FOODCO BONDCO, S.A.U.'S
ANNUAL BONDHOLDER REPORT

Financial Year 2019

Period ended December 31, 2019

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Important note regarding this report

This report has been prepared exclusively for use by any holder of the 6¼ Senior Secured Notes due 2026 (the "Notes") of Foodco Bondco, S.A.U. (the "Issuer") or any prospective investor, securities analyst, broker-dealer or any market maker in the Notes in accordance with Section 4.02 of the indenture governing the Notes (the "Indenture"). Neither the delivery of nor access to this report implies that any information set forth in this report is correct as at any date after the date of this report. You may not reproduce or distribute this report, in whole or in part, and you may not disclose any of the contents of this report or use any information herein for any purpose other than the evaluation of your investment in, or considering the purchase of, the Notes. You agree to the foregoing by accepting delivery of, or access to, this report.

As permitted by the Indenture, the Issuer has elected to provide in this report consolidated financial information of Telepizza Group S.A. in lieu of consolidated financial information of the Issuer.

We present in this report certain unaudited pro forma consolidated financial information for Telepizza as of and for the twelve-month period ended December 31, 2018, which gives effect to the strategic alliance and transactions with Yum! Brands, Inc. The unaudited pro forma financial information is presented for information purposes only to facilitate the analysis of our financial performance and is not intended to represent or be indicative of Telepizza's financial condition or results of operations and it does not purport to project our results of operations or financial condition for any future period. Neither the assumptions underlying the pro forma adjustments nor the resulting unaudited pro forma financial information have been audited or reviewed.

This report contains certain measures and ratios, including Adjusted EBITDA and *Pro forma* EBITDA, and other measures and ratios that are not required by, or presented in accordance with, International Financial Reporting Standards, as adopted by the European Union ("IFRS"), nor in accordance with any accounting standards. Such measures and ratios may not reflect accurately our performance, liquidity or our ability to incur debt and should not be considered as a substitute to net profit/(loss) or any other performance measures derived from or in accordance with IFRS, SEC requirements or any other generally accepted accounting principles or as a substitute to net cash from/(used in) operating activities. These measures have not been audited or reviewed by our auditors nor by independent experts and should not be considered in isolation.

Disclosure regarding forward-looking statements

This report contains and refers to certain forward-looking statements with respect to our financial condition, results of operations and business. Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. Forward-looking statements include, among others, statements concerning the potential exposure to market risks and statements expressing management's expectations, beliefs, plans, objectives, intentions, estimates, forecasts, projections and assumptions. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements.

Forward-looking statements are typically identified by words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "objectives," "outlook," "probably," "project," "will," "seek," "target" and other words of similar meaning in connection with a discussion of future operating or financial performance. All of these forward-looking statements are based on estimates and assumptions made by such entities that, although believed to be reasonable, are inherently uncertain. Therefore, undue reliance should not be placed upon any forward-looking statements. There are important factors that could cause actual results to differ materially from those contemplated by such forward-looking statements. In addition, even if our actual results are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods. For example, factors that could cause our actual results to vary from projected future results include, but are not limited to, those described under the caption "*Risk Factors*" below.

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

All forward-looking statements are expressly qualified in their entirety by the cautionary statements referred to in this section and contained elsewhere in this report, including those set forth under "*Risk Factors*." In light of these risks, our results could differ materially from the forward-looking statements contained in this report.

BUSINESS DESCRIPTION

Overview

Corporate history – Telepizza Group

Telepizza was created in 1987 as a family business. Since opening its very first outlet in Madrid in 1988, the Group has gradually ramped up its activities and expanded internationally. In 1992, Telepizza opened its first pizza dough production plant in Guadalajara (Spain) and its first outlets in Poland, Portugal and Chile. Telepizza was listed on Spain's stock exchanges in 1996 via initial public offering. In 2004, Telepizza began its digital expansion in Spain and, four years later, in 2008, Telepizza relaunched its telepizza.es website to improve home delivery.

In 2007, the Company suspended trading in Spain's stock exchanges. Telepizza continued its international expansion, entering into master franchise agreements in Guatemala, El Salvador and the United Arab Emirates in 2009. In 2010, the Group acquired the Colombian pizza chain Jeno's Pizza, the country's biggest pizza chain with 80 outlets, and in the subsequent years the Group opened its first outlet in Peru and entered the airline catering sector. In 2012, Telepizza established a presence in Ecuador. In 2013, Telepizza expanded its network of franchises in Panama, Russia and Bolivia. In 2014, the Group gained a foothold in Angola. After observing a greater reliance on technology among its customer base, in 2015 Telepizza developed "Click & Pizza," an online delivery service, and started creating smartphone applications.

In April 2016, Telepizza was again listed in the Spanish stock market and continued its international expansion, announcing its entry into new markets in EMEA and Latin America, under the Telepizza brand, and Ireland, under the Apache brand. In December 2018, Telepizza signed a strategic agreement with Yum! Brands, making it the largest master franchisee of Pizza Hut in the world. In the context of the strategic agreement with Yum! Brands, during 2019 and 2020, we have acquired the Pizza Hut operations in Ecuador, Chile and Mexico, and at the same time we have divested our Telepizza business in Peru.

The alliance with Yum! (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 Group 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 pizzerias company with nearly 17,000 restaurants in over 100 countries. As a result of the transaction, on 30 December 2018 Telepizza operated a total of 1,011 Pizza Hut outlets (in addition to its current 1,620 network outlets and including the 38 outlets in Ecuador acquired prior to formalization of the agreement), thus making it the largest Pizza Hut master franchisee in the world by number of outlets and a leading pizza operator worldwide with an ambitious growth plan in the coming years.

On the back of the transaction, we are able to develop and improve our capacity to manage networks and supply pizza dough and ingredients while fostering our international growth (taking advantage of the synergies existing between both groups). At 30 December 2018, the Telepizza Group practically doubled the number of its outlets to 2,631, extending its international reach to 39 markets (more than 500 million potential customers) with total system sales of approximately €1,200 million.

In Spain and Portugal, the Group will continue to operate the Telepizza brand along with the Pizza Hut 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 franchisee for Pizza Hut that operates throughout Latin America will generate 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. There is also a solid justification for this agreement, which authorizes the Telepizza Group as a supplier of Pizza Hut, opening up significant opportunities through the resulting synergies due to the current and future business growth. As a result of the foregoing, Telepizza's Board of Directors expects the alliance to create value for all stakeholders.

For a description of the Yum! Alliance agreement, please see the Offering Memorandum issued in connection with the Notes.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with our audited consolidated financial statements and the related notes to those audited consolidated financial statements contained elsewhere in this report. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in these forward-looking statements as a result of various factors, including, without limitation, those set forth in "*Forward-Looking Statements*" and "*Risk Factors*."

