annualised standard deviation in the return on the shares. This deviation was set at 35%.

The third cycle of the 2016 Share Revaluation Plan was replaced by the 2018 Incentive Plan, granted at 28 May 2018, which is in turn sub-divided into two cycles, both of which have been valued at the award date. The main inputs in the model were a price of Euros 5.91 per share at the plan award date, the contractual scales of compliance with target returns on the shares, the strike prices that determine the number of RSUs (Euros 4.96 for the first cycle and the average listed price for the first 30 days of 2019 for the second), the annualised risk-free interest rate (-0.30%), forecast earnings per share (0.00€/share), the expected life of the option and the annualised standard deviation in the return on the shares. This deviation was set at 30% based on a parametric analysis of the daily share prices from 27 April 2016 to 28 May 2018. The expected life of the option coincides with the date on which the change of control event is expected to occur, in turn giving rise to an acceleration of vesting, which the company estimates will arise at the end of the first quarter of 2019.

(Continued)

(21) Trade and Other Payables

Details are as follows:

	Thousands of Euros	
	2018	2017
Trade payables and other payables	52,842	42,992
Public entities	7,185	3,482
Salaries payable	5,678	4,650
Current security and other deposits received	-	29
	65,705	51,153

At 31 December 2018 trade payables include Euros 14,482 thousand payable to financial institutions for reverse factoring transactions (Euros 9,816 thousand at 31 December 2017).

At 31 December 2018 salaries payable include Euros 2,187 thousand for special remuneration due to the negotiation and signing of the strategic agreement with Pizza Hut (see note 1). At 31 December 2017 this item included Euros 2,608 thousand in relation to a three-year remuneration plan arranged by the former sole shareholder as explained in the initial public offering prospectus, which applied to a certain number of employees.

Trade and other payables comprise financial liabilities at amortised cost and their carrying amount does not differ significantly from their fair value.

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:

	2018
	Days
Average supplier payment period	91
Transactions paid ratio	97
Transactions payable ratio	72
	Thousands of Euros
Total payments made	147,948
Total payments outstanding	38,872

	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

(22) Income

(a) Revenue from contracts with customers

Details are as follows:

	Thousands of Euros	
	2018	2017
Outlet sales to customers	162,866	184,587
Wholesale factory sales to franchisees and other sales	117,102	103,168
Royalties	35,465	28,294
Revenue from franchising activity	11,484	14,588
Other services rendered to franchisees	4,189	3,729
Revenue from initial franchise fees	48	379
	331,154	334,745

All of the revenue indicated above is generated at a specific point in time, except revenue from initial fees and royalties, which is generated over time.

Details of revenue by geographical segment are provided in note 5.

(b) Other income

Details are as follows:

	Thousands of Euros	
	2018	2017
Sublease income (note 8)	9,117	7,635
	9,117	7,635

(23) Employee Benefits Expense

Details of personnel expenses in 2018 and 2017 are as follows:

	Thousands of Euros	
	2018	2017
Salaries, wages and similar	77,753	74,221
Social Security	13,894	14,996
Termination benefits (note 19)	2,552	918
Other employee benefits expenses	722	621
Total personnel expenses	94,921	90,756

Salaries, wages and similar include Euros 3,365 thousand relating to share-based payments (see note 20 (b)). This item also includes Euros 5,009 thousand of special remuneration due to the negotiation and signing of the strategic agreement with Pizza Hut (see note 1).

The average number of full-time equivalent employees in the Group during 2018 and 2017, distributed by category, is as follows:

	Number	
	2018	2017
Management	42	42
Outlet managers	353	402
Other personnel	4,806	5,337
	5,201	5,781

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

	Number			
	2018		2017	
	Male	Female	Male	Female
Directors	7	-	7	-
Management	25	18	30	9
Outlet managers	195	147	175	199
Other personnel	2,674	2,012	2,708	2,384
	2,901	2,177	2,920	2,592

The average number of Company employees with a minimum disability rating of 33% (or local equivalent) in 2018 and 2017, distributed by category, is as follows:

	Number	
	2018	2017
Technicians	1	1
Outlet managers	1	-
Other personnel	66	92
	68	93

(24) Other Expenses

Details of other expenses are as follows:

	Thousands of Euros	
	2018	2017
Operating leases	31,281	29,996
Transport	15,754	13,814
Advertising and publicity	17,839	17,091
Utilities	10,631	11,027
Other expenses	43,095	21,127
	118,600	93,055

The increase in Other expenses is mainly due to Euros 12,146 thousand of expenses incurred on the negotiation and signing of the strategic agreement with Pizza Hut (see note 1) and Euros 4,563 thousand for the provision for onerous contracts (see note 19).

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 revised annually in line with the consumer price index. The exception are outlets located in shopping centres, for which both a fixed rent and a sales-based variable rent 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.

(Continued)

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 that is 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 2018 and 2017, 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	
	2018	2017
Less than one year	31,069	28,043
One to five years	96,359	88,542
More than five years	49,831	56,068
	177,259	172,653

Future minimum payments under non-cancellable operating leases at 31 December 2018 and 2017 are as follows:

	Thousands of Euros	
	2018	2017
Less than one year	18,460	12,944
One to five years	46,919	37,163
More than five years	20,643	27,325
	86,022	77,432

(Continued)

(25) Impairment of Non-current Assets

Details at 31 December 2018 and 2017 are as follows:

	Thousands of Euros	
	2018	2017
Impairment of goodwill (note 9)	(1,551)	(176)
Impairment of other intangible assets (note 9)	(5,808)	-
Impairment of assets held for sale	(185)	-
Impairment losses/(reversals of impairment) on property, plant and equipment (note 8)	100	2,052
	(7,444)	1,876

(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 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Profit/(loss) for the year before tax from continuing operations	(3,005)	37,586
Tax losses not recognised as tax credits	25,786	5,204
	22,781	42,790
Expected tax expense/(income) at the tax rate applicable to the Parent (25%)	5,695	10.698
No deductible expenses at the tax rate	729	179
Portugal tax inspection and withholding tax	7,638	-
Recognition of deferred taxes	(10,781)	(3,278)
Deductions for the year applied	(506)	(1,180)
Expense/(income) due to different tax rates	(272)	(48)
Income tax expense	2,503	6,371

Income tax payable/recoverable for 2018 and 2017 is calculated as follows:

	Thousands of Euros	
	2018	2017
Tax expense	2,503	6,371
Deductible temporary differences and tax credits (note 14)	9,140	(1,719)
Taxable temporary differences (note 14)	1,420	766
Portugal tax inspection	(6,132)	-
Payments on account	(6,038)	(4,875)
Income tax payable	893	543

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 within the periods and limits established by applicable legislation.

At 31 December 2018 and 2017 the Group has recognised the following deferred tax assets in respect of tax loss carryforwards in Spain:

	Thousands of Euros	
Year	2018	2017
2008	-	3,296
2009	5,689	7,562
2010	628	628
2011	14,366	14,366
2012	4,343	4,343
2013	1,182	1,182
2014	532	532
2016	3,312	3,312
Total	30,052	35,221

At 31 December 2018 and 2017 the Group has the following unrecognised deferred tax assets in respect of tax loss carryforwards of companies in Peru, Ecuador, Colombia and Poland:

	Thousands of Euros	
Year	2018	2017
2012	934	964
2013	1,040	1,754
2014	7,019	8,307
2015	5,146	5,288
2016	2,356	2,564
2017	2,998	3,211
2018 (estimated)	2,146	-
Total	21,639	22,088

At 31 December 2018, the Group has non-deductible interest arising from the Group companies in Spain and Portugal in amounts of Euros 143,223 thousand and Euros 4,266 thousand, respectively (Euros 150,910 thousand and Euros 14,965 thousand, respectively, at 31 December 2017, available for future offset indefinitely. Details are as follows:

	Thousands of Euros	
Year	2018	2017
2012	31,591	39,277
2013	38,045	40,173
2014	48,939	53,296
2015	15,938	20,153
2016	11,356	11,356
2017	1,620	1,620
	147,489	165,875

As mentioned in note 14 the Group has recognised deferred tax assets in relation to non-deductible interest amounting to Euros 27,795 thousand and Euros 19,931 thousand, respectively, at 31 December 2018 and 2017. It is considered probable that sufficient future taxable income will be available to allow these tax assets to be utilised.

Based on the tax returns filed by the Group companies in 2018 and prior years, the Group has no available deductions.

(Continued)

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 on which these consolidated annual accounts were authorised for issue, the principal Group companies have open to inspection by the taxation authorities all main applicable taxes and income tax since 1 January 2014.

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 2018 and 2017 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 3,723 thousand in 2018 (Euros 1,275 thousand in 2017). Moreover, the Group has extended loans or advances to the directors totalling Euros 1,369 thousand (Euros 1,358 thousand in 2017). 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 on behalf of the directors in 2018 (Euros 6 thousand in 2017) and the savings plan contributions made amounted to Euros 191 thousand (Euros 136 thousand in 2017).

Public liability insurance premiums paid on behalf of the directors in 2018 amounted to Euros 31 thousand (Euros 24 thousand in 2017).

The members of the Group's senior management received remuneration of Euros 7,827 thousand in 2018 (Euros 2,411 thousand in 2017). Moreover, the Group has extended loans or advances to senior management totalling Euros 2,509 thousand (Euros 2,405 thousand in 2017). These loans are secured by the senior management personnel 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 on behalf of senior management in 2018 (Euros 11 thousand in 2017) and the savings plan contributions made amounted to Euros 228 thousand (Euros 82 thousand in 2017).

In 2018 and 2017 the Parent's directors did not carry out any transactions other than ordinary business or applying terms that differ from market conditions with the Company or Group companies.

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Conflicts of interest concerning the directors

In 2018 and 2017 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.

The Group has adopted the appropriate measures aimed at protecting the environment and minimising any environmental impact, in accordance with prevailing legislation. No provision for environment-related liabilities and charges was recognised during the year, as no contingencies exist in this regard.

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 did not make any investments, incur any expenses or receive any significant grants related with these risks during the years ended 31 December 2018 and 2017.

(30) Audit Fees

KPMG Auditores, S.L., the auditor of the Group's consolidated annual accounts, invoiced the following fees and expenses for professional services during the years ended 31 December 2018 and 2017:

	Thousands of Euros	
	2018	2017
Audit services	330	178
Other assurance services	2	6
Other services	3	-
	335	184

The amounts detailed in the above table include the total fees for services rendered in 2018 and 2017, irrespective of the date of invoice.

Other assurance services relating to the 2018 audit mainly include agreed-upon procedures services amounting to Euros 2 thousand and provided by KPMG Auditores, S.L. to Telepizza Group, S.A., while other services comprise the translation of the authorised annual accounts for 2018.

Other entities affiliated with KPMG International invoiced the Group the following fees and expenses for professional services during the years ended 31 December 2018 and 2017:

	Thousands of Euros	
	2018	2017
Audit services	80	73
Other services	274	9
	354	82

(31) Events after the Reporting Period

On 8 February 2019, pursuant to article 17 of Royal Decree 1066/2007 of 27 July 2007 on the rules for takeover bids, the Spanish National Securities Market Commission (CNMV) admitted for processing the request for authorisation filed on 21 January 2019 by Tasty Bidco, S.L.U. (KKR) in relation to a voluntary takeover bid for Telepizza Group, S.A. (see note 1)

(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, as well as policies for specific issues such as currency risk, interest rate risk, liquidity risk, the use of derivative 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 risk management is to achieve a balanced debt structure that minimises the cost of the debt over several years with reduced income statement volatility. Exhaustive monitoring of trends in benchmark interest rates is essential to ensure that any substantial fluctuations identified are evaluated and that optimum hedging is arranged, where necessary, to minimise the risk, assuring a reasonable interest rate.

The structure of financial risk at 31 December 2018 and 2017 is as follows:

Type of financing	Interest rate	Benchmark	Thousands of Euros	
			2018	2017
Syndicated loan	Variable	Euribor	198,705	197,582
Total			198,705	197,582

The benchmark interest rates for debt arranged 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 notional principal amount arranged.

The Group has arranged a fixed interest rate swap for a three-year period to hedge a portion of the drawdowns on the syndicated loan (see note 17).

At 31 December 2018, had interest rates been 25 basis points higher or lower, with the other variables remaining constant, this would not have affected the loss for the year, mainly because borrowing costs on variable interest rate debt not hedged by the interest rate swap have a floor of 1% and, therefore, 1% was the rate paid during the year for variable interest pegged to Euribor.

(Continued)

Currency risk

As the Telepizza Group operates internationally, fluctuations 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 exchange rate fluctuations on translation of the financial statements of these companies in the consolidation process).

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

In 2017 the Group arranged a foreign exchange derivative to hedge a portion of the transactions conducted 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.

At 31 December 2018, had the Euro weakened/strengthened 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 122 thousand higher (Euros 97 thousand higher in 2017), 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 4,283 thousand (Euros 6,965 thousand in 2017), mainly due to translation differences on foreign operations.

Liquidity risk

The Group's liquidity policy consists of arranging credit facilities and holding marketable securities for a sufficient amount to cover forecast requirements, making financing available and enabling it to settle market positions relating to short-term investments immediately, thus ensuring that this financial risk is minimised.

(Continued)

The Group's exposure to liquidity risk at 31 December 2018 and 2017 is shown below. These tables present an analysis of financial liabilities by remaining contractual maturity dates.

	Thousands of Euros					
	Amount at 31/12/2018	Future cash flow maturities	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Loans and borrowings						
Principal	197,743	200,000	-	-	200,000	-
Interest	962	10,363	1,125	3,438	5,800	-
Derivatives	562	-	-	-	-	-
Trade and other payables	65,705	65,705	65,705	-	-	-
Total	264,972	276,068	66,830	3,843	205,800	-

	Thousands of Euros					
	Amount at 31/12/2017	Future cash flow maturities	Up to 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	51,153	-	-	-
Total	248,861	268,000	52,403	3,819	211,678	-

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.

(Continued)

Credit risk

Credit risk is the risk of financial loss for the Group in the event that a customer or counterparty to a financial instrument fails to discharge a contractual obligation, and mainly arises on the Group's trade receivables and its investments in debt instruments.

The financial instruments that are particularly exposed to credit risk mainly include trade and other receivables and cash and cash equivalents. The Group does not have significant concentrations of credit risk. This risk is distributed across a number of banks whose services the Group uses and the customers with which it operates.

Maximum exposure to credit risk through trade and other receivables and cash and cash equivalents is as follows:

	Thousands of Euros
Non-current financial assets	34,423
Trade and other receivables	40,916
Cash and cash equivalents	56,698
	132,037

(i) Trade receivables

The Group analyses receivables by type of customer. The Group operates proprietary outlets and also acts as a franchiser, organising marketing activities for the brands and the supply chain. As such, the Group has receivables associated with the franchising activity.

The Group's receivables arising from sales at its own restaurants are minimal and subject to a low level of credit risk in view of the short settlement period and the nature of the settlement, inasmuch as customers generally pay in cash or by credit card in restaurants.

Receivables arising from the franchising activity include those from franchises under proprietary brands. For these receivables, the Group performs a detailed analysis of the expected credit losses.

The Group's exposure to credit risk is influenced primarily by the individual characteristics of each customer. However, the Group also considers the factors that could affect the credit risk of its customer base, including default risk associated with the sector and the country in which the customers operate, and even the external rating of a particular country.

(Continued)

The Group applies the simplified approach with regard to receivables, as permitted under IFRS 9, which requires expected lifetime losses to be recognised as of the initial recognition of the receivables. The Group has defined a provision matrix based on its experience of prior credit losses, adjusted for the specific factors pertaining to the receivables and for the economic context.

For trade receivables, the Group applies the simplified approach permitted under IFRS 9, which requires expected credit losses to be recognised at initial recognition of the accounts receivable. The Group determines lifetime expected credit losses of the financial assets on a collective basis, grouped by geographical area. The Group has established a provision matrix based on its historical credit loss experience, adjusted for factors that are specific to the borrowers and economic conditions:

	Thousands of Euros					
	Europe			Latin America		
Maturity	%	Amount	Impairment	%	Amount	Impairment
Current	1.7%	21,558	(364)	4.1%	5,459	(188)
Less than 3 months	3.0%	1,882	(56)	4.5%	3,374	(153)
3 to 6 months	33.7%	196	(66)	15.5%	1,165	(179)
6 months to 1 year	46.0%	359	(165)	45.7%	875	(400)
More than 1 year	99.3%	6,613	(6,565)	99.3%	3,288	(3,265)
	23.6%	30,608	(7,216)	29.6%	14,161	(4,185)

Nevertheless, for trade receivables that are more than 360 days overdue, the Group determines expected credit losses on an individual basis. In 2018, the Group recognised impairment of Euros 1,000 thousand in respect of receivables exposed to credit risk.