Results of operations

Year Ended December 31, 2019 Compared with Year Ended December 31, 2018

The following table sets forth consolidated financial information for the years ended December 31, 2018 and 2019. The balances in the consolidated income statement and consolidated statement of cash flows for 2018 have been restated in order to make them comparable with the figures for 2019 as the Group has classified certain operations as discontinued operations in the consolidated income statement for 2019.

	For the year ended December 31,			
(in € millions)	**2018[(1)]**	**2019[(2)]**	**2019[(3)]**	**% change[(4)]**
Revenues	**331.9**	**395.2**	**384.4**	**15.8%**
Merchandise and raw materials used	(94.6)	(102.0)	(102.0)	7.8%
Personnel expenses	(92.5)	(94.8)	(94.8)	2.4%
Amortization and depreciation	(15.8)	(19.2)	(36.8)	132.3%
Other expenses	(113.8)	(163.9)	(132.7)	16.6%
Impairment of non-current assets	(7.2)	(17.7)	(17.7)	146.4%
Other losses	(1.2)	(0.7)	(2.8)	137.8%
Operating profit	**6.7**	**(3.0)**	**(2.4)**	**-136.5%**
Finance income	1.2	1.2	3.8	207.1%
Finance costs	(8.2)	(22.6)	(31.1)	277.5%
Profit/(loss) before tax from continuing operations	(0.3)	(24.4)	(29.8)	9734.3%
Income tax income/(expense)	(2.5)	(18.7)	(18.2)	628.6%
Profit/(loss) for the year from continuing operations	(2.8)	(43.1)	(48.0)	1611.9%
Post-tax profit/(loss) on discontinued operations	(6.8)	(6.8)	(6.9)	0.6%
Profit/(loss) for the year	**(9.6)**	**(49.8)**	**(54.9)**	**470.7%**

(1) Restated figures.
(2) Excluding the effects of IFRS 16.
(3) Including the effects of IFRS 16.
(4) Versus 2019 including the effects of IFRS 16.

Revenues

Our revenues increased by 15.8%, to €384.4 million in 2019 from €331.9 million in 2018 (as restated) due to the inclusion of Pizza Hut in the consolidated perimeter and the related flow of royalties.

Merchandise and Raw Materials Used

Merchandise and raw materials used increased by 7.8%, to €102.0 million in 2019 from €94.6 million in 2018 (as restated), primarily resulting from the increased chain sales, resulting in an increase in supply sales and consequently the amount of merchandise and raw materials used, as well as the increase in the price of some raw materials, particularly pork.

Personnel Expenses

Personnel expenses increased by 2.4%, to €94.8 million in 2019 from €92.5 million in 2018 (as restated), primarily as a result of the increase in the business perimeter after the Yum! Alliance.

Amortization and Depreciation

Consolidated amortization and depreciation increased to €36.8 million in 2019 from €15.8 million in 2018 (as restated), primarily as a result of the effects of the implementation of IFRS 16 and the incremental investment in previous periods.

Other Expenses

Other expenses increased by 16.6%, to €132.7 million in 2019 from €113.8 million in 2018 (as restated), primarily as a result of royalties and fees paid to Yum!, as well as extraordinary expenses incurred in connection with the implementation of the Yum! Alliance, also extraordinary expenses in connection with the expenses related to the new corporate and financing structure. There is also a positive impact due to the effects of the implementation of IFRS 16.

Impairment of Non-Current Assets

Impairment of non-current assets increased to an impairment loss of €17.7 million in 2019 from an impairment loss of €7.2 million in 2018 (as restated). This was primarily due to impairments related to store network restructuring in Spain and Chile.

Other Losses

Our other losses increased to a loss of €2.8 million in 2019 from a loss of €1.2 million in 2018 (as restated), primarily due to the effects of the implementation of IFRS 16.

Operating Profit

Our operating profit decreased to a loss of €2.4 million in 2019 from a positive €6.7 million in 2018 (as restated). This was primarily due to the higher impairment losses and extraordinary expenses incurred in connection with the implementation of the Yum! Alliance agreement, also in connection with the new corporate and financing structure.

Finance Income

Our finance income increased to €3.8 million in 2019 from €1.2 million in 2018 (as restated), primarily due to the effects of the implementation of IFRS 16.

Finance Costs

Finance costs increase to €31.1 million in 2019 from €8.2 million in 2018 (as restated), primarily due to the implementation of the new financing structure, including the issuance of the Notes, and due to the effects of the implementation of IFRS 16.

Income Tax Income/(Expense)

Our income tax expense increased to €18.2 million in 2019 from an income tax expense of €2.5 million in 2018 (as restated), primarily due to a write-off of deferred tax assets associated to the interests carried forward.

Post-Tax Loss on Discontinued Operations

Our post-tax loss on discontinued operations increased to a loss of €6.9 million in 2019 from a loss of €6.8 million in 2018 (as restated), primarily due to the losses in our businesses in Poland and Czech Republic which were considered as discontinued operations in both years.

Profit/(Loss) for the Year

Loss for the year increased to a loss of €54.9 million in 2019 from a loss of €9.6 million in 2018 (as restated), primarily due to transaction related costs arising from the Yum! Alliance and expenses related to the new corporate and financing structure.

Results and Other Information by Segment

For the year ended December 31, 2018(1)						
(in € millions)	Spain	Other Europe	Latin America	Master franchise and rest of the world	Eliminations	Total
Own outlet sales	76.7	36.2	42.1	0.1	-	155.1
Factory sales to franchisees	92.8	10.6	12.7	0.6	-	116.7
Royalties	26.8	5.0	3.6	0.0	0.0	35.4
Revenue from franchising activity	5.9	0.3	5.2	0.0	-	11.5
Other services rendered to franchisees	2.3	0.3	1.4	-	-	4.0
Revenue from initial fees	-	0.0	0.0	-	-	0.0
Sublease income	8.1	0.1	0.9	-	-	9.1
To other segments	34.6	-	-	-	(34.6)	-
Total revenues	**247.0**	**52.6**	**66.1**	**0.7**	**(34.6)**	**331.9**
Amortisation	(11.4)	(1.2)	(3.2)	(0.0)	-	(15.8)
Impairment/(Reversal) of non-current assets	(4.9)	-	(2.3)	-	-	(7.2)
Other net gains/(losses)	(0.3)	0.1	(0.9)	(0.1)	-	(1.2)
Operating profit/(loss)	**10.5**	**5.6**	**(9.2)**	**(0.1)**	**-**	**6.7**

(1) Restated figures.

For the year ended December 31, 2019						
(in € millions)	Spain	Other Europe	Latin America	Master franchise and rest of the world	Eliminations	Total
Outlet sales to customers	71.6	36.0	64.3	-	-	171.9
Factory sales to franchisees and other sales	94.3	14.3	11.4	-	-	120.0
Royalties	47.6	10.2	12.2	0.6	-	70.6
Revenue from franchising activity	5.1	(0.1)	0.3	-	-	5.4
Other services rendered to franchisees	4.8	1.4	1.1	0.2	-	7.5
Income from incentives	7.6	-	-	-	-	7.6
Revenue from initial fees	1.1	-	0.2	-	-	1.3
To other segments	92.5	-	-	-	(92.5)	-
Total revenues	**324.7**	**61.8**	**89.6**	**0.7**	**(92.5)**	**384.4**
Amortisation	(21.2)	(3.6)	(12.0)	(0.0)	-	(36.8)
Impairment/(Reversal) of non-current assets	(11.7)	-	(6.1)	-	-	(17.7)
Other net gains/(losses)	(3.9)	0.0	1.1	-	-	(2.8)
Operating profit/(loss)	**(3.5)**	**9.1**	**(8.3)**	**0.3**	**-**	**(2.4)**

Total Revenues by Segment

Spain

Our total revenues from our Spain segment increased to €324.7 million in 2019 from €247.0 million in 2018 (as restated), primarily as a result of the royalties received in Spain related to the Yum! Alliance.

Rest of Europe

Our total revenues from our Rest of Europe segment increased to €61.8 million in 2019 from €52.6 million in 2018 (as restated), as a result of the increase in system sales in Portugal and Ireland and due to the royalties received related to the Yum! Alliance.

Latin America

Our total revenues from our Latin America segment remained flat at €89.6 million in 2019 compared to €66.1 million in 2018 (as restated), as a result of the increase in system sales related to owned stores arising from the acquisition of the Pizza Hut franchisees in Ecuador and Chile and due to the royalties received related to the Yum! Alliance.

Master Franchise and Rest of World

Our total revenues from our Master Franchise and Rest of World remained flat at €0.7 million in 2019 and 2018 (as restated).

Operating Profit by Segment

Spain

Our operating losses from our Spain segment decreased to a loss of €3.5 million in 2019 from a profit of €10.5 million in 2018 (as restated), primarily as a result of the extraordinary corporate expenses allocated to Spain and others local extraordinary expenses, as well as to the allocation of certain global fees related to the Yum! Alliance allocated to Spain.

Rest of Europe

Our operating profit from our Rest of Europe segment increased to €9.1 million in 2019 from €5.6 million in 2018 (as restated), as a result of the increase in system sales in Portugal and Ireland and due to the royalties received related to the Yum! Alliance.

Latin America

Our operating losses from our Latin America segment decreased to a loss of €8.3 million in 2019 from a loss of €9.2 million in 2018 (as restated), as a result of the increase in system sales in Portugal and Ireland and due to the royalties received related to the Yum! Alliance, partially offset by start-up costs related to the Pizza Hut business.

Master Franchise and Rest of the World

Our operating profit from our Master Franchise and Rest of World segment increased to a profit of €0.3 million in 2019 from a loss of €0.1 million in 2018 (as restated). This was primarily due to costs efficiencies implemented.

Adjusted EBITDA and Pro forma Adjusted EBITDA

The following table is a reconciliation of total revenue to Adjusted EBITDA for the periods indicated:

	For the year ended December 31,			
(in € millions)	**2018[1]**	**2019[2]**	**2019[3]**	**% change[4]**
Own outlet sales[5]	155.1	171.9	171.9	10.8
Supply, chain, royalties, marketing and other revenue	176.8	212.5	223.3	26.3
Total Revenue	**331.9**	**384.4**	**395.2**	19.1
Product cost	(94.6)	(102.0)	(102.0)	7.8
Royalties and fees paid to Yum!	—	(31.4)	(31.4)	N/A
Operating expenses excluding royalties and fees paid to Yum![6]	(169.0)	(164.0)	(195.2)	15.5
Adjusted EBITDA[7]	**68.3**	**86.9**	**66.6**	(2.5)

(1) Restated figures.
(2) Including the effects of IFRS 16.
(3) Excluding the effects of IFRS 16.
(4) Versus 2019 excluding the effects of IFRS 16.
(5) Excluding discontinued operations in Poland and the Czech Republic, chain sales in 2018 are presented pro forma with the contribution of Pizza Hut chain sales.
(6) Including personnel costs, leases, advertising, logistics and other expenses.
(7) This measure is not a measurement of financial performance under IFRS and should not be considered as a substitute to other indicators of our operating performance, cash flows or any other measure of performance derived in accordance with IFRS.

For further details, please see our Director's Report included in the 2019 Financial Statements.

The following table is a reconciliation of Adjusted EBITDA to Pro forma EBITDA for the period indicated:

(in € millions)	**Financial year ended December 31, 2019**
Adjusted EBITDA[1]	**66.6**
Annualized EBITDA of Pizza Hut Chile Acquisition	1.2
Average of estimated procurement synergies	1.2
Pro forma EBITDA[1][2]	**68.9**

(1) This measure is not a measurement of financial performance under IFRS and should not be considered as a substitute to other indicators of our operating performance, cash flows or any other measure of performance derived in accordance with IFRS.

(2) Pro forma EBITDA consists of Adjusted EBITDA as adjusted for certain annualized results of acquisitions and supply synergies. Pro forma items do not consider the potential impact of COVID-19.

These adjustments are based upon various assumptions, forecasts and management estimates and are in part based upon historical information. This information does not represent the results we would have achieved had each of the adjustments occurred and been fully implemented on January 1, 2019. In addition, our estimates of the impact of the cost savings are based upon forecasts and management estimates and are presented on an annual run-rate basis as if such cost-savings had been fully realized at the beginning of the relevant period. We may not be able to achieve these cost savings in a timely manner or at all. The estimated cost savings are based on a number of assumptions made in reliance on the information available to us and management's judgments based on such information. The assumptions used in estimating cost savings are inherently uncertain and are subject to a wide variety of significant business, economic, and competitive risks and uncertainties that could cause actual results to differ materially from those contained in our estimates of cost savings. These numbers have not been, and cannot be, audited, reviewed or verified by an independent accounting firm. This information is inherently subject to risks and uncertainties. It may not be comparable to our consolidated financial statements or the other financial information included in this report and should not be relied upon when making an investment decision. Pro forma EBITDA is included in this report because we believe it is helpful to investors as a measure of our operating performance and ability to service our debt. These measures are not measurements of financial performance under IFRS and should not be considered as a substitute for other indicators of our operating performance, cash flows or any other measure of performance derived in accordance with IFRS. Other companies, including those in our industry, may calculate a similarly titled financial measure differently from us, and so the presentation of such financial measures may not be comparable to other similarly titled measures of other companies. Funds depicted by certain of these measures may not be available for management's discretionary use due to covenant restrictions, debt service payments or other commitments.