(ii) Cash and cash equivalents

Credit risk related to financial instruments in the form of cash held at banks is minimal insofar as the parties to the transaction are banks that have been awarded a high rating by international rating agencies.

(Continued)

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

31 December 2018

(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	Profit/(loss)	Total equity
Tele Pizza, S.A. (1)	Madrid	100%	16,380	504,146	(541)	519,985
Mixor, S.A. (3)	Madrid	100%	3,215	3,785	(48)	6,952
Circol, S.A. (3)	Madrid	100%	1,085	812	570	2,466
Grupo Telepizza Chile (2)	Santiago de Chile	100%	3,065	49,836	(1,545)	51,356
Telepizza Portugal Comercio de Produtos Alimentares, S.A (1)	Lisbon	100%	1,900	(8,016)	(4,048)	(10,164)
Telepizza Poland Sp. Z o.o. (1)	Warsaw	100%	14,230	(7,325)	(3,405)	3,501
Telepizza Maroc, S.A. (3) (4)	Casablanca	100%	59	(765)	-	(706)
Telepizza Guatemala S.A (3)	Guatemala	100%	365	619	282	1,266
Luxtor, S.A. (1)	Avila	100%	6,128	1,428	12,445	20,001
Telepizza Ecuador S.A. (3)	Quito	100%	3,057	(2,060)	(507)	490
Inverjenos S.A.S. (1)	Bogotá	100%	1,543	1,777	(11,891)	(8,571)
Telepizza Shanghai S.A.(3)	Shanghai	100%	106	(80)	1	26
Telepizza Andina S.A.C (3)	Lima	100%	10,721	(4,808)	(2,536)	3,377
Procusto Activos, S.L.U (3)	Madrid	100%	3	(2)	-	1
Foodco Pastries Maroc(3)	Tangier	100%	28	(231)	(295)	(498)
Foodco Pastries Panamá(3)	Panama	100%	9	(395)	(660)	(1,045)
Telepizza Switzerland GmbH(3)	Berne	100%	17	(1,003)	(261)	(1,247)
Compañía de Negocios de Paraguay, SA (3)	Paraguay	100%	581	(156)	(168)	257
Fortys Pizza SRO (3)	Czech Republic	100%	1,034	(498)	(470)	66
The Good Food Company Ltd (3)	Ireland	51%	-	1,170	1,590	2,760
Mooncharm Limited (3)	Ireland	51%	-	(277)	(58)	(335)
TDS Telepizza, S.L. (1)	Spain	100%	3,601	-	(341)	3,260
Alimentos de la Costa Costahut, S.A. (3)	Ecuador	100%	1	19	(9)	11
Sociedad de Turismo Sodetur, S.A. (3)	Ecuador	100%	1,980	(429)	71	1,622

(1) Audit on statutory accounts
(2) The main companies of the subgroup have been audited of the statutory accounts
(3) Non Audit on statutory accounts
(4) Dormant companies

This appendix forms an integral part of note 1 to the consolidated annual accounts for 2018, in conjunction with which it should be read.

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	Profit/(loss)	Interim 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	3,600	1,897
Grupo Telepizza Chile (2)	Santiago de Chile	100%	3,065	55,256	1,200	-	59,521
Telepizza Portugal Comercio de Produtos Alimentares, S.A (1)	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 (3)	Lisbon	100%	5	-	(2,577)	-	(2,572)
Bazigual, SGPS,LDA (3)	Lisbon	100%	5	1,166	(6)	-	1,165
Inverjenos S.A.S. (1)	Bogota	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)	Czech Republic	100%	8	96	(435)	-	(331)
The Good Food Company Ltd (3)	Ireland	51%	1,256	-	-	-	1,256
Mooncharm Limited (3)	Ireland	51%	-	-	-	-	-

(1) Audit on statutory accounts
(2) The main companies of the subgroup have been audited of the statutory accounts
(3) Non Audit on statutory accounts
(4) Dormant companies

This appendix forms an integral part of note 1 to the consolidated annual accounts for 2018, in conjunction with which it should be read.

TELEPIZZA GROUP, S.A.

Y SOCIEDADES DEPENDIENTES

Directors report

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

1. The Group's position and business performance

(millions of Euros)	2017	2018	% change
Group chain sales	561.6	635.7	13.2%
Growth in Group chain sales in constant currency (%)			14.5%
Chain sales in core geographical areas	529.3	606.1	14.5%
Growth in chain sales in core geographical areas in constant currency (%)			15.3%
LFL growth in chain sales in core geographical areas (%)			2.0%
Chain sales in Spain	354.7	369.4	4.2%
LFL growth of chain sales in Spain (%)			1.4%
International chain sales	206.9	266.3	28.7%
Chain sales in international core geographical areas	174.6	236.7	35.6%
Growth in chain sales in international core geographical areas (%)			38.3%
LFL growth in chain sales in international core geographical areas (%)			3.4%
Revenues	342.4	340.3	-0.6%

In 2018 the Group reported growth in chain sales (which includes the total sales of own stores, franchisees and master franchisees) of 14.5% in constant currency, with 15.3% growth in its core geographical areas (excluding master franchisees) in constant currency.

Spain

Chain sales in Spain rose 4.2% in the year, up to Euros 369.4 million, driven by 1.4% organic growth ("LFL") and 2.8% horizontal growth.

Digital sales is one of the main growth levers: we have continued development of our app for mobile phones, introducing new features in the year and securing solid growth of 51% vs. 36% in 2017. In December 2018, app sales represented 35% of our total digital sales, as compared to 25% in December 2017.

As part of our efforts to develop the digital channel, we have implemented a suite of initiatives focused on increasing consumer loyalty, order frequency and the average ticket.

Innovation is underpinning our sales through the various channels available. We have continued to launch innovative products in our range of gourmet pizzas, such as the new Sweet Nestlé Red Box, Crispy Bacon Gourmet, Tandem Gourmet and the special Halloween pizzas. Innovation-based sales were up 6% in 2018, representing 15% of our total chain sales.

International

Propelled by 3.4% LFL growth and 34.9% horizontal growth, chain sales in international core geographical areas (excluding master franchisees) shot up 35.6% in the year (38.3% in constant currency) to Euros 236.7 million largely due to the sale of Apache Pizza in Ireland and in part to the addition of Pizza Hut's own stores in Ecuador.

Business in the international core geographical areas grew strongly in the year across the regions, particularly in the Rest of Europe segment, including the sale in Ireland.

Chain sales in Latin America grew in the year, although preparation for the inclusion of Pizza Hut stores in the scope led to a modification of Telepizza's store expansion and refurbishment plans, which had a negative impact on sales performance.

Expansion of the store network

At 31 December 2018, there were 1,620 Telepizza stores in the Group (of which 720 were in Spain and 900 abroad) as compared to 1,607 stores at 31 December 2017. In addition, 38 of Pizza Hut's own stores were acquired in Ecuador in October 2018, bringing the total to 1,658 stores prior to formalisation of the master franchisee agreement with Pizza Hut on 30 December.

In total, there were 44 net store openings in the Group's core countries in the year, in line with our estimates following the revision of the expansion plan in anticipation of the final closing of the alliance with Pizza Hut.

Strategic alliance with Pizza Hut

In June 2018, the shareholders at the Telepizza Group's General Meeting approved a strategic alliance and a multi-country master franchise agreement between Telepizza and Pizza Hut to accelerate their joint growth in Latin America (excluding Brazil), the Caribbean, Spain, Portugal and Switzerland.

Following the approval of the transaction by the European Commission's competition authorities on 3 December 2018, the global alliance and master franchise agreement with Pizza Hut was signed and came into force on 30 December 2018.

Pizza Hut, a division of Yum! Brands, Inc. ("Yum! Brands"), is the world's largest pizza restaurant company with nearly 17,000 restaurants in over 100 countries. As a result of the transaction, since 30 December 2018 Telepizza has operated a total of 1,011 Pizza Hut stores (in addition to its current 1,620 network stores and including the 38 stores in Ecuador acquired prior to formalisation of the agreement), thus making it the largest Pizza Hut master franchisee in the world by number of stores and a leading pizza operator worldwide with an ambitious growth plan in the coming years.

With the transaction, the Company is able to develop and improve its capacity to manage networks and supply pizza dough and ingredients while fostering its international growth (taking advantage of the synergies existing between both groups). The Company will practically double the number of Telepizza Group stores to 2,631, extending its international reach to 39 markets (more than 500 million potential customers) with total chain sales of approximately Euros 1,200 million.

As part of the agreement, at 30 December 2018 the Group has added more than 950 outlets to its network, and now manages more than 2,550 outlets at the reporting date, compared to close to 1,600 at the end of 2017. The Group intends to increase its presence to 2,800 outlets by 2021. As regards chain sales, the Group will double its sales from approximately Euros 550 million to Euros 1,100 million and expects to accelerate subsequent growth to achieve a high annual growth rate up to 2021. In Iberia, the Group will continue to operate the “telepizza” brand, given its leadership and privileged knowledge of the brand. Conversely, the current brands in Latin America (“telepizza” and “Jeno’s Pizza”) will be gradually changed so as to operate solely under the “Pizza Hut” brand in the coming years, thereby taking advantage of its greater brand recognition in Latin America. A single master franchise for Pizza Hut that operates throughout Latin America will result in operating benefits and synergies, as well as accelerated growth. The long-term alliance with Pizza Hut is reinforced by a well-defined expansion plan, which considers 250 net openings in 2019-2021. This is the first step of a more ambitious long-term plan to open 1,300 outlets over the coming 10 years. There is also solid sector justification for this agreement, including the Telepizza Group becoming an authorised supplier for Pizza Hut, opening up significant opportunities with the resulting synergies due to the growth in current and future business.

The Group expects that this dynamic of greater sales together with the industrial synergies throughout the expanded network will lead to an adjusted underlying EBITDA of close to Euros 100 million by 2021, with major investment for the expansion of approximately Euros 40 million per annum during the first three years.

As a result of the foregoing, Telepizza's Board of Directors expects the alliance to create value for Telepizza's shareholders, franchisees, customers and employees.

In its report (point five on the agenda for the 2018 Annual General Meeting), the Board of Directors provided additional information on the agreement, which is available on the Telepizza Group's corporate website.

Financial performance (without considering the 2017 discontinuing operations)

(millions of Euros)	2017	2018	% change
Revenues	**361,0**	**340,3**	***-5,7%***
Product cost	-100,0	-93,0	*-7,0%*
Gross margin	**261,0**	**247,3**	***-5,3%***
Gross margin (%)	72,3%	72,7%	*+0.4pp*
Other expenses	-193,8	-183,0	-5,6%
Comparable EBITDA	**67,2**	**64,3**	***-4,3%***
Comparable EBITDA margin (%)	*18,6%*	*18,9%*	*+0,3pp*
Amortisation and depreciation	-18,9	-16,5	*-12,7%*
Finance costs	-9,4	-7,2	-23,1%
Other	0,0	-0,6	-
Comparable profit before tax	**38,8**	**39,9**	***3,0%***
Income tax	-6,6	-8,1	*22,8%*
Comparable profit after tax before discontinued operations	32,2	31,9	*-1,1%*
Profit/loss before tax from discontinued operations	0,0	0,0	-
Comparable profit after tax before non-controlling interests	32,2	31,9	*-1,1%*
Non-controlling interests	0,2	-0,7	-
Profit after tax from discontinued operations	**32,4**	**31,2**	**-3,6%**
Added costs	-	-1,1	-
Impact on the core business	-	-4,6	-
Impact related to the alliance with Pizza Hut	-0,5	-20,0	-
Accounting impact related to the core business	-	-10,1	-
Accounting impact related to the alliance with Pizza Hut	-	-5,8	-
Accounting profit (loss)	**31,8**	**-10,3**	**-**

Revenue fell -5.7%, reflecting variations in the composition of sales of own stores and franchisees and their varying conversion of chain sales to revenues.

Product cost was down -7.0%, with the gross margin up 0.4pp to 72.7% as a result of the efficiency of our supply system.

Comparable EBITDA slipped -4.3% in the year, down to Euros 64.3 million. This metric starts from EBITDA and excludes added costs, which are non-recurring costs as a consequence of the implementation of the Pizza Hut agreement, relating to the increase in overheads to bolster the Company in anticipation of the closing of the agreement and other extraordinary costs.

Net profit is significantly affected by the aforementioned extraordinary costs arising from the Pizza Hut agreement and other adjustments, resulting in a loss of Euros 10.3 million.

Adjustments

- **Impact on the core business:** The impact on the core business relates to adjustments to reported results of an unusual nature. These adjustments are not comparable to 2017 results and are not relevant in 2019.
- **Impact related to the alliance with Pizza Hut:** The impact related to the alliance with Pizza Hut arises from adjustments to reported results that are extraordinary in nature and correspond to the alliance with Pizza Hut. These adjustments are not relevant in 2019.
- **Accounting impact related to the core business:** The accounting impact related to the core business arises from adjustments to reported results due to the application of accounting regulations and the exceptional or unusual impact related to the core business.
- **Accounting impact related to the alliance with Pizza Hut:** The accounting impact related to the alliance with Pizza Hut arises from adjustments to reported results due to the effective closing of the alliance with Pizza Hut on 30 December 2018.
- **Added costs:** Added costs are the costs incurred in 2018 for the effective anticipation of the alliance with Pizza Hut and are included in the forecasts provided for 2019.

Financial performance (with considering the 2017 discontinuing operations)

(millions of Euros)	2017	2018	% change
Revenues	**342.4**	**340.3**	***-0.6%***
Product cost	-93.3	-93.0	*-0.4%*
Gross margin	**249.1**	**247.3**	***-0.7%***
Gross margin (%)	72.7%	72.7%	-
Other expenses	-183.1	-183.0	-
Comparable EBITDA	**66.0**	**64.3**	***-2.6%***
Comparable EBITDA margin (%)	*19.3%*	*18.9%*	*-0.4pp*
Amortisation and depreciation	-18.3	-16.5	*-9.7%*
Finance costs	-9.6	-7.2	-24.6%
Other	0.2	-0.6	-
Comparable profit before tax	**38.3**	**39.9**	***4.2%***
Income tax	-6.6	-8.1	*23.0%*
Comparable profit after tax before discontinued operations	31.8	31.9	*0.4%*
Profit/loss before tax from discontinued operations	0.5	0.0	-
Comparable profit after tax before non-controlling interests	32.2	31.9	*-1.1%*
Non-controlling interests	0.2	-0.7	-
Profit after tax from discontinued operations	**32.4**	**31.2**	**-3.6%**
Added costs	-	-1.1	-
Impact on the core business	-	-4.6	-
Impact related to the alliance with Pizza Hut	-0.5	-20.0	-
Accounting impact related to the core business	-	-10.1	-
Accounting impact related to the alliance with Pizza Hut	-	-5.8	-
Accounting profit (loss)	**31.8**	**-10.3**	-

Investments

Investments in the year totalled Euros 28.0 million, with more than 50% of this amount relating to expansion projects (such as store openings, the supply chain, remodelling and technological investments). In 2017, the investment amounted to Euros 27.8 million and an additional Euros 6.7 million corresponding to part of the acquisition of Apache Pizza in Ireland.

In addition to the aforementioned Euros 28.0 million, there is an extraordinary investment of Euros 35.8 million, which includes the acquisition of Pizza Hut operations in Ecuador, the acquisition of Pizza Hut master franchise rights within the global alliance agreement and, lastly, a portion of the payment for the acquisition of Apache Pizza in Ireland (carried out in 2017).

2. Outlook for 2019

In 2019, the Company will focus on implementing the master franchise agreement with Pizza Hut, making a significant effort to integrate the new scope and convert Telepizza stores into Pizza Huts, particularly in Latin America.

For 2019 we reiterate our forecasts set out in the presentation of the Pizza Hut alliance agreement in May 2018:

- Number of stores: approximately 2,700
- Chain sales: Approximately Euros 1,200 million
- Comparable EBITDA: between Euros 75 million and Euros 80 million
- Investments: between Euros 40 million and Euros 45 million

3. Risks and uncertainties

The main risks to which the Group is exposed are derived from the level of consumer spending and the status of the restaurant market in each country in which we operate.

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.

Liquidity risk

The Group's liquidity policy consists of arranging credit facilities and holding marketable securities for a sufficient amount to cover forecast requirements, making financing available and enabling it to settle market positions relating to short-term investments immediately, thus ensuring that this financial risk is minimised.

Credit risk

The Group is not exposed to significant credit risk because this risk is not heavily concentrated, both cash placements and derivative contracts are with highly solvent entities, the average collection period for trade receivables is very short and customers have adequate credit records, which reduces the possibility of bad debts.

4. Innovation

The Group works constantly to create, develop and improve all its products, taking consumer preferences into consideration at all times and working with optimum ingredients that enable us to provide balanced products in terms of taste and nutritional composition. Quality is a key factor in this process and rigorous control measures are followed when approving new suppliers, thereby guaranteeing maximum product and service quality to outlets.

Acceptance tests are another decisive factor in research, development and innovation work. These tests are carried out with market research companies and aim mainly to gauge customer opinion and ensure product acceptance. They also incorporate the opinions and experience of personnel from other departments in the Company, such as operations and marketing. The entire testing process is based on suggestions regarding product preparation and the names, ingredients and presentation of different products.

In 2018 Telepizza launched four new types of pizza in Spain, in addition to new products that offer consumers other options.

The common aim of these product launches was to reinforce the idea of variety, offering something new to consumers, as well as to provide a qualitative improvement in the range of products.

The international area benefits from research, development and innovation work performed in Spain, and also receives support in the local development and testing of products.

5. Transactions with own shares

At 31 December 2018, the Telepizza Group held 2,737,979 own shares, acquired through a share buyback programme, with an average price per share of Euros 5.66 for a total amount of Euros 15,500,004 million.

Additional information about the share buyback programme can be found in the information sent to the CNMV.

6. Average supplier payment period

The average payment period for suppliers of the consolidated Spanish companies is 91 days.

7. Events after the reporting period

On 8 February 2019, pursuant to article 17 of Royal Decree 1066/2007 of 27 July 2007 on the rules for takeover bids, the CNMV admitted for processing the request for authorisation filed on 21 January 2019 by Tasty Bidco, S.L.U. (KKR) in relation to a voluntary takeover bid for Telepizza Group, S.A.

8. Alternative performance measures

- **Chain sales**: Chain sales are the retail sales of our own stores, plus those of the franchised stores and master franchisees.
- **Digital sales:** Digital sales are chain sales made through digital channels (PC, mobile website and app), expressed in percentage terms. Digital sales (by both own stores and franchisees) are automatically recorded in the SAGA information system when the customer places an online order.
- **LFL sales growth:** LFL growth is chain sales growth after adjustments for openings and closures and the Euro exchange rate impact.
  - **Adjustment.** If a store has been open for the entire month, we consider it to be an "operating month" for the store in question; if not, that month is not an "operating month" for that store. LFL sales growth only takes into account the change in a store's sales for a given month if that month was an "operating month" for the store in the two periods being compared. The scope adjustment is the percentage variation between two periods resulting from dividing (i) the variation between system sales excluded in each of these periods ("chain sales excluded") because they were obtained in operating months that were not operating months in the comparable period by (ii) the chain sales for the prior period as adjusted to deduct chain sales excluded from such period ("adjusted chain sales"). This gives the actual changes in chain sales between operating stores, eliminating the impact of changes between periods due to store openings and closings.
  - **Exchange rate with respect to the Euro.** We calculate the system's LFL sales growth on a constant currency basis to eliminate the impact of changes between the Euro and the currencies in certain countries where the Group operates. To make this adjustment, we apply the average monthly exchange rate in Euros for the most recent operating month in the period to the comparable operating month of the previous period.
- **EBITDA:** EBITDA is earnings before interest, tax, depreciation and amortisation.
- **Comparable EBITDA:** Comparable EBITDA is EBITDA excluding the added costs related to the alliance with Pizza Hut and extraordinary effects, thus facilitating comparison with 2017 results.
- **Comparable profit before income tax:** Profit before tax is profit before tax excluding the added costs related to the alliance with Pizza Hut and extraordinary effects, thus facilitating comparison with 2017 results.
- **Comparable profit after tax:** Profit after tax is profit after tax excluding the added costs related to the alliance with Pizza Hut and extraordinary effects, thus facilitating comparison with 2017 results.
- **Impact on the core business:** The impact on the core business relates to adjustments to reported results of an unusual nature. These adjustments are not comparable in 2017 results and are not relevant in 2019.

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- **Added costs:** Added costs are the costs incurred in 2018 for the effective anticipation of the alliance with Pizza Hut and are included in the forecasts provided for 2019.
- **PPA (purchase price allocation) amortisation:** Amortisation of intangible assets generated after the takeover bid for Telepizza, S.A. in 2006.

9. Non Financial Information Statement Group

CONTENTS

1. Policies available

Telepizza was set up in Madrid in 1987. It began life as a family business that focused on innovation and product quality. The company was a pioneer in food home delivery. In 1992 it opened its first factory in Daganzo (Madrid), embarking on its international expansion. In April 2016 the company obtained a listing on the continuous market in the Madrid, Barcelona, Valencia and Bilbao stock markets.

In December 2018, the Board of Directors approved the Telepizza Group's Corporate Social Responsibility Policy, the purpose of which is to formally set out its commitment to sustainable development and the management of its economic, social and environmental impacts on society.

This policy stems from the Telepizza Group's mission, vision and values, which reflect its commitment to its activity, and is linked with its Code of Ethics, which guides employees in the performance of their duties, providing standards of conduct and behaviour vis-à-vis the various stakeholder groups.

As a responsible company the Telepizza Group is guided by the Group's purpose: "Togetherness" which is expressed in the statement "Let's spend more time together, because that's when wonderful things happen".

For the Telepizza Group, the vision is reflected in the expression: "We connect people by delivering moments of happiness, anytime, anywhere".

Whilst its mission is: "To offer quality products to anyone, anywhere, by efficiently providing excellent, personalised and accessible service".

The vision and mission complement the Corporate Policy regarding culture and values known as the '5 we's of the Welievers':

•A team: We are a single team moving forward in the same direction. We pool our efforts to achieve our common objective and celebrate our successes.

•Resilience: We show commitment in everything we do. We are experts at adapting to new situations, we face our goals relentlessly but passionately, with energy, flexibility and determination. We are all responsible for our achievements.

•Client-focused: We provide the best service and the best product, exceeding our customers' expectations.

•Dreamers: We think big and in a different manner to contribute new ideas that address the needs of our customers. We set a high standard for ourselves, and we believe that everything can be improved to ensure a service that only gets better and better. Excellence and quality are our starting point and innovation is our way forward.

•Fearless: We are ever on the lookout for new challenges, taking risks and turning them into opportunities. We make decisions, looking for the best solution to solve any problem.

Approved in 2016, the Code of Ethics undertakes to comply with five principles: Commitment to society, the company, the work environment, customers and franchisees and collaborators.

CSR policy is promoted and approved by the Board of Directors (20 December 2018), integrating other policies currently in force within the Group such as Anti-corruption policy, Control and Risk Management policy, Corporate Tax policy, Human Resources policy, Human Rights policy and Environmental policy.

Through the CSR policy we seek to create our own identifying integrated CSR model to promote corporate recognition in Spain and export the model abroad.

A management team led by the executive VP for Communication, CSR and Digital Transformation, Miguel Justribó, will be formed in 2019. Its duties will comprise developing and implementing the action plan, drawing up the communication on progress and reporting, and preparing the annual CSR report. In addition, led by the executive VP for Communication, CSR and Digital Transformation, a CSR Committee will be set up comprising managers from different areas of the company, the purpose of which will be to review the Telepizza Group's CSR policy, approve the Action Plan and supervise the CSR practices implemented during the year, assessing their degree of compliance.

In the first half of 2019, the Telepizza Group will join the Global Compact Spanish Network to embrace as our own the Ten Principles of the UN Global Compact and contribute to the achievement of the Sustainable Development Goals (SDGs).

The Action Plan will hinge on four main themes: Governance and Ethics; People; Sustainability and Environment; and Contribution to development. This Plan will be underpinned by the 10 commitments enshrined in CSR policy: Commitment to good governance and risk management; ethics, transparency and compliance; shareholders and investors: customers; people; human rights; environment and climate change; sustainable innovation; suppliers; commitment to society.

This Non-financial Information Statement (NFIS) contains information on the Telepizza Group, focusing on its activity in Spain and reporting on the other countries in which it operates, as well as on franchisees, where such information can be incorporated.

The materiality of this NFIS and CSR policy is the result of a process of internal consultation with each department in the Telepizza Group, and cross-checking against the company risk map, which is divided into four sections:

-**Strategic risks**. Those that could arise as a result of the choice of a specific strategy and, directly or indirectly, significantly influence the achievement of the Telepizza Group's long-term objectives. This group includes reputational risks, which are those with a potential negative impact that could affect the Group's reputation for transparency and its relationships with analysts, investors and other stakeholder groups harbouring any expectations with regard to the Group's performance.

-**Regulatory compliance risks**, which include those related to corporate governance (including, among others, those derived from the reliability of the financial information published); Company litigation and public liability; tax risks; and data protection, health and safety, equality and environment.

-**Financial risks**, comprising level of indebtedness, liquidity risk, credit risk, risks derived from fluctuations in exchange rates and those arising from interest rate fluctuations.

-**Operational risks**, namely those associated with key business processes, including risks related to suppliers, personnel, food handling, product quality, environmental risks, purchasing and subcontracting.

Below are the different policies implemented by the Telepizza Group.

AREA	POLICIES/ COMMITMENTS	DESCRIPTION
Anti-corruption and bribery	**Code of Ethics**	On 22 December 2016 the Board of Directors of the Telepizza Group approved the Code of Ethics. For Telepizza, this Code embodies the commitment of the Company and its employees with society and with the Group's customers, franchisees and collaborators, and it sets out the principles governing the day-to-day behaviour within the organisation.
	Anti-corruption policy	The Telepizza Group's anti-corruption policy has been drafted in accordance with Spanish and international standards that prohibit and penalise corruption, particularly Organic Law 10/1995 of 23 November 1995 on the Criminal Code ("CC"). It supplements and develops the values and principles enshrined in the Telepizza Group's Code of Ethics. Its purpose is to inform all persons linked to the company of the corruption risks to which they are exposed and the consequences of corruption for the Company and its employees, and also to establish a catalogue of best practices that must be observed at all times.
Policies on legal matters	**Control and Risk Management policy**	The purpose of the Telepizza Group's Control and Risk Management policy is to define the basic principles and general framework for controlling and managing the

		risks, including tax risks, that the Group may face in order to achieve its main objectives. This policy is mandatory and necessitates the involvement of all Company personnel for its correct application. The Group Risk Management System identifies all possible risks in all Group activities carried out at the different levels of the organisation. It operates in an integrated manner and covers both the business units in all areas of activity and all geographic regions and the corporate support functions. Telepizza has a Corporate Risk Map that consolidates all critical risks related to strategy, compliance, reliability and quality of financial information, and operational risks with a potential impact on the Group's strategic objectives. Tax risks are included in the Corporate Risk Map and, like other risks, assessed and ranked according to their probability and impact.
	Corporate Tax policy	Approved by the Board of Directors on 28 July 2016 as reinforcement against the Group's tax risks.
Human Rights	**Human Rights policy**	The Telepizza Group has established a Human Rights policy that develops the values and principles enshrined in the Group's Code of Ethics. Its purpose is to establish general principles to guide and inspire the actions of all those who form part of the Company and ensure equality and respect for the human rights of all citizens. The policy takes its inspiration from the following policy tools: -The Universal Declaration of Human Rights proclaimed by the United Nations (UN) in 1948 and the two International Covenants that give it legal force: -International Covenant on Civil and Political Rights (ICCPR). -International Covenant on Economic, Social and Cultural Rights, ICESCR).

		-ILO Declaration on Fundamental Principles and Rights at Work (1998). This policy is applied in accordance with the laws of the countries in which the Group operates. Nevertheless, where this policy and the other internal standards are more precise and rigorous than local laws, company standards prevail. Similarly, where local legislation is less strict than the aforementioned Universal Declaration of Human Rights, the Group shall be guided by the latter.
People	**Human Resources policy**	The company has a Human Resources policy, the purpose of which is to establish the basic principles and criteria to be followed in employee recruitment and selection processes, establishing the minimum standards to be applied, in accordance with the standards and values of the company as set forth in its Code of Ethics. Furthermore, the policy provides employees with rules of conduct they must comply with during the working day to ensure security, efficiency and productivity in the work place. The Human Resources department is responsible for ensuring compliance with this policy, which is mandatory for all employees, management and members of the board of directors of Group companies, including subsidiaries and joint ventures in which the Group holds a controlling interest, and applies to all of their activities. The purpose of this Human Resources policy is to define and disseminate responsible personnel management to attract human capital to the Group, foster its loyalty and promote its development in order to be a market benchmark. Respect and the principles of equal opportunity and non-discrimination are the mainstay of this management policy.
Environmental Management	**Environmental policy**	Telepizza has defined the company's environmental policy, of which compliance with prevailing legislation, the prevention of pollution and the continuous improvement in

		all aspects related to the environment are the basic tenets. This policy translates into specific actions aimed at protecting the environment and must be taken into account by all areas of the company. Telepizza's commitments vis-à-vis the environment are to: -Endow the company with the resources it needs to learn about and comply with prevailing environmental standards, including tools for making continuous improvements. -Gradually reduce the amount of waste generated and ensure its reuse within the company and outside it. -Prevent/reduce the pollution generated by its activities. -Inform employees, suppliers, customers and other stakeholders of the environmental aspects necessary to ensure compliance with this policy. -Review its Environmental policy on an annual basis to determine whether it complies with the commitments acquired herein.

2. General information

Brief description of the Group's business model (business environment and organisation)

Based in Madrid, the Telepizza Group is present in 39 markets, having sold over 60 million pizzas under its Telepizza, Pizza Hut, Jeno's Pizza and Apache Pizza brands over a 30-year period.

Its network of 2,631 restaurants includes 424 own restaurants and 2,207 franchises and master franchises. Last year total network sales, including franchises and master franchises, which are recognised as chain sales, amounted to Euros 636 million.

At their General Meeting in June 2018, the shareholders of the Telepizza Group approved a strategic alliance with Pizza Hut. Subsequently, in December 2018, the European Commission Directorate-General for Competition approved the agreement whereby the Telepizza Group will become the leading operator in the global pizza market and Pizza Hut's largest master franchise by number of restaurants.

Activities, brands, products and services (GRI 102-2)

Telepizza Group customers have a choice of over 35 different pizzas, of which five are gluten-free. The menu comprises starters, hamburgers, pasta, salads and desserts.

Pizzas are divided as follows:

-Gourmet pizzas: 11 types of pizza.

-Telepizza of the month: 5 types of pizza.

-Classic pizzas: 4 types of pizza.

-Pizzas for meat lovers: 9 types of pizza.

-Pizzas for cheese lovers: 4 types of pizza.

-Natural pizzas: 3 types of pizza.

-Gluten-free pizzas: 5 types of pizza.

-Children's pizzas: 1 type of pizza.

-New on the menu: 1 type of pizza.

Starters are divided as follows:

-'Tried and true'.

-‘For dough fans’.

-‘Tasty chicken’.

-‘Something cheesy’.

-‘Wraps’.

Hamburgers are divided as follows: 5 types of hamburger and 2 types of sandwich.

Pasta: 6 types of pasta.

Salads: 2 types of salad.

Desserts: 1 sweet pizza, chocolates and ice cream.

Scale of the organisation (GRI 102-7)

Geographic locations

The Telepizza Group serves 39 markets with 2,631 restaurants distributed throughout three main regions:

Europe: Spain, Ireland, Portugal, Poland, Switzerland, France, Czech Republic, Russia, United Kingdom and Malta

Latin America: Chile, Colombia, Peru, Ecuador, Paraguay, Guatemala, El Salvador, Bolivia, Mexico, Honduras, Nicaragua and Venezuela.