Liquidity and Capital Resources

Overview

Our principal cash requirements consist of the following:

- capital expenditures related to investments in our operations and maintenance and upgrades of our existing facilities;
- servicing our indebtedness;
- paying taxes; and
- working capital requirements, including buybacks of our stores.

Our principal sources of liquidity are expected to be cash flows from our operating activities, capital contributions and shareholder contributions, and short-term and long-term loans and financing, including drawings under our revolving credit facility (the "Revolving Credit Facility"), which provides for borrowings of up to €45.0 million. The availability of the Revolving Credit Facility is subject to certain conditions. As of the date of this report, our Revolving Credit Facility was fully drawn.

Our ability to generate operating cash flows depends on our operating performance, which in turn depends to some extent on general economic, financial, industry, regulatory and other factors, many of which are beyond our control, as well as other factors discussed in "*Risk Factors*." The ability of our subsidiaries to pay dividends and make other payments to us may be restricted by, among other things, legal prohibitions on such payments or otherwise distributing funds to us, including for the purpose of servicing debt. Losses or other events could further reduce the net equity and distributable reserves of our subsidiaries.

We anticipate that we will be highly leveraged for the foreseeable future and our ability to generate future financing cash flows will be limited by the Indenture and the Revolving Credit Facility. For a description of our material commitments, contingencies and debt instruments, please see our 2019 Financial Statements.

We or our affiliates may from time to time seek to retire or repurchase our outstanding debt through cash purchases, in open market purchases, privately negotiated transactions or otherwise. Such repurchases will depend on market conditions, our liquidity requirements, contractual restrictions and other factors, and the amounts involved may be material.

Cash Flows

The following table sets forth our consolidated statements of cash flows for the years presented, including cash from discontinued operations:

	For the year ended December 31	
(in € millions)	**2018**[(1)]	**2019**
Net cash from operating activities	27.2	58.7
Net cash used in investing activities	(35.8)	(46.9)
Net cash from (used in) financing activities	(21.9)	(28.8)
Net increase (decrease) in cash and cash equivalents	(30.4)	(17.0)

(1) Restated figures.

Cash Flows Provided by Operating Activities

Our cash flows from operating activities increased to €58.7 million in 2019 from €27.2 million in 2018 (as restated). This increase is due to lower extraordinary expenses in 2019 and the reversal of provisions and other non-cash items in the net profit line.

Cash Flows (Used in) Investing Activities

Our cash flows used in investing activities increased to €46.9 million in 2019 from €35.8 million in 2018 (as restated). This increase was primarily due to the incremental investment in store openings, conversions and IT and industrial infrastructure.

Cash Flows Provided by Financing Activities

Our cash flows used in financing activities increased to €28.8 million in 2019 from €21.9 million in 2018 (as restated), primarily as a result of the new financing structure.

Working Capital

The following table shows our working capital as of December 31, 2018 and 2019:

	For the year ended December 31	
(in € millions)	**2018**[(1)]	**2019**
Current assets[(2)]	127.0	151.2
Current liabilities	83.4	177.1
Working capital[(3)]	43.6	(26.0)

(1) Restated figures.

(2) Current assets include cash and cash equivalents of €56.7 million and €39.8 million in 2018 (as restated) and 2019, respectively.

(3) This measure is not a measure of financial performance under IFRS and should not be considered as a substitute for other indicators of our operating performance, cash flows or any other measure of performance and liquidity derived in accordance with IFRS.

Working capital decreased to a negative €26.0 million in 2019 from a positive €43.6 million in 2018. This decrease was primarily as a result of the effects of the implementation of IFRS 16 regarding capitalization of operating leases.

Capital Expenditures

We generally require capital expenditures for the maintenance of our existing store portfolio to remain competitive and maintain the value of our brand. In addition, in previous years our capital expenditures have mainly related to the opening of new stores and the refurbishment and relocation of our existing stores. In 2019, in preparation for the implementation of the Yum! Alliance, we increased our capital expenditures in store openings and conversions, and increased our capital expenditures in information technology and factories in order to accommodate the new Pizza Hut perimeter.

The following table shows our recurring capital expenditures for the periods presented for the maintenance of existing assets and for investment in expanded capacity, excluding transaction related capital expenditures:

	For the year ended December 31	
(in € millions)	**2018(1)**	**2019**
Openings	2.0	9.4
Relocations	1.9	2.1
Buybacks	3.4	1.7
Conversions	1.5	4.6
Maintenance	3.9	4.9
Total Stores	12.8	22.8
IT + Digital	5.6	11.8
Factory	2.3	6.2
Others	3.5	1.5
Total Group excluding M&A	**24.2(2)**	**42.3(3)**

(1) Restated figures.

(2) Does not include €30.4 million in capital expenditures in 2018 related to acquisitions of Pizza Hut operations.

(3) Does not include €23.8 million in capital expenditures in 2019 related to acquisitions of Pizza Hut operations.

As part of our general strategy and in connection with the Yum! Alliance, we intend to undertake capital expenditures during the next two years to open new stores and convert Telepizza stores to Pizza Hut stores, particularly in Latin America, as well as to invest in our dough factories.

We expect to finance our future capital expenditures through either cash from operations, equity contributions and, if necessary, from bank loans or issuances of debt in the capital markets.

Off-Balance Sheet Arrangements

With the exception of bank and other guarantees provided in the ordinary course of business amounting to €10.1 million as of December 31, 2019, we do not currently engage in off-balance sheet financing arrangements. In addition, we do not have any interest in entities referred to as special purpose entities, which include special purposes entities and other structured finance entities.

Quantitative and Qualitative Disclosures About Market Risk

In the ordinary course of business, we are exposed to a variety of financial risks, including interest rate risk, currency risk, liquidity risk and credit risk. Our global risk management focuses on uncertainty in the financial markets and aims to minimize potential adverse effect on our profits. We also use derivatives to mitigate our risks.

Risks are managed by our finance department in accordance with policies approved by our board of directors. The finance department identifies, evaluates and mitigates financial risks in close collaboration with our operational units. Our 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 derivatives and non-derivative instruments and investments of cash surpluses.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Our exposure to the risk of changes in market interest rates relate primarily to our Revolving Credit Facility which bears interest at a variable rate.

In order to minimize interest rate risk, we enter from time to time into variable to fixed interest rate swaps. We generally obtain non-current borrowings with variable interest rates and swap these for fixed interest rates that are normally lower than if the financing had been obtained directly with fixed interest rates. For example, in 2016, we entered into a fixed interest rate swap to hedge €100.0 million of our drawings under the our former term loan facility (the “Swap”), which swapped the EURIBOR rate with a zero floor for a fixed rate of 0.27%. The Swap became effective on April 29, 2018. As of December 31, 2018, it had a negative fair value of €0.6 million (€0.1 million as of December 31, 2017). In 2019, as a result of the cancellation of the former term loan facility, the Swap was also cancelled, generating income of €0.6 million.