Caribbean: Costa Rica, Puerto Rico, Guyana, Dominican Republic, Suriname, Aruba, Bahamas, Cayman Islands, Curaçao, Grenada, Guadeloupe, Jamaica, Trinidad and Tobago and Virgin Islands.

Other markets: Morocco, Iran and Angola.

The company has own factories in six countries (Spain, Portugal, Poland, Chile, Colombia and Peru) and master factory franchises in six other territories: Central America, Russia, Bolivia and Angola. Furthermore, in Ecuador the company uses warehouses belonging to collaborators.

Location of headquarters (GRI 102-3)

Parque Empresarial “La Marina”

Avenida Isla Graciosa, 7

28703 San Sebastián de los Reyes

Madrid | Spain

Tel: +34 912 760 000

Location of operations (GRI 102-4)

See Geographic locations.

Markets served (GRI 102-6)

See Geographic locations.

Organisation's objectives and strategies

The strategic alliance between Pizza Hut, a division of Yum! Brands Inc., and the Telepizza Group, which came into effect on 30 December 2018, will boost the number of Telepizza Group restaurants from 1,607 to 2,631 and will give more than 500 potential consumers access to the company in 39 markets.

Annual chain sales will grow to Euros 1,100 million (currently they stand at Euros 636 million), with EBITDA forecast to reach Euros 100 million in 2021. The alliance also envisages opening 1,300 Telepizza Group restaurants over the next ten years in markets covered by the agreement: Spain, Portugal, Latin America (excluding Brazil), the Caribbean and Switzerland.

Through this alliance, the Telepizza Group will have three main markets: Iberian Peninsula, South America and Central America.

Main factors and trends that can affect future performance (GRI 102-15 Key impacts, risks, and opportunities)

4.5. RISK MANAGEMENT

The purpose of the Telepizza Group's Control and Risk Management policy is to define the basic principles and general framework for controlling and managing risks, including tax risks that the Group faces to achieve its main objectives.

This policy is mandatory and necessitates the involvement of all Company personnel for its correct application.

The Group Risk Management System identifies all possible risks in all Group activities carried out at different levels of the organisation. It operates in an integrated manner and covers both the business units in all areas of activity and all geographic regions, and the corporate support functions.

Telepizza has a Corporate Risk Map that consolidates all critical risks related to strategy, compliance, reliability and quality of financial information, and all operational risks with a potential impact on the Group's strategic objectives.

Tax risks are included in the Corporate Risk Map and, like other risks, assessed and ranked according to their probability and impact.

In addition, Telepizza has adopted the Corporate Tax policy approved by the Board of Directors on 28 July 2016.

RISK MANAGEMENT BODIES

The Board of Directors is responsible for establishing the Control and Risk Management policy, including tax risks, and for supervising the internal control and reporting systems, as stipulated in the Board regulations.

The Board of Directors has undertaken to develop its capabilities to adequately identify, evaluate, manage and control relevant corporate risks related to all Group activities and businesses and, through the Group Control and Risk Management policy, to establish the basic mechanisms and principles to manage them appropriately, with a level of risk that enables the Group to:

-Attain its strategic objectives while keeping volatility under control.

-Provide the highest level of assurance to shareholders.

-Protect its results and reputation.

-Protect the interests of shareholders, customers, and other stakeholders with an interest in the performance of the Company and in society in general.

-Ensure the stability of the business and its financial strength over the long term.

The Steering Committee is responsible for managing these risks. This Committee comprises the Chief Executive Officer of the Telepizza Group and members of Group senior management (representing both corporate and operational areas of the Group).

The Steering Committee defines and determines the risk management procedures and, where appropriate, establishes appropriate management mechanisms to keep risks within the levels approved by the Board of Directors.

Article 31 of the Board regulations authorises the Audit and Compliance Committee to monitor the effectiveness of internal control, internal audit and risk management systems, including those for tax-related risks.

Within the organisational structure, the Internal Audit department reports directly to the Audit and Compliance Committee, thereby ensuring that it enjoys the necessary autonomy and independence to discharge its duties and supervise the control and risk management system in a responsible manner. The Internal Audit department informs, advises and reports to the Audit and Compliance Committee on Group risks regarding compliance with its objectives. To this end, it carries out its annual work plan, reporting on the activities performed as part of the plan and on any incidents encountered.

MAIN RISKS

The Telepizza Group has identified the following risks:

-**Strategic risks.** Those that could arise as a result of choosing a specific strategy and, directly or indirectly, significantly influence the achievement of the Telepizza Group's long-term objectives. This group includes reputational risks, which are those with a potentially negative impact that could affect the Group's reputation for transparency and its relationships with analysts, investors and other stakeholder groups harbouring expectations regarding the Group's performance.

-**Regulatory compliance risks**, which include those related to corporate governance (including, among others, those derived from the reliability of the financial information published); company litigation and public liability; tax risks; data protection, health and safety, equality and the environment.

-**Financial risks**, comprising level of indebtedness, liquidity risk, credit risk, risks derived from fluctuations in exchange rates and those arising from interest rate fluctuations.

-**Operational risks**, namely those associated with key business processes, including risks related to contracting suppliers, personnel, food handling, product quality, the environment, purchasing and subcontracting.

RISK SUPERVISION AND RESPONSE PLANS

The Telepizza Group's main risks, including tax-related risks, are managed directly by the respective areas. Consequently, the management thereof is entirely linked to the day-to-day activities of the areas themselves, in complete alignment with the Group's strategy and objectives, and reported to the Steering Committee constantly.

The Risk Management System establishes the definitions for several risk indicators that are reported to the Steering Committee. The Steering Committee monitors these indicators and evaluates the response plans adopted by the respective area; it also decides on the plans to be adopted in future to ensure that the risks remain contained within the specified limits.

The different response plans vary according to each type of risk, addressing aspects such as:

-Strategy for internationalisation and geographic diversification.

-Adaptation of products to changes in the market.

-Strengthening of the supply chain.

-Mechanisms to manage financial risk hedges.

-Formalisation of the Corporate Tax policy and adoption of the Code of Good Tax Practices as of July 2016.

-Definition of policies and procedures for major risks.

This information is periodically consolidated into the Corporate Risk Assessment Report which is analysed by the Steering Committee and sent to the Audit and Compliance Committee for monitoring, together with the Corporate Risk Map. The Internal Audit department periodically performs a monitoring exercise to reassess the significance of each risk and the mitigating measures implemented.

Furthermore, the Telepizza Group has established policies and procedures aimed at informing and training employees on certain principles of behaviour and preventing and detecting inappropriate conduct. On 22 December 2016 the Board of Directors of the Telepizza Group approved the Code of Ethics. For Telepizza, this Code embodies the commitment of the Company and its employees to society and to the Group's customers, franchisees and collaborators, and it sets out the principles governing the day-to-day conduct of the organisation.

The Telepizza Group has an Ethics hotline through which employees can securely and confidentially report any doubts that might arise regarding the application of the aforementioned Code and report possible violations, regulatory non-compliance or internal control deficiencies.

Claims of reporting in accordance with the Spanish, European or international reporting framework used to select the non-financial key performance indicators included in each section (GRI 102-54)

This report on the Non-financial Information Statement of the Telepizza Group has been prepared in accordance with the GRI Standards.

3. Environmental topics

— **Main environmental risks affecting the organisation (GRI 102-15)**

Environmental risks form part of the operational risks identified by the Telepizza Group in relation to its key business processes, together with risks associated with contracting suppliers, personnel, food handling product quality, purchasing and subcontracting.

The environment and climate change constitute one of the 10 commitments listed in the CSR policy, linked to the 10 Principles of the UN Global Compact and the UN's Sustainable Development Goals (SDGs). Accordingly, the Group undertakes to:

- Apply the company's environmental policy, of which compliance with prevailing legislation, the prevention of pollution, reduction of waste and the continuous improvement in all aspects related to the environment are the basic tenets

- Promote action to develop the circular economy in its production processes.

- Further the measurement of the company's carbon footprint in the different scopes:

- Engage in the fight against climate change and offset CO_2 emissions, as promoted by the 2015 Paris Agreement to combat climate change.

- Foster sustainable mobility in its activities.

- Educate and train employees on the efficient use of resources.

The Telepizza Group is aware of the regulatory changes in the energy sector and is prepared for increases in electricity prices in a complex environment, and to adapt to the decarbonisation of the economy.

— **Policies and commitments (GRI 103)**

Telepizza has an environmental policy for its activity in Spain, of which compliance with prevailing legislation, the prevention of pollution, reduction of waste and the continuous improvement in all aspects related to the environment are the basic tenets.

This policy is implemented through specific actions aimed at protecting the environment and must be considered by all areas of the company.

Telepizza's environmental commitments comprise:

- Endowing the company with the resources it needs to learn about and comply with prevailing environmental standards, including tools for making continuous improvements.

- Progressively reducing the amount of waste generated and ensure its reuse within the company and outside it.

- Preventing/reducing the pollution caused by its activities.

- Informing employees, suppliers, customers and other stakeholders of the necessary environmental aspects to ensure compliance with this policy.

- Reviewing the environmental policy on an annual basis to determine whether it complies with the commitments acquired herein.

— **Results of applying the policies and indicators. General (GRI 103)**

The results shown below refer to Spain only and therefore represent 45.42% of the scope.

— **General information on the actual and foreseeable impacts of the company's activities on the environment and, where applicable, health and safety.**

In this non-financial information statement (NFIS) the Telepizza Group presents information on its factory in Daganzo, where the main consumption is centralised, and on its headquarters and stores for which consolidated information is available. It also reports the consumption of the factories in Portugal and Chile.

In 2018 the Daganzo factory's energy consumption increased due to the rise in production of pizzas and food. Water consumption totalled 64,804,000 litres, electricity consumption amounted to 7,263,490 kWh and gas consumption fell to 65,807 m^3.

The factory's water consumption also rose in 2018 (5,750,000 litres), production waste amounted to 577,525 kg and the flour consumed increased from 9,200,000 kg to 9,900,000 kg.

DAGANZO FACTORY CONSUMPTION			
Energy consumption	**2016**	**2017**	**2018**
Electricity (kWh)	6,868,020 kWh	7,116,718 kWh	7,263,490kWh
Gas (m^3)	61,320 m^3	70,407 m^3	65,807 m^3
Water (litres)	36,876,000 l	44,000,000 l	64,804,682 l
Factory water	N/AV	5,490,000 l	5,750,000 l
Production waste	N/AV	524,465 kg	577,525 kg
Flour	N/AV	9,200,000 kg	9,900,000 kg
kg	N/AV	15,797,553	16,656,844
Units	N/AV	51,326,329	53,762,640

Telepizza SAU's consumption of diesel and petrol totalled 258,941.21 litres in 2018. This consumption comprised 33,656.23 litres in stores and 225,284.98 litres in cars.

The Telepizza Group does not use any renewable energy but it is expected to be brought into use in the Daganzo factory in 2019.

PORTUGAL

In 2018 electricity consumption in the Portugal factory totalled 504,102.36 kWh and gas consumption amounted to 153 m^3. The rest of energy consumption is irrelevant as the factory has no in-house production.

The fleet of delivery motorcycles in Portugal consumed a total of 341,872 litres (118,000 litres of diesel and 391,539 litres of petrol). In total, 259,986 litres of petrol was consumed in stores for motorcycles and 81,886 litres in other operational centres.

CHILE

In 2018 the electricity consumption of Chile and its factories totalled 1,878,300 kWh, while water consumption amounted to 10,667.69 m^3. Worthy of note are the 127.11 tonnes of non-hazardous waste produced and the flour consumed, which grew to 1,640,922 kg.

CHILE ENERGY CONSUMPTION 2018	
Electricity	1,878,300 kWh
Propane gas	16,624 kg
Water consumption (m^3)	10,667.69 m^3
Effluent (m^3)	9,402.36 m^3
Non-hazardous waste produced (t)	127.11 t
Flour consumed (t)	1,640,922 kg
Units and mass of dough produced (t)	8,997,757 units and 2,655,011 kg

The fuel consumed by the fleet of motorcycles totalled 92,753,250 litres.

— **Environmental certification assessment procedures - environmental certifications obtained**

The Telepizza Group has no environmental certifications. Nevertheless, it endeavours to reduce its environmental impact. In 2018 an energy audit was carried out in the Daganzo plant with a view to improving efficiency.

The assessment found that the installations are generally very efficient with high-performance equipment controlled by a management system. The measures implemented include LED technology for all the lighting, floating condensing in compressors to improve their performance, and heat recovery in compressor systems, which are properly compartmentalised between different areas and rooms with dehumidifiers in antechambers.

The only recommendations resulting from the audit were to replace the remaining standard engines with new high-efficiency ones, implement variable speed drives in engines capable of high performance (executed as of February 2019), and improve the air combustion in boilers.

A series of energy improvement measures were also recommended, such as:

- Installation of energy recovery ventilation.
- Implementation of thermal inertia simulators.
- Improvement of the thermal insulation of the loading bays.
- Expansion of the energy management system.
- Staff training on working in appropriate set point temperatures and energy awareness.
- Installation of photovoltaic plant.
- Installation of LNG plant (underway).

— **Resources for the prevention of environmental risks - number of people and/or investment in Euros**

In 2018 the Telepizza Group spent Euros 79,838 on the prevention of environmental risks, as follows:

- Waste collection and treatment:	Euros	21,478
- Measurement and analytics:	Euros	1,025
- Energy audit:	Euros	49,425
- Wastewater treatment plant management contract:	Euros	7,910

— **Application of the precautionary principle**

Through its environmental policy the Telepizza Group endeavours to minimise its impact:

- Endowing the company with the resources it needs to learn about and comply with prevailing environmental standards, including tools for making continuous improvements.

- Progressively reducing the waste generated, striving to reuse it within or outside the company.

- Preventing/reducing contamination caused by its activities.

- Informing employees, suppliers, customers and other stakeholders of the necessary environmental aspects to ensure compliance with this policy.

- Reviewing the environmental policy on an annual basis to determine whether it complies with the commitments acquired herein.

Provisions and guarantees for environmental risks

The Telepizza Group's provisions and guarantees for environmental risks amount to Euros 90,750 and are based on the Daganzo factory waste management. In 2018 the wastewater treatment plant costs amounted to Euros 25,677.64; its maintenance cost Euros 34,365.50; the cost of managing cardboard, plastic and wooden pallets totalled Euros 24,583.93; and municipal solid waste management cost Euros 6,123.54.

Pollution

— **Measures to prevent, reduce or repair the damage caused by emissions with a severe environmental impact; taking into account all kinds of specific atmospheric pollution produced by an activity, including noise and light pollution.**

An energy recovery system (EXERGY) has been installed in the Daganzo factory in order to recover heat from condensing in the refrigerating plant's compressors and release it into the hot water circuit, thereby cutting the amount of fossil fuels required to heat water while reducing energy consumption in the cooling towers.

The system also includes a floating condensing control which saves energy in compressors and condensers depending on the atmospheric conditions.

The plant has a state-of-the-art LED lighting system which saves more energy than traditional LED systems. This system includes motion detectors to manage the lighting in all work areas.

All the pumps in the engine room's glycol circuit have been replaced with cutting-edge pumps featuring flow-regulating pressure control, thereby reducing energy consumption in the pump motors.

A liquid natural gas plant is being installed for 2019 in order to change from propane to gas in the factory, which will give rise to fuel consumption savings and a reduction in CO_2 emissions of 25-40%. The installation of photovoltaic facilities in the factory is also being studied and could result in self-consumption of 20% and a reduction in CO_2 emissions of some 400 tonnes.

Circular economy and waste prevention and management

— **Measures to prevent, recycle, reuse, otherwise recover and eliminate waste; actions to combat food wastage**

The Spanish Packaging Law states that clear priority should be given to principles of action which minimise and prevent packaging waste at the source. Accordingly, Corporate Prevention Plans, regulated by Royal Decree 782/1998 and managed through Ecoembes, constitute one of the primary mechanisms to boost the fulfilment of prevention and reduction targets. Like other companies, Telepizza is required to draw up such plans, endeavouring to imbue its activities with improvements aimed at preventing the generation of packaging waste and minimising its impact on the environment.

Every year Telepizza presents a series of measures to reduce the generation of waste in its activities.

In 2018 Telepizza SAU reported 4,424,572.327 kg of waste in the Ecoembes Corporate Prevention Plan, representing an economic contribution of Euros 344,120.26. Consumption of recyclable materials rose slightly compared to 2017, amounting to 4,420,769.50 kg.

The main material consumed by the company is pizza box cardboard, totalling 4,388,387.273 kg in 2018.

MATERIALS CONSUMED						
MATERIAL	**2016**	**CONTRIBUTION**	**2017**	**CONTRIBUTION**	**2018**	**CONTRIBUTION**
ALUMINIUM	9,203.859 kg	€938.79	7,085.552 kg	€722.73	4,852.834 kg	€494.99
PAPER/CARDBOARD	4,233,818.296 kg	€287,899.64	4,301,879.924 kg	€292,527.83	4,388,387.237 kg	€298,410.33
Flexible HDPE PLASTIC	34,788.600	€16,420.22	35,962.080 kg	€16,974.10	21,344.300 kg	€10,074.51
LDPE PLASTIC	2.534 kg	€1.2	148.838 kg	€70.25	491.499 kg	€231.96
OTHER PLASTIC	83,899.023 kg	€39,600.34	73,337.964 kg	€34,615.52	72,075.733 kg	€34,019.75
PVC PLASTIC	83,899.023 kg	€299.06	130.148 kg	€61.43	264.150 kg	€124.68
TOTAL	**4,448,023.26 kg**	**€346,068.55**	**4,420,769.50 kg**	**€345,810.69**	**4,424,572.327 kg**	**€344,120.26**

PORTUGAL

In Portugal Telepizza spent Euros 83,718.93 on waste management with 474,743 kg of materials consumed.

MATERIALS CONSUMED		
MATERIAL	**2018**	**CONTRIBUTION**
ALUMINIUM	208 kg	€2.97
PAPER/CARDBOARD	424,876 kg	€53,355.84
STEEL	24,883 kg	€5,021.39
PLASTIC	24,776 kg	€9,683.81
TOTAL	**474,743 kg**	**€83,718.73**

- **Sustainable use of resources**

— **Measures to improve energy efficiency**

Telepizza fosters energy savings in its installations. To this end, it has developed more efficient lighting systems in factories and in central services. It is also committed to hot water generation in factories and automatic standby controlled by the stores' IT equipment.

In 2018 electricity savings of Euros 34,094 were achieved in the Daganzo factory thanks to the use of LED technology. Such savings amounted to Euros 34,173 in 2017. Savings in propane fuel through the EXERGY condensing heat recovery system came to Euros 89,101 in 2018, versus Euros 72,024 in 2017.

In 2018 the company endeavoured to improve the energy efficiency of the headquarters by installing LED lighting on the entire third floor, relocating the offices to a single floor, removing paper documentation and fixed IT equipment, improving the air conditioning, and installing electric charging stations in the car park.

Telepizza is committed to minimising its environmental impact, particularly that of its vehicles. In this regard, 73% of its fleet emits under 120 g of CO_2 per 100 km and 68% of the vehicles consume under 5.7 litres per 100 km.

2018 saw the continuation of trialling electric motorcycles for deliveries, which commenced in 2017, but their wide-scale integration in the fleet of vehicles has been ruled out for now. Electric cars also continued to be used for deliveries in order to assess the different sustainable mobility options.

Telepizza has also promoted deliveries using electric bicycles in areas where such deliveries are possible. It has 15 electric bicycles in Salamanca, Madrid, Barcelona, Ciudad Real and Santiago Compostela, among other locations. The use of electric bicycles has also been promoted in Portugal for deliveries in five stores, as well as normal bicycles. Moreover, two hybrid cars were added to the delivery fleet in 2018.

Climate change.

The Telepizza Group is endeavouring to further the measurement of the company's carbon footprint in the different scopes (Scope 1: direct emissions. Scope 2: energy indirect. Scope 3: other indirect emissions) and measure them for 2019.

— **Measures adopted to adapt to the consequences of climate change.**

The Telepizza Group has no measures in place to adapt to the consequences of climate change.

— **Voluntary medium/long-term targets set for the reduction of greenhouse gas emissions and measures implemented for such purpose.**

The Telepizza Group has not set any voluntary targets for the reduction of greenhouse gas emissions.

Biodiversity protection

— **Measures to preserve and restore biodiversity.**

The Telepizza Group's activities have no direct impact on the biodiversity or sites where it operates.

— **Impacts caused by activities or operations in protected areas.**

There are no impacts caused by activities or operations in protected areas.

4. Social and personnel topics

— **Main labour risks that affect the organisation, in respect of equal treatment and equal opportunities between men and women, discrimination, inclusion of disabled people, and universal accessibility. (GRI 102-15, GRI 103)**

The company's labour policies set out its commitment to equal treatment and equal opportunities in terms of recruitment, salaries and advancement.

Personnel risks form part of the operational risks identified by the Telepizza Group in relation to its key business processes, together with risks associated with contracting suppliers, food handling, product quality, purchasing and subcontracting.

— **Policies and commitments** (GRI 103)

The Telepizza Group's human resources policy aims to establish the basic principles and criteria to be followed in employee recruitment and selection processes, establishing the minimum standards to be applied in accordance with the standards and values of the company as set forth in its Code of Ethics.

This policy provides employees with rules of conduct they must comply with during the working day to ensure safety, efficiency and productivity in the workplace. The human resources department is responsible for overseeing compliance with this policy, which is mandatory for all employees, management and members of the board of directors of the Group companies and all their activities, including subsidiaries and joint ventures in which the Group holds a controlling interest.

The purpose of this Human Resources policy is to define and disseminate responsible personnel management to attract human capital to the Group, foster its loyalty and promote its development in order to be a market benchmark. Respect, equal opportunity and non-discrimination are the underlying principles of this management.

The Telepizza Group also undertakes to ensure compliance with the UN's Universal Declaration of Human Rights and the International Labour Organisation's (ILO) Declaration on Fundamental Principles and Rights at Work (1998) for its employees, franchisees and suppliers.

— **Results of applying the policies and indicators.**

Telepizza considers itself an employer company, with 8,602 employees in its own stores, excluding franchises and master franchises. The workforce comprises 5,200 men and 3,402 women.

The employment policy favours permanent contracts over temporary ones, seeking stable environments where professionals can contribute the best of themselves.

Spain is the country with the most employees, 3,906, followed by Portugal with 1,605 and Chile with 1,533.

— **Headcount by gender (GRI 102-8, 405-1):**

TELEPIZZA GROUP EMPLOYEES 2018			
(at 31 December)*	MEN	WOMEN	TOTAL
Number of employees	5,200	3,402	**8,602**

**The above table shows the Group's total employees at 31/12 without converting to full-time.*

— **Headcount by country (GRI 102-8):**

HEADCOUNT BY COUNTRY	
(at 31 December)*	HEADCOUNT 2018
SPAIN	3,906
CHILE	1533
COLOMBIA	442
ECUADOR	184
PERU	460
POLAND	471
PORTUGAL	1,605
PANAMA	1
FRANCE	0
MOROCCO	0
TOTAL	8,602

**The above table shows the total employees at 31/12 without converting to full-time.*

The Telepizza Group has not been able to consolidate the data of all the countries for social and personnel management purposes. It reports on Spain and Chile with a scope coverage of 63.23% and on Spain, Portugal and Chile with a coverage of 81.89% for the number of employees broken down by professional category.

Headcount by age (the company can select the age ranges as it sees fit) (GRI 102-8):

Scope of 62.23% with information on Spain and Chile.

HEADCOUNT BY AGE IN SPAIN 2018	
(at 31 December)*	HEADCOUNT
Under 25 years old	1,628
25 to 40 years old	1,566
Over 40 years old	712
TOTAL	3,906

HEADCOUNT BY AGE IN CHILE 2018			
(at 31 December)*	HEADCOUNT	MEN	WOMEN
Under 25 years old	856	576	280
25 to 40 years old	568	325	243
Over 40 years old	109	59	50
TOTAL	1,533	960	573

— **Types of contract and number of dismissals by gender (GRI 102-8, 405-1):**

The Telepizza Group advocates hiring professionals through permanent, stable contracts. In Spain 98.7% of male and 98.2% of female employees have permanent contracts.

Scope of 62.23% with information on Spain and Chile.

TYPE OF CONTRACT AND DISMISSALS IN SPAIN 2018		
(at 31 December)*	Men	Women
Total number of employment contracts	2,170	1,736
Number of permanent contracts	2,143	1,705
Number of temporary contracts	27	31
% part-time contracts	83%	78%
Number of dismissals	13	5

	MEN	WOMEN
Average permanent contracts	98.7%	98.2%
Average temporary contracts	1.3%	1.8%
Average part-time contracts	-	-

TYPE OF CONTRACT IN CHILE 2018		
(at 31 December)*	MEN	WOMEN
Total number of employment contracts	960	573
Number of permanent contracts	595	436
Number of temporary contracts	365	137
% part-time contracts	72.19%	56.54%
Number of dismissals	-	-

In 2018 the Chile workforce was divided into:

TYPE OF CONTRACT IN CHILE 2019Kp				
CONTRACT	**EMPLOYEES**	**PERMANENT**	**TEMPORARY**	**% PART-TIME**
Admin/assistants	154	132	22	6.49%
Store assistants	868	484	384	97.7%
Directors	6	6	0	0
Managers	219	191	28	0%
Part-time managers	2	2	0	100%
Team leaders	76	73	3	0%
Middle management	34	31	3	0%
Skilled workers	9	9	0	0%
Delivery people	165	103	62	95.15%
Total	1,533	1,031	502	66.34%

In 2018 the Portugal workforce was divided into:

(at 31 December)	MEN	WOMEN	TOTAL
Employees (pizza makers/delivery people)	997	301	1,298
Management team	91	108	199
Headquarter operations	11	8	19
Factory	8	5	13
Central services	26	50	76

— **Types of contract and number of dismissals by age in Spain and Chile (GRI 102-8):**

Scope of 62.23% with information on Spain and Chile.

SPAIN			
(at 31 December)	**UNDER 25 YEARS OLD**	**25 TO 40 YEARS OLD**	**OVER 40 YEARS OLD**
Total number of employment contracts	1,628	1,566	712
Number of permanent contracts	1,603	1,551	694
Number of temporary contracts	25	15	18
% part-time contracts	_	_	_
Number of dismissals	4	4	10

CHILE			
(at 31 December)	**UNDER 25 YEARS OLD**	**25 TO 40 YEARS OLD**	**OVER 40 YEARS OLD**
Total number of employment contracts	856	568	109
Number of permanent contracts	499	437	95
Number of temporary contracts	357	131	14
% part-time contracts	84.93%	45.07%	31.19%
Number of dismissals	-	-	-

— **Types of contract and number of dismissals by professional category (GRI 102-8):**

The tables below show the types of contract by professional category, as well as the dismissals in Spain, representing 42.42% of the scope.

(at 31 December)	ADMIN ASSISTANT	STORE ASSISTANT	MECHANICAL ASSISTANT
Total number of employment contracts	7	1,139	2
Number of permanent contracts	5	1,124	2
Number of temporary contracts	2	15	0
% part-time contracts	71.43%	99.83%	100%
Number of dismissals	0	0	0

(at 31 December)	BAKERY ASSISTANT	DRIVER	BOARD MEMBER
Total number of employment contracts	131	2	1
Number of permanent contracts	109	2	1
Number of temporary contracts	22	0	0
% part-time contracts	5.19%	0%	0%
Number of dismissals	3	0	0

(at 31 December)	COUPON DISTRIBUTOR	DIRECTOR	MANAGER
Total number of employment contracts	126	30	123
Number of permanent contracts	126	30	123
Number of temporary contracts	0	0	0
% part-time contracts	100%	0%	16.10%
Number of dismissals	1	2	0

(at 31 December)	BAKERY TEAM LEADER	FIRST-CLASS SKILLED TEAM LEADER	SECOND-CLASS SKILLED TEAM LEADER
Total number of employment contracts	16	41	56
Number of permanent contracts	16	41	56
Number of temporary contracts	0	0	0
% part-time contracts	0%	7.32%	3.85%
Number of dismissals	0	0	1

(at 31 December)	CLEANER	WAREHOUSE STAFF	DELIVERY WORKER
Total number of employment contracts	199	2	6
Number of permanent contracts	193	2	6
Number of temporary contracts	6	0	0
% part-time contracts	100%	100%	16.67%
Number of dismissals	0	0	1

(at 31 December)	MECHANIC	BAKERY STAFF	FIRST-CLASS SKILLED WORKER
Total number of employment contracts	18	26	84
Number of permanent contracts	18	26	84
Number of temporary contracts	0	0	0
% part-time contracts	16.67%	0%	23.81%
Number of dismissals	0	1	1

(at 31 December)	SECOND-CLASS SKILLED WORKER	DELIVERY PERSON	ASSISTANT MANAGER
Total number of employment contracts	43	1,337	517
Number of permanent contracts	43	1,325	516
Number of temporary contracts	0	12	1
% part-time contracts	22.73%	100%	52.93%
Number of dismissals	0	7	1

— **Average remuneration and trends by gender, age and professional classification or similar value (GRI 405-1, 405-2):**

The companies comprising the Telepizza Group in Spain fall under the functional scope of the collective bargaining agreement for preparers of cooked food for delivery sales.

This is a nationwide sectorial collective bargaining agreement in which companies are represented at the negotiating table by the association Prodelivery.

The labour relationships between all the Group's workers and the companies are governed by this agreement, in addition to the provisions of the other general labour regulations. The agreement therefore encompasses all the workers and sets the minimum mandatory labour conditions, some of which are improved upon through other agreements reached with the workers' legal representation.

The labour laws of all other countries are complied with accordingly.

It has not been possible to consolidate the data on average remuneration and trends by gender, age and professional classification.

— **Pay gap, remuneration for the same job positions or company average (GRI 405-2)**

The salaries stipulated by the applicable collective bargaining agreement and internal policies are the same for each professional category regardless of whether the position is held by a man or a woman.

Differences in pay may exist based on the length of service in positions for which different salary levels are established. The length of service criterion which places an employee in one pay band or another has no regard to gender.

The remuneration policies are applicable to all Group companies. It has not been possible to consolidate the pay gap data for this non-financial information statement, but it will be reported in the 2019 statement.

— **Average remuneration of board members and management, including variable remuneration, allowances, indemnities (GRI 102-35; GRI 102-36; GRI 102-39):**

The total remuneration of the eight board members of the Telepizza Group was Euros 2,980,039.26, the amount stipulated in the regulations of the board of directors. The average remuneration amounted to Euros 372,504.

The total remuneration of senior management, comprising 10 individuals, was Euros 7,313,903.70. The average remuneration amounted to Euros 731,390.

In terms of gender, the average remuneration of male board members amounted to Euros 372,504. The remuneration of Esther Berrozpe is not included as, despite joining the board in December, her incorporation will be effective from April 2019. As regards the management team, men receive an average of Euros 806,787 while women receive an average of Euros 429,805.

	TOTAL REMUNERATION (€) (AT 31 DECEMBER)	AVERAGE REMUNERATION (€)	AVERAGE REMUNERATION FOR MEN (€)	AVERAGE REMUNERATION FOR WOMEN (€)
Board members	2,980,039.26	372,504	372,504	N/A
Management	7,313,903.70	731,390	806,787	429,805

— **Payments (cash outflows) to long-term savings schemes and other benefits by gender (GRI 201-3)**

The Telepizza Group has long-term savings schemes for its board members, amounting to Euros 291,607 for the men. No amounts were paid to savings schemes for women due to the absence of women on the board.

	SAVINGS SCHEMES 2018 (€) (at 31 December)
MEN	291,607
WOMEN	0

— **Implementation of policies on disconnecting from work (GRI 103)**

The Telepizza Group has no policies on disconnecting from work as such, but it is committed to work-life balance, flexibility, training and professional development.

— **Number of employees with a disability (GRI 405-1)**

Telepizza undertakes to integrate disabled people. Currently 1.81% of the workforce, or 68 employees, have some form of disability. Given that the Telepizza workforce in Spain comprises 3,758 employees, eight further individuals would have to be hired as per the General Act on Persons with Disabilities. In addition to complying with the legal requirements on equal opportunity and social integration, the company has specific initiatives outlining its commitment:

-Agreement with Down España: for over 15 years Telepizza has collaborated in the employment of people with Down syndrome, hiring such professionals to maintain and fit out stores. 2018 also saw the continuation of Down España's "Juntos Crecemos" project, which was launched in 2017 with the aim of boosting the social and workplace integration of 800 mentally disabled people.