As of December 31, 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 borrowings costs on variable interest rate debt not hedged by the Swap have a floor of 1% and, therefore, 1% was the rate paid during the year for variable interest pegged to EURIBOR.

While we may enter into hedging agreements in the future, we may also elect not to do so or the terms on which we hedge may not be satisfactory or may fail to adequately protect us from changes in market interest rates.

Foreign Currency Risk

Since we operate internationally, we are exposed to variations in exchange rates for commercial transactions in foreign currency, intragroup payables in foreign currency and net assets deriving from net investments in foreign operations with functional currencies other than the euro. There are no significant group balances or commercial transactions denominated in foreign currencies other than the functional currencies of each country where we operate.

We currently do not hedge our foreign currency risk. We expect that possible fluctuations in the exchange rates of the Chilean peso and the Colombian peso will not have a significant impact on our consolidated equity.

The Notes and the Revolving Credit Facility are denominated in euro, and changes in foreign exchange rates will therefore give rise to foreign exchange exposure. While we may enter into hedging agreements in the future, we may also elect not to do so or the terms on which we hedge may not be satisfactory or may fail to adequately protect us from changes in foreign exchange rates.

As of December 31, 2019, had the euro weakened/strengthened by 10% against the Chilean peso and the Colombian peso, with the other variables remaining constant, consolidated post-tax loss would have been €3.0 million lower (€0.1 million in 2018), 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. The translation differences recognized under other comprehensive income would have increased by €2.9 million (€4.3 million in 2018), mainly due to translation differences on foreign operations.

Liquidity Risk

Liquidity risk is the risk of not being able to fulfill present or future obligations if we do not have sufficient funds available to meet such obligations at the time they become due. Liquidity risk arises mostly in relation to cash flows generated and used in working capital and from financing activities, particularly by servicing our debt, in terms of both interest and capital, and our payment obligations relating to our ordinary business activities. We manage liquidity risk by continuously monitoring our expected cash flows and working capital levels and ensuring that adequate borrowing facilities are maintained.

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 minimized.

Credit Risk

Credit risk is the risk of financial loss resulting from counterparty failure to repay or service debt owed to us according to the contractual terms or obligations. We are not exposed to significant credit risk since our credit risk is not significantly concentrated, our 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 significantly reduces the likelihood of bad debts.

Critical Accounting Policies

The preparation of our consolidated annual accounts and related disclosures in accordance with IFRS-EU requires our management to make estimates, judgments and assumptions that affect the amounts reported in our consolidated annual accounts and accompanying notes.

Our management must judge and develop estimates for the carrying values of assets and liabilities which are not easily obtainable from other sources. The estimates and associated assumptions are based on historical experience and other factors considered relevant. Actual results could differ from those estimates.

We periodically review these estimates and underlying assumptions. We recognize the effects of revisions to accounting estimates in the period that estimates are revised if the revision affects only that period, or also in later periods if the revision affects both current and future periods.

A summary of the items requiring a greater degree of judgment or which are more complex, or where the assumptions and estimates are significant to the preparation of the audited financial statements, is as follows:

- We determine 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.

- Calculation of the recoverable amount: We test goodwill and the brands for impairment on an annual basis. Calculation of the recoverable amount requires us to use estimates. The recoverable amount is the higher of fair value less costs to sell and value in use. We generally use discounting cash flow methods to calculate these values, based on projections of the budgets we approve. The cash flows take into consideration past experience and represent our 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 used, could have a significant impact on values and impairment.

- Valuation allowances for bad debts require a high degree of judgment by us 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.

- We capitalize the tax credits we consider likely to be offset in the foreseeable future based on our business plan for each tax jurisdiction in which we operate.

- The effects of the Yum! Alliance in our consolidated annual accounts are considered critical due to the different accounting assumptions and impacts associated with the agreement, as it substantially modifies the prior business model.

- We are subject to regulatory and legal processes and inspections by government bodies in various jurisdictions. We use significant judgment when determining the provisions for these legal processes.

- Although estimates are calculated by our directors based on the best information available at the closing date of the consolidated annual accounts, future events may require changes to these estimates in subsequent years. Any effect on the financial statements of adjustments to be made in subsequent years would be recognized prospectively.

For a description of these critical accounting policies and estimates, see our 2019 Financial Statements.

RISK FACTORS

The following are certain risk factors that could affect our business, financial condition and results of operations. You should carefully consider the risks described below as well as the other information contained in the section titled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*." Additional risks and uncertainties that are not presently known to us or are currently deemed to be immaterial also may materially adversely affect our business, financial condition, and results of operations in the future. If any of the risks actually occur, the trading price of our securities may be negatively affected and as a result you may lose all or part of your original investment. The risk factors described below, as well as any additional risks and uncertainties, may cause the forward-looking statements described under the section titled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" to differ from our actual results.

- our inability to integrate Telepizza and Pizza Hut effectively and realize the potential and anticipated benefits from the alliance with Yum! Brands;
- the risk of harmful economic and political conditions;
- the impact of competition in the quick service restaurants market, and in particular the pizza delivery sector;
- the risk of any outbreak of severe communicable diseases, including the novel strain of coronavirus (COVID-19);
- the effect of increasing costs of food, utilities or sales taxes on our operating margins and product variety;
- the impact of impairments to goodwill and other intangible assets;
- the loss of certain clients or franchisees and master franchisees;
- the risk of shortages or interruptions in the supply or delivery of raw materials, ingredients and complementary products;
- exposure to price and volume fluctuations under certain of our supply contracts;
- a potential loss of our rights to use Telepizza trademarks in certain jurisdiction if we materially breach our obligations under the Yum! Alliance;
- failure to successfully implement our growth strategy;
- unsuccessful marketing initiatives and advertising campaigns;
- failure of our franchises and master franchises to develop their business;
- our reliance on capital investments;
- our exposure to additional risks through our international operations;
- failure to comply with anti-bribery or anti-corruption laws;
- uncertainty regarding Brexit;
- failure to deliver our products to our customers;

- the risk of labor shortages or increased labor costs;
- our inability to attract and retain qualified employees;
- our inability to protect our intellectual property or the value of our brand;
- our reliance on the strength and reputation of both the Telepizza and Pizza Hut brands;
- the risk of the termination of our leasing contracts;
- the risk of foodborne illness;
- the departure of key executive management and senior management members;
- disruption of our information technology systems and exposure to security breaches;
- our failure to comply with applicable data protection laws and regulations;
- failure to successfully integrate acquired businesses;
- insufficient level of insurance;
- unanticipated fluctuations in exchange rates;
- the impact of changes in laws and regulations;
- the impact of IFRS 16;
- the impact of Spanish tax legislation;
- the impact of changes in tax laws or our tax position;
- the risk that the Issuer and the guarantors of the Notes are members of a tax consolidated group and are exposed to additional tax liabilities;
- the risks from legal and arbitration proceedings;
- the risk associated with unforeseen events, such as terrorist attacks, natural disasters or catastrophic events; and
- other risks associated with our financing, the Notes and our structure.

The risks mentioned above are not exhaustive. Moreover, we operate in a highly competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors to our business.

MANAGEMENT

Foodco Bondco S.A.U. (the "Issuer")

The Post-Settlement Merger between Tasty Bondco 1, S.A.U. and Foodco Bondco, S.A.U. — which was identified as "Tasty Bondco 2, S.A." in the Indenture and the Offering Memorandum — was approved on December 12, 2019, by the relevant corporate bodies of the merging entities and, on February 26, 2020, the registration was completed with the Commercial Registry of Madrid. Accordingly, Foodco Bondco S.A.U. has assumed all obligations of Tasty Bondco 1, S.A.U. as Issuer in respect of the Notes, the Indenture, the Intercreditor Agreement and any relevant Security Documents in accordance with Spanish law on corporate reorganizations (*Ley 3/2009, de 3 de abril, sobre modificaciones estructurales de las sociedades mercantiles*) and the provisions of the Indenture.

Foodco Bondco S.A.U. is a public limited liability company (*sociedad anónima unipersonal*) incorporated under the laws of Spain, and registered with the Commercial Registry of Madrid with registration number (*Número de Identificación Fiscal*) A88398532. Its registered business address is Calle Isla Graciosa 7, San Sebastián de los Reyes, 28073, Madrid, Spain.

As of the date of this report, the sole administrator of Foodco Bondco S.A.U. is Pablo Juantegui Azpilicueta.

Telepizza Group S.A.

Telepizza Group S.A. ("Telepizza") is a public limited company (*sociedad anónima*) incorporated under the laws of Spain and registered with the Commercial Registry of Madrid with registration number A84342229. Telepizza's registered business address is Avenida Isla Graciosa, 7, Parque Empresarial La Marina, 28703 San Sebastian De Los Reyes, Madrid, Spain.

The following table sets forth the names and positions of the key members of the executive management team at Telepizza as of the date of this report:

Name	**Position**
Pablo Juantegui Azpilicueta	Chairman and Chief Executive Officer
Jose Luis Renedo	Chief Financial Officer
Fernando Frauca Amorena	CEO Latam
Manuel Loring Diaz de Bustamante	CEO EMEA
Mar Romero Galán	Chief Human Resource Officer
Erik Larsson	Chief Marketing Officer
Nacho Martín García	Chief Supply Chain Officer

Telepizza Group is managed by a board of directors comprised of six members. Set forth below are the names and positions of the current members of the board of directors of Telepizza.

Name	**Position**
Pablo Juantegui Azpilicueta	Chairman and Chief Executive Officer
John Derkach	Director
Tasty Bidco S.L. (represented by Kristin Hall)	Director
Javier Gaspar Pardo de Andrade	Secretary of the Board

KPMG

Telepizza Group, S.A. and Subsidiaries

Consolidated Annual Accounts

31 December 2019

Consolidated Directors' Report

2019

(With Independent Auditor's Report Thereon)

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

Independent Auditor's Report on the Consolidated Annual Accounts

To the shareholders of Telepizza Group, S.A.

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 2019, 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 2019 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

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

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the consolidated annual accounts pursuant to the legislation regulating the audit of accounts in Spain. 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.

KPMG Auditores, S.L., a limited liability Spanish company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
Paseo de la Castellana, 259C 28046 Madrid

On the Spanish Official Register of Auditors ("ROAC") with No. S0702, and the Spanish Institute of Registered Auditors' list of companies with No. 10.
Filed at the Madrid Mercantile Registry in volume 11,961, sheet 90, section 8, page number M-188,007, entry number 9.
Tax identification number (NIF): B-78510153

Most Relevant Aspects of the Audit

The most relevant aspects of the audit are those that, in our professional judgement, have been considered as the most significant risks of material misstatement in the audit of the consolidated annual accounts of the current period. These risks 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 risks.

Recoverable amount of non-financial non-current assets subject to amortisation and depreciation and/or impairment (see notes 4(h), 8, 9 10 and 11 to the consolidated annual accounts)

At 31 December 2019 the Group has property plant and equipment amounting to Euros 59,668 thousand, goodwill of Euros 398,912 thousand, trademarks amounting to Euros 239,148 thousand, other intangible assets amounting to Euros 103,640 thousand and right-of-use assets amounting to Euros 81,677 thousand generated following the application of IFRS 16.

At each reporting date the Group estimates the recoverable amount of goodwill and of the intangible assets with indefinite useful lives and, when there are indications of impairment, of property, plant and equipment, other intangible assets and right-of-use assets. 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 outlets, factories or countries where there could be a temporary decline in the performance of the businesses.

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 Directors and Management of the Group.
- 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 the growth estimates, which have served as a basis for calculating the recoverable amount, with the budgets approved by the Board of Directors.
- For a sample of outlets, we also contrasted the cash flow forecasts estimated in prior years with the actual cash flows obtained.
- Assessing the sensitivity of certain assumptions to changes that are considered reasonable.
- Evaluating whether the information disclosed in the consolidated annual accounts meets the requirements of the financial reporting framework applicable to the Group.

Recoverability of deferred tax assets (see notes 4 (t), 15 and 27 to the consolidated annual accounts)

At 31 December 2019 the Group recognised deferred tax assets amounting to Euros 20,186 thousand, primarily in respect of tax losses 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 the tax planning opportunities considered by the Group.

Due to the uncertainty associated with the recoverability of the amounts recognised as deferred tax assets and the expected recovery period, we consider this to be a key matter in our audit.

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.
- involving our tax specialists to assess the tax planning strategies and the suitability of the criteria adopted by the Group in circumstances in which the tax treatment may be uncertain or complex.
- contrasting the profit and loss forecasts used as a basis for recognising 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.

Emphasis of Matter

We draw attention to note 32 to the accompanying consolidated annual accounts, in which the Directors mention the event after the reporting period in relation to the health emergency triggered by the spread of Coronavirus disease (COVID-19) and the main consequences identified at the date of authorisation for issue of these consolidated annual accounts, considering the difficulties associated with estimating the potential impact of this situation. Our opinion is not modified in respect of this matter.

Other Information: Consolidated Directors' Report

Other information solely comprises the 2019 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, which consists solely of verifying that this information has been provided in the consolidated directors' report, or where applicable, that the consolidated 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 entity 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 consolidated directors' report states that the information mentioned in section a) above is presented in the consolidated directors' report of the Tasty Bidco, S.L. group, of which the Group forms part; that the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2019; and that the content and presentation of the report are in accordance with applicable legislation.