-Agreement with COCEMFE: aimed at normalising the employment of individuals with a physical and organic disorder.

- **Work organisation**

— **Organisation of working hours (shifts, overtime management, flexible working hours, etc.) (GRI 103)**

The companies comprising the Telepizza Group in Spain fall under the functional scope of the collective bargaining agreement for preparers of cooked food for delivery sales. This is a nationwide sectorial collective bargaining agreement in which companies are represented at the negotiating table by the association Prodelivery.

The labour relationships between all the Group's workers and the companies are governed by this agreement, in addition to the provisions of the other general labour regulations. The agreement therefore encompasses all the workers and sets the minimum mandatory labour conditions, some of which are improved upon through other agreements reached with the workers' legal representation.

The labour laws of all other countries are complied with accordingly.

— **Measures to facilitate work-life balance and promote their shared use by both parents (GRI 103)**

The Telepizza Group fosters talent and the creation of a better working environment, committing to work-life balance, flexibility, training and professional development.

The many human resources policies aim to:

-Guarantee job quality and the best working environment.

-Ensure equal opportunities.

-Attract and retain talent.

-Foster professional development.

-Facilitate a work-life balance for all our employees.

The work-life balance plan promotes flexible working hours in the points of sale and managers hold one-to-one meetings with employees in order to achieve a work-life balance.

Health and safety

Telepizza is actively committed to occupational health and safety, integrating such aspects into the management of the company in its activities and decisions, as part of technical processes and the organisation of work.

The **occupational health and safety policy** focuses on:

- Recognising **the value of individuals** and their working conditions to the development and success of the company, looking after the health of employees and resolving their needs with an open attitude. Safety is fundamental to their work.

- Providing **adequate resources** to implement the health and safety programme.

- Establishing and maintaining a **health and safety programme** for management and continuous improvement in stores, factories and central services.

- Performing **periodic audits and assessments of the health and safety management system** to ensure its effectiveness and continuous improvement, implementing standards above the minimum required by prevailing legislation.

- Providing our employees with the best **training in risk prevention**.

  Each year the number of hours of training is tailored to the Telepizza Group's needs.

- Developing **health promotion programmes** based on the results of the health monitoring campaign epidemiological studies.

The occupational health and safety training programme was recognised in the 7th Edition of the Asepeyo Awards in 2018. Telepizza came second in the health and safety management best practice category for its “Use of educational games in training”. The company was a worthy award-winner having achieved an 18% reduction in the number of incidents in the space of a year, as well as cutting the average duration of incidents by over 7.5%. As regards road traffic risk, traffic accidents and accidents in itinere are down by 20% and 47%, respectively.

Telepizza was also a runner-up in the health and safety best practice category of the 2nd Edition of the Prevencionar Awards in 2018, for its training project: Telepizza Campus, Use of Serious Games in e-learning. There were 367 candidates and we hope to win at the next edition.

HEALTH AND SAFETY COMMITTEE

In 2011 Telepizza created the health and safety committee with the fundamental objective of ensuring the health and safety of all the Group's employees, as established in the company's safety policy declaration.

The committee comprises members of the steering committee and the health and safety department constitutes the consulting and advisory body tasked with informing the committee of all the necessary proposals that help ensure the health and safety of all employees in the network of stores, factories and central services.

Since 2011 Telepizza has also formed part of the sectorial health and safety committee, as established in articles 53 and 54 of the collective bargaining agreement. The intercentre health and safety committee was set up in May 2014 and meets periodically to address health and safety matters that might generally affect the company's employees.

ABSENTEEISM AND OCCUPATIONAL ACCIDENTS

In 2018 the overall absenteeism rate, reflecting the hours lost in Telepizza, was 3.90 compared to 3.52 in 2017. This increase is attributable to the opening of stores in Spain and abroad, as well as the larger workforce. The non-work-related absenteeism rate stood at 3.20 and the work-related accident absenteeism rate was 0.70. The frequency and severity rates for the foreseeable future will be extracted from the m4 program.

Scope of 81.88% with information on Spain, Portugal and Chile.

% ABSENTEEISM	2016	2017	2018
WORK-RELATED ACCIDENT	0.46	0.72	0.70
NON-WORK-RELATED	2.57	2.80	3.20
OVERALL ABSENTEEISM	3.03	3.52	3.90

DAYS LOST	MEN	WOMEN	OVERALL TOTAL
Non-work-related accident	3,163	2,277	5,440
Accident without leave	78	53	131
Accident with leave	8,543	2,525	11,068
Illness	17,724	22,925	40,649
Work-related illness	-	108	108
Overall total	29,508	27,888	57,396

NUMBER OF CASES	MEN	WOMEN	OVERALL TOTAL
Non-work-related accident	50	34	84
Accident without leave	80	53	133
Accident with leave	184	56	240
Illness	701	569	1,270
Work-related illness		2	2
Overall total	1,015	714	1,729

The reduction in the work-related accident rate is mainly attributable to the health and safety e-learning training and the road traffic safety training and information campaigns. The most recent campaign, “Hazte Visible” (*make yourself visible*), was carried out in collaboration with the national institute of occupational health and safety. The health and safety department has defined the causes of accidents and focused its efforts on making the delivery person visible on the road, “ver y ser visto” (*see and be seen*).

The health and safety department knows that it is impossible to eliminate all road traffic risks, but it is possible to condition the human factor and raise awareness of the importance of seeing and being seen. The aim of the “¡Hazte Visible!” campaign is to improve the safety of delivery motorcyclists, eliminating the blind spots of cars, vans and buses, as well as educating others.

This campaign conveys the facets of defensive driving predicated on anticipating dangerous situations. Defensive driving comprises a set of techniques allowing drivers to rely on their own behaviour to avoid any kind of risk. Employing defensive driving involves driving in such a manner that accidents are avoided despite the improper behaviour or actions of other drivers, or bad road conditions, signs or markings.

In Portugal there were 185 work-related accidents and 207,855.55 hours were lost to absenteeism in 2018, whereas in Chile there were no accidents entailing employee leave and 12,356 hours were lost to absenteeism.

- **Social relationships**

  — **Organisation of social dialogue, including procedures on worker communication, consultation and negotiation (GRI 103)**

  As reflected in the Telepizza Group's human resources policy, each country has collective bargaining agreements or specific agreements that govern matters related to human resources management.

  — **Collective bargaining agreements, specifically regarding occupational health and safety (GRI 403-4)**

  The companies comprising the Telepizza Group in Spain fall under the functional scope of the collective bargaining agreement for preparers of cooked food for delivery sales. This is a nationwide sectorial collective bargaining agreement in which companies are represented at the negotiating table by the association Prodelivery.

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Since 2011 Telepizza has also formed part of the sectorial health and safety committee, as established in articles 53 and 54 of the collective bargaining agreement. The intercentre health and safety committee was set up in May 2014 and meets periodically to address health and safety matters that might generally affect the company's employees.

— **Percentage of employees covered by collective bargaining agreements by country (GRI 403-1)**

100% of the employees are covered by the collective bargaining agreement of each country.

- **Training**

— **Training policies in place (GRI 103, GRI 404-2)**

Telepizza has a training programme focused on identifying and strengthening the attributes of each of its employees in order to train professionals to occupy new positions within the organisation and create links between the different training programmes so as to boost the growth of the workforce. Development plans are designed, revised and assessed every six months, and focus on the design and planning of various initiatives, taking into account the training needs of managers, which are transposed to the employees.

The 2018 training plan comprises three areas:

-Strategy: focused on digital transformation and ways of working. In addition to the transformation processes

-Culture: leadership, time management, communication, problem resolution, action plans and coaching.

-Skill gap: focused on technology and technological knowledge tools like Excel, Revit, Salesforce and programming.

— **Total hours of training by professional category (GRI 404-1):**

In 2018 the training plan provided employees with training in:

-Excel: 152 people in the headquarters and factory.

-Communication and effective presentations: 21 people in offices.

-English: 31 people in the headquarters and factory.

-Time management: 49 people in operations.

-Negotiation: people in the headquarters.

-Agile (urban network): 31 people.

Telepizza has also implemented TPZ University, its own staff training platform with 1,100 active employees.

The total hours of training of professionals amounted to 26,155 in Spain and 13,343 in Portugal. The scope covers 64.07% of the global workforce.

HOURS OF TRAINING BY PROFESSIONAL CATEGORY		
	SPAIN	**PORTUGAL**
Operational training for store teams (pizza makers and delivery persons)	20,685	1,949
Operational training for management teams	2,163	9,280
OPS training for factory and central services	3,307	2,114
Total hours of training	26,155	13,343

Accessibility

— **Measures to ensure universal accessibility for disabled people (GRI 103)**

Universal accessibility in the Daganzo factory and headquarters is ensured by means of ramps and lifts. Universal accessibility is also fostered in the stores but cannot be guaranteed in all stores at present.

- **Equality**

— **Measures to promote equal treatment and equal opportunities between men and women (GRI 103)**

Pursuant to the basic principles of the selection and recruitment policy, all employees have the same employment conditions and benefits, whether they work full-time or part-time.

Telepizza has no pay gap between men and women and advocates female leadership in selection processes and in-house promotions.

— **Equality plans, job stimulation measures, protocols against sexual harassment and gender bias, integration and universal accessibility of disabled people (GRI 103)**

Telepizza drew up its first equality plan in May 2007. That plan was reviewed in November 2013 to check the results of the measures implemented following the initial plan diagnosis.

Progress has been made in these years. Thanks to the policies implemented, the number of women in management positions rose considerably, from one in 2007 to six in 2013.

Policy on non-discrimination and, if applicable, diversity management (GRI 406-1)

The human resources policy is supplemented by the selection and recruitment policy, the remuneration policy and the “We Team” talent management model to ensure non-discrimination and oversee diversity management.

Through “We Team” a talent management methodology is nurtured in the hands of the people and their managers, in keeping with the business vision and challenges, encompassing everyone and facilitating the development of individuals based on their skills and performance.

5. Human rights

— **Main human rights risks affecting the organisation. (GRI 102-15, GRI 103)**

Human rights risks are one of the operational risks that the Telepizza Group has identified in its key business processes, together with risks related to contracting suppliers, personnel, food handling, product quality, the environment, purchasing and subcontracting.

— **Policies and commitments. (GRI 102-16; GRI 102-17)**

The Telepizza Group has established a Human Rights policy that conveys the values and principles enshrined in the Group's Code of Ethics. Its purpose is to establish general principles that will guide and inspire the actions of all those who form part of the Company to ensure equality and respect for the human rights of all citizens.

The policy is inspired by the following policy tools:

-The Universal Declaration of Human Rights proclaimed by the United Nations (UN) in 1948 and the two International Covenants that give it legal force:

-International Covenant on Civil and Political Rights (ICCPR).

-International Covenant on Economic, Social and Cultural Rights, ICESCR).

-ILO Declaration on Fundamental Principles and Rights at Work (1998).

— **Results of applying the policies – indicators**

- **Description of the implementation of due diligence procedures in relation to human rights; prevention of risks of breach of human rights and, as the case may be, measures to mitigate, manage and redress any potential abuses committed (indicators providing guidance: GRI 102-16, GRI 102-17, GRI 410-1, GRI 412-1, GRI 412-2, GRI 412-3)**

  The Code of Ethics approved by the Telepizza Group in 2016 promotes a policy for compliance that has been drawn up by senior management to guide employees by setting standards of conduct and behaviour.

  Through the new Code of Ethics, the Telepizza Group expresses its commitment to five principles: Commitment to society, the company, the work environment, customers and franchises, and collaborators.

The values enshrined in these principles include abiding by the laws to which the Group is subject, implementing anti-corruption measures, issuing reliable information, competing in a free market, managing company resources responsibly, ensuring safety in the workplace, protecting personal data, applying transparency and objectivity in the selection and engagement of suppliers, etc.

With regard to financial information, as stated in the Code, the Telepizza Group is committed to complying with legal and ethical responsibilities to ensure the transparency and integrity of the information. To this end the Group will always provide information that is truthful, clear, useful and accurate, both when marketing products and services and when issuing corporate information for third parties, investors and shareholders. The Group shall at all times uphold the principles of truthful, transparent, equitable information in its communications.

The Code and all other Group regulations apply and are available to all Telepizza Group employees, regardless of position. Telepizza has prepared a training plan on the Code of Ethics that will include a certificate of understanding of the Code and the commitment of all employees to conform to it.

- **Number of complaints regarding human rights violations (GRI 406-1)**

The Telepizza Group has a channel for reporting financial and accounting irregularities securely and confidentially, and any other breach of the Code of Ethics or of current legislation, as well as to resolve any doubts that may arise when applying the Code of Ethics.

This whistle-blowing channel known as the Ethical Hotline provides two reporting mechanisms: e-mail and post. These reporting channels are known to employees throughout the organisation as they are included in the Code of Ethics itself.

This channel is managed by the Group head of Internal Audit, which reports to the Audit and Compliance Committee. The head of Internal Audit is responsible for safeguarding the confidential nature of communications and ensuring that they will be analysed objectively.

No complaints have been lodged and no legal action has been brought in 2018 in this regard.

Description of measures implemented to promote and comply with the core conventions of the International Labour Organisation regarding respect for freedom of association and the right to collective bargaining; the elimination of discrimination in employment and occupation; the elimination of forced or compulsory labour; and the effective abolition of child labour. (indicators providing guidance: GRI 102-16, GRI 102-17, 407-1, GRI 408-1, GRI 409-1410-1, GRI 412-1, GRI 412-2, GRI 412-3)

The Telepizza Group's Human Resources policy stipulates that each country shall have its own collective or ad hoc agreements regulating aspects related to human resource management.

In 2018 Telepizza SAU worked with 1,780 suppliers, making them aware of its commitment to ensuring respect for human rights under the United Nations Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work (1998).

The Telepizza Group is in the process of consolidating its suppliers in every country, applying due diligence and control measures to each one, and performing audits to ascertain that they uphold human rights.

The activities carried out by the Group must always comply with prevailing legislation, irrespective of the location or country of operation. Therefore, "all people forming part of the Company must be aware of and apply prevailing legislation and internal Group regulations. Deliberate lack of awareness of these shall not constitute valid grounds for failing to apply them. Thus, if there is any doubt regarding the legality of the situations we may encounter, we must make use of the means made available by the Company to ensure that the principles of legality and the internal regulations govern all of our actions".

In 2018 Telepizza Portugal had 227 suppliers, of which 196 were local and 31 were from other countries. Its total expenditure amounted to Euros 31,486,572.41, of which Euros 12,345,855.04 went to local suppliers and Euros 19,140,687.37 to foreign suppliers.

In 2018 Telepizza Chile had 69 suppliers, of which 62 were local and seven international. Its total expenditure amounted to Euros 13,441,722.27, of which Euros 8,878,405.69 went to local suppliers and Euros 4,563,316.58 to foreign suppliers.

The Telepizza Group firmly believes that all human rights and public liberties enshrined in the Universal Declaration of Human Rights must be protected and promoted by the company everywhere in the world. The Telepizza Group complies with all the principles relating to the rights enshrined in the International Labour Organisation Declaration on Fundamental Principles and Rights at Work and the eight Core Conventions that give them legal force (Freedom of Association and Protection of the Right to Organise Convention (1948); Right to Organise and Collective Bargaining Convention (1949); Forced Labour Convention (1930); Abolition of Forced Labour Convention (1957); Minimum Age Convention (1973); Worst Forms of Child Labour Convention (1999); Equal Remuneration Convention (1951); Discrimination (Employment and Occupation) Convention (1958).

The Code of Ethics of the Telepizza Group stipulates that "it is everybody's duty to avoid situations that could undermine the company's reputation and to promote behaviour that is not only legal, but also ethically and socially responsible. In order to align our standards and establish common rules of behaviour, the Group shall apply similar standards wherever it may operate, even in regions where the legal standards applicable to the Company are less stringent".

Similarly, the Code of Ethics stipulates that “all persons concerned must be given access to and made aware of the Code, its content, and the policies that govern its application, and they shall consent and agree to apply it in their day-to-day work activities. This obligation also applies to all new recruits, appointees, etc.”

COLLECTIVE BARGAINING AGREEMENTS

The companies that make up the Telepizza Group in Spain are covered by the agreement on preparers of cooked products for home delivery.