Directors' Responsibility for the Consolidated Annual Accounts

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

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

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

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

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

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

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

From the significant risks communicated to the Directors of Telepizza Group, S.A., 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 most significant risks.

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

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

AUDITORES
INSTITUTO DE CENSORES JURADOS DE CUENTAS DE ESPAÑA

KPMG AUDITORES, S.L.

2020 Núm.01/20/04563

Informe de auditoría de cuentas sujeto a la normativa de auditoría de cuentas española o internacional

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

26 March 2020

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statement of Financial Position
31 December 2019

(Expressed in thousands of Euros)

Assets	2019	2018
Property, plant and equipment (note 8)	59,668	51,262
Rights-of-use assets (note 9)	81,677	-
Goodwill (note 10)	398,912	397,261
Other intangible assets (note 11)	342,788	341,263
Net investment in subleases (note 9)	54,338	-
Deferred tax assets (note 15)	20,186	39,999
Non-current financial assets (note 11)	26,182	32,493
Total non-current assets	983,751	862,278
Inventories (note 12)	13,097	10,208
Trade and other receivables (note 13)	57,447	40,916
Net investment in subleases (note 9)	12,200	-
Other current financial assets	2,312	2,745
Other current assets	3,620	1,402
Cash and cash equivalents (note 14)	39,776	56,698
Subtotal current assets	128,452	111,969
Non-current assets held for sale (note 6)	22,717	14,981
Total current assets	151,169	126,950
Total assets	1,134,920	989,228

The accompanying notes form an integral part of the consolidated annual accounts for 2019.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statement of Financial Position
31 December 2019

(Expressed in thousands of Euros)

Equity and Liabilities	2019	2018
Share capital (note 16)	25,180	25,180
Share premium	402,759	533,695
Retained earnings	375	60,592
Own shares	-	(15,500)
Translation differences	(12,073)	(9,118)
Equity attributable to equity holders of the Parent and total equity (note 16)	416,241	594,849
Non-controlling interests	1,788	836
Equity	418,029	595,685
Debentures and bonds (note 19(a))	317,778	-
Loans and borrowings (note 19(a))	-	197,743
Other financial liabilities (note 18)	10,436	11,194
Tax liabilities (note 9)	118,886	-
Deferred tax liabilities (note 15)	77,813	81,955
Provisions (note 20)	734	4,558
Other non-current liabilities (note 1)	14,100	14,686
Total non-current liabilities	539,747	310,136
Debentures and bonds (note 19(a))	13,798	-
Loans and borrowings (note 19 (b))	2,500	962
Other financial liabilities (note 18)	1,973	3,291
Tax liabilities (note 9)	44,224	-
Trade and other payables (note 22)	104,036	65,705
Provisions (note 20)	-	4,733
Other current liabilities	2,416	4,050
Subtotal current liabilities	168,947	78,741
Liabilities directly associated with non-current assets held for sale:	8,197	4,666
Total current liabilities	177,144	83,407
Total equity and liabilities	1,134,920	989,228

The accompanying notes form an integral part of the consolidated annual accounts for 2019.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Income Statement
for the year ended
31 December 2019

(Expressed in thousands of Euros)

	2019	2018 (*)
Revenues (note 23)	384,361	331,878
Merchandise and raw materials used (note 12)	(102,007)	(94,594)
Personnel expenses (note 24)	(94,763)	(92,534)
Amortisation and depreciation expenses (notes 8, 9 and 10)	(36,781)	(15,835)
Other expenses (note 25)	(132,675)	(113,806)
Impairment/(Reversal) of non-current assets (note 26)	(17,740)	(7,200)
Other losses	(2,842)	(1,196)
Operating profit/(loss) for the year	(2,447)	6,713
Finance income	3,777	1,230
Finance costs	(31,126)	(8,246)
Loss before tax from continuing operations	(29,796)	(303)
Income tax expense (note 27)	(18,238)	(2,503)
Loss for the year from continuing operations	(48,034)	(2,806)
Post-tax loss of discontinued operations	(6,851)	(6,811)
Loss for the year	(54,885)	(9,617)
Profit/(loss) attributable to non-controlling interests	(1,121)	(668)
Loss for the year attributable to equity holders of the Parent		
Continuing operations	(49,155)	(3,474)
Discontinued operations	(6,851)	(6,811)
	(56,006)	(10,285)

(*) Restated figures

The accompanying notes form an integral part of the consolidated annual accounts for 2019.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statement of Comprehensive Income
for the year ended
31 December 2019

(Expressed in thousands of Euros)

	2019	2018(*)
Loss for the year	(54,885)	(9,617)
Other comprehensive income:		
Items that will be reclassified to profit or loss		
Translation differences of financial statements of foreign operations	(3,000)	(4,048)
Total comprehensive income for the year	(57,885)	(13,665)
Profit/(loss) attributable to non-controlling interests	(1,121)	(668)
Total comprehensive income/(loss) for the year attributable to equity holders of the Parent	(59,006)	(14,333)

The accompanying notes form an integral part of the consolidated annual accounts for 2019.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statement of Changes in Equity
for the year ended
31 December 2019

(Expressed in thousands of Euros)

	Share capital	Share premium	Own shares	Prior years' profit and loss	Other equity instruments	Translation differences	Non-controlling interests	Total Equity
Balance 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)
Balance at 01/01/2018	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)
Balance at 31/12/2018	25,180	533,695	(15,500)	58,014	2,578	(9,118)	836	595,685
Prior years corrections	-	-	-	(868)	-	-	-	(868)
Transition to new standards (note 2(d))	-	-	-	(5,254)	-	-	-	(5,254)
Balance at 01/01/2019	25,180	533,695	(15,500)	51,892	2,578	(9,118)	836	589,563
Transactions with own shares	-	-	15,500	928	-	-		16,428
Dividends	-	(130,936)			-	-	-	(130,936)
Disposals of entities	-	-	-	124	-	45	(169)	-
Share-based payments (note 20(b))	-	-	-	-	859	-	-	859
Profit/(loss) for the year	-	-	-	(56,006)	-	(3,000)	1,121	(57,885)
Balance at 31/12/2019	25,180	402,759	-	(3,062)	3,437	(12,073)	1,788	418,029

The accompanying notes form an integral part of the consolidated annual accounts for 2019.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statement of Cash Flows
for the year ended
31 December 2019

(Expressed in thousands of Euros)