This collective bargaining agreement applies to the sector in Spain, with companies represented at the negotiating table by the Prodelivery association. The relationship between all Group employees and their respective companies is governed by this agreement, as well as by the provisions set out in other general labour legislation. Thus, all employees are subject to its provisions, and their working conditions shall be at least those stipulated therein, with some conditions containing improvements after other agreements were reached with the employees’ legal representatives.

Outside Spain, the Group complies with the labour laws in each country.

NOTE: Due to the Telepizza Group’s activity and based on its materiality, disclosure indicator 410-1, **“Percentage of security personnel who have received formal training in the organisation’s human rights policies or specific procedures and their application to security”,** does not apply.

6. Anti-Corruption and bribery

— **Main corruption and bribery-related risks affecting the organisation.**

The management of Telepizza rests on good governance and the economic sustainability of its activity, complying with its Code of Ethics and Anti-Corruption Policy and integrating risk management.

Moreover, two of the four risks identified by the Telepizza are directly related to anti-corruption and bribery.

- Strategic Risks. Those that could arise as a result of the choice of a specific strategy and, directly or indirectly, significantly influence the achievement of the Telepizza Group's long-term objectives. This group includes reputational risks, i.e., risks with a potential adverse impact on the Group's image, such as risks concerning transparency and relations with analysts, investors and the various stakeholders with expectations regarding the Group's conduct.

- Regulatory compliance risks, which include those related to corporate governance (including, among others, those derived from the reliability of the financial information published); Company litigation and public liability; tax risks; and data protection, health and safety, equality and environment.

— **Policies and commitments**. (GRI 102-16, GRI 103)

The Telepizza Group has an Anti-Corruption Policy, which has been drafted in line with the Spanish and international standards prohibiting and penalising corruption (in particular, Criminal Code Organic Law 10/1995 of 23 November 1995 - the "CC"), and which supplements and implements the values and principles set out in the Telepizza Group's Code of Ethics.

The policy seeks to inform everyone related to the company of the corruption-related risks to which they are exposed and the potential consequences of corruption for the company and its employees, while setting out a catalogue of good practices, to be observed at all times.

— **Results of applying the policy – indicators**

- **Measures adopted to prevent corruption and bribery (GRI 102-17)**

  All employees are obliged to abide by the Code of Ethics and the Anti-Corruption Policy, and the Whistleblowing Channel seeks to ensure they are observed.

- **Anti-money laundering measures (GRI 205-2)**

  The Code of Ethics and the Anti-Corruption Policy guide the day-to-day actions of employees.

  The commitments to society envisaged in the Code of Ethics include a prohibition on undue payments and bribery. Thus, it is categorically stated that “we will never promote or make facilitation payments to third parties in order to further our goals, even where such payments do not seek to secure an undue advantage. Nor will we offer or accept bribes of any type that might place us on the wrong side of the law. Corruption can arise not only in relations between individuals and public officials, but also when dealing with other persons not discharging public duties”.

  With this in mind, the Telepizza Group has broadened this declaration to include all of the Group’s business agreements and activities with investors, subsidiaries, joint venture partners, agents, contractors, suppliers and third parties, wherever they may operate. In order to ensure that such measures are observed, Telepizza implements its own due diligence and know your customer procedures and policy when entering into and conducting relations with third parties. It will also seek to ensure that fairness and equality of opportunity take precedence in any decisions taken regarding relations with suppliers.

  Meanwhile, in order to ensure that the business is underpinned by honest conduct, any courtesies or gifts for or from third parties must be refused. Nonetheless, the company is aware that small gifts may be offered or received in line with local customs and practices, as defined in the company’s policy on gifts and courtesies, which will be provided to our executives and employees alongside the other policies.

- **Contributions to foundations and not-for-profit entities (GRI 201-1; GRI 413-1)**

  The Telepizza Group has not made any economic contributions to any foundations.

  The company’s community engagement initiatives include a wide range of collaborations, taking in everything from collaboration with NGOs to product or monetary donations.

In 2018, Telepizza allocated Euros 2,656,317 to 81 community engagement initiatives. Spain accounted for the lion's share of investment, with Euros 2,595,839, followed by Portugal, with Euros 53,848. The rest of the investment was allocated to various initiatives in Chile, Ecuador, Colombia and Peru.

2018 INVESTMENT IN COMMUNITY ENGAGEMENT		
COUNTRY	**INITIATIVES**	**INVESTMENT**
SPAIN	57	€2,595,839
PORTUGAL	11	€ 53,848
CHILE	5	€1,680
ECUADOR	3	€2,537
COLOMBIA	1	€1,613
PERU	3	€800
TOTAL	**80**	**€2,656,317**

7. Society

— **Main risks affecting the organisation with respect to its commitment to sustainable development, subcontractors and suppliers, consumers and tax-related information. (GRI 102-15, GRI 103)**

Three of the four main risks identified by the Group refer to these risks:

- Strategic Risks. Those that could arise as a result of the choice of a specific strategy and, directly or indirectly, significantly influence the achievement of the Telepizza Group's long-term objectives. This group includes reputational risks, i.e., risks with a potential adverse impact on the Group's image, such as risks concerning transparency and relations with analysts, investors and various stakeholders with expectations regarding the Group's conduct.

- Regulatory compliance risks, which include those related to corporate governance (including, among others, those derived from the reliability of the financial information published); Company litigation and public liability; tax risks; and data protection, health and safety, equality and environment.

- Operational risks, namely those associated with key business processes, including risks related to suppliers, personnel, food handling, product quality, the environment, purchasing and subcontracting.

— **Policies and commitments**. (GRI 103)

In December 2018, the Telepizza Group approved its Corporate Social Responsibility Policy, which seeks to formalise and detail its commitment to sustainable development and to managing its economic, social and environmental impact on society.

This Policy emerged from the mission, vision and values of the Telepizza Group, which reflect its commitment to its activity, and is related to the Code of Ethics, which guides the employees' conduct at work and behaviour with the various stakeholders.

As a responsible company, the Telepizza Group is guided by the Group's purpose: "Togetherness", which finds its expression in the proposal, "Let's spend more time together, because that's when wonderful things happen".

For the Telepizza Group, this vision takes the form of: "Connecting with people, delivering moments of happiness, anytime, anywhere".

Its mission is: "To offer quality products to anyone, anywhere, in the form of an excellent, efficient, personalised and accessible service".

This vision and mission is further supplemented by the Corporate Culture and Values Policy, known as the '5 we's of the Welievers':

— **Results of applying the policy – indicators**

- **Commitments to sustainable development**

  — **Description of the impact of the company's activity on employment and local development (e.g., spending on suppliers, local suppliers, etc.) (GRI 204-1, GRI 413-1)**

In 2018, Telepizza SAU worked with 1,780 suppliers, who were informed of its commitment to upholding the human rights under the United Nations Universal Declaration of Human Rights and the International Labour Organisation (ILO) Declaration on fundamental principles and rights at work (1998). The value generated for suppliers amounted to Euros 83,387,855.

The Telepizza Group is working to consolidate its suppliers the world over, who are also informed of its commitment to human rights and the ILO's fundamental principles and rights at work.

The Telepizza Group allocated Euros 2,656,317 to 81 local development-related community engagement initiatives. Spain accounted for the lion's share of investment, with Euros 2,595,839, followed by Portugal, with Euros 53,848. The rest of the investment was allocated to various initiatives in Chile, Ecuador, Colombia and Peru.

The company's community engagement initiatives include a wide range of collaborations, taking in everything from collaboration with NGOs to product or monetary donations.

Moreover, in March 2018, Telepizza and DOWN España entered into a collaboration agreement to launch the "Juntos Crecemos" project, a programme that seeks to further the inclusion of the mentally disabled in the workplace. Thanks to this agreement, more than 100 people with Down's syndrome have been gradually taken on as workers at Telepizza's own stores across Spain, as well as at its Madrid headquarters. The company will also offer support for and a commitment to broadening this initiative to include its franchisees, and expects to reach the figure of 700 people with Down's syndrome working at Telepizza in Spain in the years to come. This represents the largest intake of people with Down's syndrome at any Spanish company.

Telepizza is also a sponsor of LaLiga Genuine Santander, a football league made up of teams formed by disabled people, backed by the La Liga Foundation and which promotes sport for all.

  — **Description of the impact of the company's activity on local communities and regions (GRI 411-1, GRI 413-1, GRI 413-2)**

The Telepizza Group's social impact is detailed in the above description.

— **Description of relations with local stakeholders and the nature of engagement with such stakeholders (GRI 102-43)**

In 2018, the Telepizza Group published its first Corporate Social Responsibility Report, concerning 2017, in an exercise in transparency and accountability it undertakes to carry on every year. Moreover, the Telepizza Group offers its stakeholders a range of channels for communication, participation and dialogue, providing detailed, up-to-date information.

External channels:

-Website: www.telepizza.com

-General information on the company.

-Economic and financial information.

-Annual management report.

-Annual good governance report.

-Corporate Social Responsibility Committee.

-Press releases.

-Social Media.

Internal channels:

-Corporate intranet.

-Internal communication.

- App WeUp

- Whistleblowing Channel: “Whistleblowing Line”

Via its People Department, the Telepizza Group has channels for engaging and communicating with employees: workers’ committees, employee satisfaction surveys, meetings to improve cross-area communication and work and specific company e-mails (HR, your opinion matters).

The company has also made a commitment to transparent, seamless and bidirectional communication with all of its employees. A range of communication tools and channels have been set in place to meet this goal:

1. WeTalk: A channel for communicating directly with employees, offering information on day-to-day matters at the company that can be applied in their area of responsibility. WeTalk encourages employees to give feedback, providing an e-mail address to enable them to seek further details or clarify doubts concerning the various communications.

2. Whatsapp People: The company offers its employees a direct channel to deal with any issues arising that call for a response on the part of Telepizza. The channel guarantees a response within not more than 24 hours.

3. Quarterly informative face-to-face sessions (We Session): The company's management team invites a number of employees to a quarterly meeting at which to share information on the latest developments at the company. At these sessions, the company creates spaces in which to open forums for debate between employees and management.

4 Email: Any employee doubts concerning personnel management-related processes/tools are managed via the e-mail address people@telepizza.com. Thus, Telepizza offers its employees a secure, confidential channel through which to raise any doubts when it comes to applying internal regulations or report the existence of any irregularities or infringements, whether by e-mail or regular mail.

Known as the *Línea Ética*, this channel is managed by the person in charge of Internal Audit at the Group and operates in line with the procedures established by the company via the Ethics Committee.

This Committee is made up of the Director of Human Resources, the Director of the Legal Department, the Director of Personnel and the person in charge of Internal Audit. Moreover, the Telepizza Group Chairman may sit on the Ethics Committee where he sees so fit, in which case he will chair the Committee.

— **Information on association and sponsorship-related initiatives (GRI 203-1; GRI 102-12; GRI 102-13).**

The Telepizza Group has allocated Euros 2,656,317 to 81 local development-related community engagement initiatives. Spain accounted for the lion's share of investment, with Euros 2,595,839, followed by Portugal, with Euros 53,848. The rest of the investment was allocated to various initiatives in Chile, Ecuador, Colombia and Peru.

The company's community engagement initiatives include a wide range of collaborations, taking in everything from collaboration with NGOs to product or monetary donations.

Furthermore, in partnership with Down España, Telepizza has launched the 'Juntos Crecemos' project and has sponsored LaLiga Genuine Santander. In 2018, the company continued its 'Cajas solidarias' initiatives to help raise awareness of NGOs' campaigns, assigning the image on 500,000 pizza boxes to each campaign. Thus, Telepizza has raised awareness of campaigns for Save The Children, 11Q España, Down España, Fundación Sandra Ibarra, Fundación ITER, Acción Contra el Hambre, Acción Social por la Música and Juagaterapia on 4 million pizza boxes.

203-1 Development and impact of investment in infrastructure and the services provided.

The Telepizza Group has undertaken to ensure its CSR Policy is aligned with the 10 Principles of the UN Global Compact and the Sustainable Development Goals (SDGs). To this end, in the first quarter of 2019, the Telepizza Group will formalise its commitment with the Spanish Network of the Global Compact and analyse its contribution to the SDGs.

Telepizza forms part of the following associations:

- Marcas de Restauración.
- Autocontrol. An independent self-regulatory body in the Spanish advertising industry, set up as a not-for-profit association in 1995, with the goal of working for responsible advertising: truthful, legal, honest and faithful.

Telepizza has signed up to the following food-related strategies and codes.

- The NAOS Strategy (Nutrition, Physical Exercise and Obesity Prevention). Launched by the Ministry of Health in 2005, it aims to invest in the trend towards preventing obesity by promoting a healthy diet and physical exercise.
- The PAOS Code, jointly regulating the advertising of food and beverages targeting minors, preventing obesity and promoting health (June 2005). Modified in 2012 and 2013.
- The Havisa Plan. A plan for the promotion of a healthy lifestyle among the Spanish population (the HAVISA Plan), launched by the Spanish Association of Consumption, Food Safety and Nutrition (Aecosan) and Fundación Alimentum.

- **Subcontractors and suppliers**

  — **Information on the inclusion of social, gender-equality and environmental issues in the procurement policy (GRI 102-9) and a description of how the social and environmental responsibility of suppliers is considered in dealings with them (GRI 308-1; GRI 407-1; GRI 414-1)**

The Telepizza Group does not have a Procurement Policy. Moreover, supplier-related social, gender-equality and environmental issues are not taken into consideration.

— **Description and results of the supplier supervision and audit systems (GRI 308-2; GRI 414-2)**

The Telepizza Group informs its suppliers of its commitment to upholding the human rights under the United Nations Universal Declaration of Human Rights and the International Labour Organisation (ILO) Declaration on fundamental principles and rights at work (1998).

Thus, due diligence and oversight measures are implemented with the Group's suppliers, and audits are conducted to check that they respect both human rights and the relevant environmental and social standards.

- **Consumers**

— **Description of consumer-related health and safety measures (GRI 416-1; GRI 417-1)**

One of the aims of the Telepizza Group's Quality Policy is to guarantee food health and safety and (statutory and internal) compliance, by observing policies and regulations with the utmost transparency and assuming the relevant responsibility in such connection. It also seeks to ensure compliance with corporate requirements and any standards to which the company has voluntarily signed up, at all times working in line with a quality management system with a view to ongoing improvement.

The Telepizza Group's suppliers must prepare, supply and distribute their ingredients, food packaging and finished products and key services in line with food safety and in a secure, harmless manner for customers and restaurants. Supplier standardisation and evaluation procedures are clearly defined and based on the tools required to ensure that suppliers comply with the legislation in force and the company's standards.

The Telepizza Group recognises all of the GFSI standards and the related certifications (i.e., BRC, Global Standards, SQF 2000, FSSC 22000, IFS, etc.). Moreover, such standardisation includes audits, defined trial periods, reviews of food safety documentation and supervisory inspections. Any suppliers that fail to meet the requirements of the Telepizza Group or set in place an action plan to meet the relevant standards will not be approved.

APPROVAL OF SUPPLIERS

The processes for approving and monitoring any items or services with a direct impact on food safety are centralised at the Telepizza Group's production and distribution centres. Once a supply or service by a supplier has commenced, periodic controls will be implemented, such as plans to control the microbiological and physical/chemical quality of food, evaluations of risks to raw materials and/or packaging with a view to factoring in any change that may affect the supply chain.

The company works in partnership with accredited laboratories, and products and processes are painstakingly checked in the form of microbiological and nutritional analyses in line with the legislation in force with respect to the relevant product and country of consumption, supplemented by organolpetic testing conducted by teams of experts. These working tools enable the company to guarantee the raw materials from their delivery to the factory by the supplier, throughout their handling and processing into intermediate and/or end products, storage at its facilities and up until distribution, at all times observing its commitment to food health and safety with customers.

417-1 Information and labelling of products required by the procedures and legislation in force

The Telepizza Group complies with the product and services information and labelling requirements under the relevant provisions, such as the Law on Allergen-related Food Information, which requires companies to notify the presence of allergens using a system that clearly allows them to be identified.

Meanwhile, Telepizza has had a commitment to its gluten-intolerant customers since 2008, when it became the first restaurant chain in Spain to launch a special pizza for celiacs. It currently offers five gluten-free pizzas.

In line with the legislation in force, the labels and related documents for all of the food used in its kitchens contains all of the food-related information required for each type of product.

Moreover, with respect to any pre-packaged food prepared or served, as well as the related (on-site or online) sales processes, customers are provided with all of the information required in each case, such as, e.g., the allergenic composition and nutritional values of such foods.

Core applicable legislation:

- Regulation (EU) No 1169/2011 of the European Parliament and of the Council of 25 October 2011 on the provision of food information to consumers.

- Regulation (EC) No 852/2004 of the European Parliament and of the Council of 29 April 2004 on the hygiene of foodstuffs.

- Regulation (EC) No 853/2004 of the European Parliament and of the Council of 29 April 2004 laying down specific hygiene rules for food of animal origin.

- Royal Decree 3484/2000, of 29 December 2000, establishing the hygiene rules for the preparation, distribution and trade of prepared foodstuffs.

- Directive 2009/48/EC of the European Parliament and of the Council of 18 June 2009 on the safety of toys.

- Royal Decree 1205/2011 of 26 August 2011 on the safety of toys.

- Regulation (EC) No 1935/2004 of the European Parliament and of the Council of 27 October 2004 on materials and articles intended to come into contact with food.

- Commission Regulation (EC) No 2023/2006 of 22 December 2006 on good manufacturing practice for materials and articles intended to come into contact with food.

- Commission Regulation (EU) No 10/2011 of 14 January 2011 on plastic materials and articles intended to come into contact with food.

- Commission Regulation (EC) No 2023/2006 of 22 December 2006 on good manufacturing practice for materials and articles intended to come into contact with food.

— **Description of the system for receiving and resolving claims and complaints (GRI 416-2; GRI 418-1)**

Since 2016, the Telepizza Group has had a customer service centre in Madrid, where it centralises all of the customer service channels in Spain, in the form of a single telephone number, an online chat service, e-mail and social networks. The company has set in place a management system known as ZENDESK, which enables it to manage all contacts via a single tool, creating a ticket for each contact, which can be broken down into three broad categories: queries, incidents and complaints.

In the event of a complaints, Telepizza takes charge of the *'End to End'* management until it is resolved with the customer. Complaints are classed into four levels: minor, serious, very serious and unacceptable. Customers are offered a different solution for each level, to be managed by an operational director.

3,417 complaints were received in 2018, of which 708 were very serious, 1,918 were serious, 790 minor and 1 unacceptable.

CUSTOMER COMPLAINTS IN SPAIN, 2018					
TYPE	**VERY SERIOUS**	**SERIOUS**	**MINOR**	**UNACCEPTABLE**	**TOTAL**
Number	708	1,918	790	1	3,417

Telepizza receives an average of 400 complaints a month in Spain, which must be handled in less than 72 hours. Complaints are also published in stores to ensure personnel are informed thereof. The number of complaints at a franchise level is monitored, and franchisees with a significant number may forfeit factory discounts.

This procedure is now being applied in Spain. While other countries manage this independently, the idea is to replicate the model across the board.

PORTUGAL

11,123 customer complaints have been received in Portugal, of which 3,397 were notified online and 2,194 by phone.

CUSTOMER COMPLAINTS IN PORTUGAL, 2018								
TYPE	ONLINE	TELEPHONE	PRODUCT QUALITY	QUALITY OF CUSTOMER SERVICE	RESPONSE TIME	FOOD SAFETY	OTHERS	TOTAL
Number	3,397	2,194	2,031	2,650	126	133	940	11,471

FOOD SAFETY

No serious breaches affecting food safety took place in 2018. The controls in place throughout the chain prevent the distribution of any products not approved for our restaurants. Moreover, all of the restaurants have the necessary security procedures (the APPCC self-regulatory system) to prevent the potential dangers of contamination inherent in any food preparation process from affecting the food prepared and served to customers.

- **Tax information**

  — **Profits earned country-by-country**

In 2018, the Telepizza Group earned a pre-tax profit of Euros 7,151,456.94.

COUNTRY	PROFIT (€)
Chile	(618,094.44)
China	6,266.33
Colombia	(11,737,008.67)
Ecuador	(445,810.88)
Spain	9,840,283.54
Guatemala	315,978.21
Ireland	1,758,978.75
Morocco	(294,214.28)
Panama	(659,563.55)
Paraguay	(168,193.78)
Peru	(2,536,452.47)
Poland	(3,405,074.98)
Portugal	1,522,289.96
Czech Republic	(469,356.34)
Switzerland	(261,484.34)
TOTAL	**(7,151,456.94)**

— **Income tax paid by country (not accrued)**

In 2018 the Telepizza Group paid corporate income tax amounting to Euros 2,503,133.32, per the following country-by-country breakdown:

COUNTRY	TAXES (€)
Chile	(1,208,947.73)
China	5,735.80
Colombia	154,062.40
Ecuador	-
Spain	(3,732,221.09)
Guatemala	33,932.75
Ireland	227,132.80
Morocco	901.94
Panama	-
Paraguay	-
Peru	-
Poland	-
Portugal	7,022,887.11
Czech Republic	606.45
Switzerland	(957.11)
TOTAL	**2,503,133.32**

— **Public subsidies received**

The Telepizza Group has not received any public subsidies.

8. Equivalences between Law 11/2018 and GRI

Code	Information requested under Law 11/2018 (Non-financial Information Statement)	GRI equivalent (illustrative)	Page of Telepizza report
0.	**General information**		
0.1	**Business model**		
0.1.a	Brief description of the group's business model (business environment and organisation)	102-2 Activities, brands, products and services 102-7 Scale of the organisation	8-9
0.1.b	Geographic presence	102-3 Location of headquarters 102-4 Location of operations 102-6 Markets served	8-9
0.1.c	Organisation's objectives and strategies	102-14 Statement from senior decision-makers (vision and strategy with respect to managing the economic, environmental, and social impacts)	3-7 and 9
0.1.d	Main factors and trends that can affect future performance	102-15 Key impacts, risks, and opportunities	10-12
0.2	**General**		
0.2.1	Mention in the report of the national, EU or international reporting framework used to select the non-financial key performance indicators included in each section	102-54 Statement of preparation of the report in accordance with the GRI Standards	12
1.	**Environmental topics**		
1.1	**General information**		
1.1.a	A description of the **policies** applied by the group with regard to these matters, which shall include the due diligence procedures implemented to identify, assess, prevent and mitigate significant risks and impacts, and verification and control procedures, including the measures adopted.	103-2 The management approach and its components	13-14
1.1.b	The **results of such policies**, including the key **indicators** for pertinent non-financial results, enabling any progress to be monitored and evaluated and allowing for comparisons to be drawn between companies and industries, in line with the benchmark national, EU or international frameworks used in each area.	103-2 The management approach and its components 103-3 Evaluation of the management approach	14

1.1.c	The **key risks** in such connection with respect to the group's activities including, where pertinent and appropriate, its business relations, products and services, which may have an adverse impact on such areas, and how the group manages such risks, explaining the **procedures used to detect and evaluate them** in line with the benchmark national, EU or international frameworks used in each area. Include information on any **impact** detected and provide a breakdown, particularly of the impacts on the main **short-, medium- and long-term risks**.	102-15 Key impacts, risks, and opportunities	10-13

1.1 Detailed information

1.1.1 Detailed general information

1.1.1.1	On actual and foreseeable effects of the activities of the company on the environment and, as the case may be, health and safety	-	14
1.1.1.2	On environmental evaluation and certification procedures	-	14-15
1.1.1.3	On the resources allocated to preventing environmental risks	-	15
1.1.4	On applying the precautionary principle	102-11 Precautionary Principle or approach	15
1.1.5	On the amount of provisions and guarantees for environmental risks	-	15

1.1.2 Pollution

1.1.2.1	Measures to prevent, reduce or remedy emissions seriously affecting the environment, factoring in any specific form of atmospheric pollution of an activity, including noise and light pollution	305-5 Reduction of GHG emissions 305-6 Emissions of ozone-depleting substances (ODS) 305-7 Nitrogen oxides (NOx), sulphur oxides (SOx), and other significant air emissions	16-17

1.1.3 Circular economy and waste prevention and management

1.1.3.1	Prevention, recycling and reuse measures, other methods of recovering and eliminating waste; initiatives for combatting food waste	301-2 Recycled input materials used 301-3 Reclaimed products and their packaging materials 303-3 Recycled and reused water 306-1 Water discharge by quality and destination 306-2 Waste by type and disposal method	17-18

1.1.4 Sustainable use of resources

1.1.41	Consumption of water and water supply in accordance with local limitations	303-1 Water withdrawal by source 303-2 Sources of water significantly affected by its extraction	15
1.1.42	Raw materials consumption and measures set in place to enhance efficiency	301-1 Materials used by weight or volume	17-18

1.1.43	Direct and indirect consumption of energy	302-1 Energy consumption within the organisation 302-2 Energy consumption outside of the organisation	15
1.1.44	Measures taken to improve energy efficiency	302-4 Reduction of energy consumption 302-5 Reductions in energy requirements of products and services	16-17
1.1.45	Use of renewable energies	302-1 Energy consumption within the organisation	15
1.1.5	**Climate change**		
1.1.5.1	The key elements of the greenhouse gas emissions generated as a result of the company's activities, including the use of the goods and services it produces	305-1 Direct (Scope 1) GHG emissions 305-2 Energy indirect (Scope 2) GHG emissions 305-3 Other indirect (Scope 3) GHG emissions	19
1.1.5.2	Measures set in place to adapt to the consequences of climate change	201-2 Financial implications and other risks and opportunities due to climate change	19
1.1.5.3	Voluntary medium- and long-term greenhouse gas reduction targets and the measures set in place to this end	305-5 Reduction of GHG emissions	19
1.1.16	**Protection of biodiversity**		
1.1.6.1	Measures taken to preserve or restore biodiversity	304-3 Habitats protected or restored	19
1.1.6.2	Impacts caused by activities or operations in protected areas	304-2 Significant impacts of activities, products, and services on biodiversity	19
2.	**Social and personnel matters**		
2.1	**General information**		
2.1.a	A description of the **policies** applied by the group with regard to these matters, which shall include the due diligence procedures implemented to identify, assess, prevent and mitigate significant risks and impacts, and verification and control procedures, including the measures adopted.	103-2 The management approach and its components	20
2.1.b	The **results of such policies**, including the **key indicators** for pertinent non-financial results, enabling any progress to be monitored and evaluated and allowing for comparisons to be drawn between companies and industries, in line with the benchmark national, EU or international frameworks used in each area.	103-2 The management approach and its components 103-3 Evaluation of the management approach	20-12
2.1.c	The **key risks** in such connection with respect to the group's activities including, where pertinent and appropriate, its business relations, products and services, which may have an adverse impact on such areas, and how the group manages such risks, explaining the **procedures used to detect and evaluate them** in line with the benchmark national, EU or international frameworks used in each area. Include information on any **impact** detected and provide a breakdown, particularly of the impacts on the main **short-, medium- and long-term risks**.	102-15 Key impacts, risks, and opportunities	10-12 and 20

2. 2 Detailed information

2.2.1 Employment

2.2.1.1	Total number and distribution of employees based on diversity criteria (gender, age, country, etc.)	102-8 Information on employees and other workers 405-1 Diversity of governance bodies and employees	21-22
2.2.1.2	Total number and distribution of types of employment contract, average annual number of permanent, temporary and part-time contracts by gender, age and professional classification	102-8 Information on employees and other workers	22-25
2.2.1.3	Number of dismissals by gender, age and professional classification	401-1 New employee hires and employee turnover	22-25
2.2.1.4	Average remuneration and evolution thereof, broken down by gender, age and professional classification or like value	102-38 Annual total compensation ratio 102-39 Percentage increase in annual total compensation ratio	25
2.2.1.5	Salary gap, remuneration of like positions or average remuneration in the company	405-2 Ratio of basic salary and remuneration of women to men	25
2.2.1.6	Average remuneration of directors and executives, including variable remuneration, per diems and severance payments	-	26
2.2.1.7	Payments into long-term savings schemes and any other amounts received, on a disaggregated basis by gender	201-3 Defined benefit plan obligations and other retirement plans	26
2.2.1.8	Implementation of disconnection from work policies	-	26
2.2.1.9	Disabled employees	405-1 Diversity of governance bodies and employees	26-27

2.2.2 Work organisation

2.2.2.1	Organisation of work time	-	27
2.2.2.2	Number of hours of absenteeism	403-2 Type and frequency of accidents, occupational illnesses, lost work days, absenteeism and number of fatalities from occupational accidents or illnesses	28-30
2.2.2.3	Measures aimed at facilitating a work-life balance and encouraging the joint and responsible sharing thereof by both parents	401-3 Parental leave	27

2.2.3 Health and safety

2.2.3.1	Occupational health and safety	403-3 Employees with a high incidence or high risk of occupational illnesses	27-28
2.2.3.2	Occupational accidents, with particular regard for their frequency and seriousness, as well as occupational illnesses; disaggregated by gender.	403-2 Type and frequency of accidents, occupational illnesses, lost work days, absenteeism and number of fatalities from occupational accidents or illnesses	28-30

2.2.4 Social relationships

2.2.4.1	Organisation of social dialogue, including procedures for reporting to, consulting and negotiating with staff	102-43 Approach to stakeholder engagement 402-1 Minimum notice periods regarding operational changes 403-1 Worker participation, consultation, and communication on occupational health and safety	30
2.2.4.2	Percentage of employees covered by collective bargaining agreements by country	102-41 Collective bargaining agreements	30 and 35
2.2.4.3	Balance of collective bargaining agreements, particularly in the field of occupational health and safety	403-4 Occupational health and safety topics covered in formal agreements with trade unions	30
2.2.5	**Training**		
2.2.5.1	Training policies in place	404-2 Programs for upgrading employee skills and transition assistance programs	31
2.2.5.2	Total hours of training by professional category	404-1 Average hours of training per year per employee	31
2.2.6	**Universal accessibility for persons with disabilities**		
2.2.6.1	Universal accessibility for persons with disabilities	-	32
2.2.7	**Equality**		
2.2.7.1	Measures adopted to promote equal treatment and opportunities for men and women	401-3 Parental leave	27 and 32
2.2.7.2	Equality plans (Chapter III of Organic Law 3/2007 of 22 March 2007, for effective gender equality), measures adopted to promote employment, protocols to combat sexual and gender-based harassment, integration and universal accessibility of persons with disabilities	-	27 and 32
2.2.7.3	Policies against all kinds of discrimination and, as the case may be, diversity management	406-1 Incidents of discrimination and corrective actions taken	27 and 32
3.	**Respect for human rights**		
3.1	**General information**		
3.1.a	A description of the **policies** applied by the group with regard to these matters, which shall include the due diligence procedures implemented to identify, assess, prevent and mitigate significant risks and impacts, and verification and control procedures, including the measures adopted.	103-2 The management approach and its components	33
3.1.b	The **results of such policies**, including the **key indicators** for pertinent non-financial results, enabling any progress to be monitored and evaluated and allowing for comparisons to be drawn between companies and industries, in line with the benchmark national, EU or international frameworks used in each area.	103-2 The management approach and its components 103-3 Evaluation of the management approach	33 and 34

3.1.c	The **key risks** in such connection with respect to the group's activities including, where pertinent and appropriate, its business relations, products and services, which may have an adverse impact on such areas, and how the group manages such risks, explaining the **procedures used to detect and evaluate them** in line with the benchmark national, EU or international frameworks used in each area. Include information on any **impact** detected and provide a breakdown, particularly of the impacts on the main **short-, medium- and long-term risks**.	102-15 Key impacts, risks, and opportunities	10-12 and 33

3.2 Detailed information

3.2.1	Implementation of due diligence procedures in relation to human rights; prevention of risks of abuse of human rights and, as the case may be, measures to mitigate, manage and redress any potential abuses committed	102-16 Values, principles, standards, and norms of behaviour 102-17 Mechanisms for advice and concerns about ethics 410-1 Security personnel trained in human rights policies or procedures 412-1 Operations that have been subject to human rights reviews or impact assessments 412-2 Employee training on human rights policies or procedures 412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	33-34
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4. Action to combat corruption and bribery

4.1 General information

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4.1.b	The **results of such policies**, including the **key indicators** for pertinent non-financial results, enabling any progress to be monitored and evaluated and allowing for comparisons to be drawn between companies and industries, in line with the benchmark national, EU or international frameworks used in each area.	103-2 The management approach and its components 103-3 Evaluation of the management approach	36-37

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