	2019	2018
Cash flows from operating activities		
Post-tax profit/(loss) of discontinued operations	(6,854)	(4,109)
Profit/(loss) for the year from continuing operations	(29,796)	(3,005)
Adjustments for:		
Amortisation and depreciation (notes 8, 9 and 10)	36,781	16,530
(Reversal of) impairment losses (note 26)	17,740	7,444
Finance income	(3,777)	(1,230)
Finance costs	31,126	8,449
Losses on disposal of property, plant and equipment and other losses	2,842	1,042
Share-based payment costs	2,240	3,365
Expenses/Reversals of provisions	(3,185)	8,418
Impairment of trade receivables (note 13)	12,246	1,000
Other adjustments of discontinued operations	4,453	431
	63,816	38,335
Change in working capital		
(Increase)/decrease in inventories	(2,889)	909
(Increase)/decrease in trade and other receivables	(27,168)	(3,365)
(Increase)/decrease in other current and non-current asset	2,918	4,772
Increase/(decrease) in trade and other payables	38,331	2,433
Increase/(decrease) in provisions	(788)	(151)
Increase/(decrease) in other current and non-current liabilities	(2,978)	(2,568)
Changes in working capital due to discontinued operations	2,071	(588)
Cash generated from operations	9,497	1,442
Interest received	1,225	1,230
Interest paid	(8,048)	(7,326)
Income tax paid	(7,751)	(6,455)
Net cash from operating activities	58,739	27,226
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment and intangible assets	12,626	7,483
Acquisition of property, plant and equipment	(36,596)	(15,735)
Acquisition of intangible assets	(33,346)	(5,424)
Acquisition of subsidiaries, net of cash and cash equivalents	-	(21,621)
Cash flows from (used in) discontinued operations	(789)	(482)
Income from sub-leases	11,229	-
Net cash used in investing activities	(46,876)	(35,779)
Cash flows from financing activities		
Issuance of debentures and bonds, net of issue costs	316,237	-
Cancellation of borrowings from credit institutions	(200,000)	-
Issuance of debt with credit institutions	2,343	-
Treasury shares sold/(acquired)	16,428	(15,500)
Dividends paid	(130,936)	(6,370)
Lease liability payments	(32,911)	-
Net cash from (used in) financing activities	(28,839)	(21,870)
Net increase/(decrease) in cash and cash equivalents	(16,976)	(30,423)
Cash and cash equivalents at 1 January	56,698	87,279
Effect of exchange differences	54	(158)
Cash and cash equivalents at 31 December	39,776	56,698

The accompanying notes form an integral part of the consolidated annual accounts for 2019.

(1) Nature, Activities and Composition of the Group

Telepizza Group, S.A. (the Company or the Parent) was incorporated with limited liability under Spanish law on 11 May 2005 under the name of Bahíaflora Inversiones, S.L. On 30 June 2005 the Company changed its name to Foodco Pastries Spain, S.L. In accordance with the minutes of the decisions taken by the Sole Shareholder on 22 January 2016 and raised to public deed on 05 February 2016, approval was given to transform the Company into a corporation (sociedad anónima) and to issue new articles of association to reflect the new corporate structure. On 17 March 2016 the Company changed its name to the current one. From 27 April 2016 through 26 June 2019, the Company's shares were traded on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia; these shares being freely transferable. The Company's registered office is located at Calle Isla Graciosa, 7, San Sebastián de los Reyes, (Madrid, Spain).

On 21 December 2018, the Company's main shareholder, KKR Credit Advisors (US), LLC, announced its intention to acquire all the shares in Telepizza Group, S.A., so as to delist the Company from the Spanish stock market. The price offered was Euros 6 per share. The takeover was approved by the Spanish National Securities Market Commission (CNMV) on 28 April 2019, the results were made public on 9 May 2019, and the process concluded on 13 May 2019. As a result of the takeover, Tasty Bidco, S.L.U., a company belonging to KKR Credit Advisors (US), LLC, became the main shareholder of Telepizza Group, S.A.

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 the Company is the holding of the interest in Foodco Bondco, S.A (at 31 December 2018 in Tele Pizza, S.A.) and the rendering of corporate and strategic management-related services on behalf Foodco Bondco, S.A, Tele Pizza, S.A. and other Group companies.

(Continúa)

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 2019, this activity is carried out through 439 own outlets and 2,159 franchises (439 own outlets and 1,234 franchises in 2018), located mainly in Spain, Portugal, Poland, Chile, Colombia, Ecuador, Switzerland, Ireland, the Czech Republic, Guatemala and El Salvador. The Group also carries out its activity through master franchises located in Guatemala, El Salvador, Russia, Angola and Bolivia.

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.

The franchise activity consists mainly of advising on the management of third parties' outlets that operate under the “telepizza”, “Pizza Hut”, “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 in a number of territories 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 Group signed an agreement on 30 December 2018 making it the exclusive master franchisee of Pizza Hut for the Iberian Peninsula, Latin America (including the Caribbean, and with the sole exception of Brazil) and Switzerland.

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 2019 and 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 2019 and 2018

(i) Takeover bid

On 21 December 2018, the Company's main shareholder KKR Credit Advisors (US), LLC (see note 16(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 price offered was Euros 6 per share. The takeover was approved by the Spanish National Securities Market Commission (CNMV) on 28 April 2019, the results were made public on 9 May 2019, and the process concluded on 13 May 2019, in accordance with article 226 of the consolidated text of the Securities Market Act, approved by Royal Decree 4/2015 of 23 October.

As a result of the takeover, Tasty Bidco, S.L.U., an investment vehicle wholly-owned by funds and accounts managed or advised by KKR Credit Advisors (US) LLC and with affiliated entities of Torreal, Safra, Artá and Altamar as co-investors, became the main shareholder of Telepizza Group, S.A.

As a result of the takeover, on 10 June 2019, the Group completed the refinancing of its existing financial debt by means of the following transactions:

- The acquisition of all shares representing the share capital of Tasty Bondco 1, S.A. from Tasty DebtCo S.à.r.l., an affiliate of Tasty Bidco, S.L.U., which completed a Euros 335,000 thousand bond issuance (see note 19) at a fixed interest rate of 6.25%, maturing in 2026. These bonds are listed in the Luxembourg stock exchange’s Euro MTF market.

- Early repayment of the Euros 200,000 thousand syndicated loan arranged by the Group with certain banks on 8 April 2016 and, simultaneously, the syndicated loan guarantees were released and guarantees were provided to bondholders (see note 19).

Furthermore, as part of this process the shareholders of Shareholders of Telepizza Group, S.A., in their General Meeting held on 17 June 2019, approved the distribution of an extraordinary dividend against reserves amounting to Euros 130,936 thousand (see note 16).

That General Meeting of Shareholders also approved the delisting of shares traded in the Madrid, Barcelona, Bilbao and Valencia stock exchanges and, as a result, in the electronic market, in accordance with the exemption provided in article 11.d) of Royal Decree 1066/2007. Trading in Telepizza Group, S.A. shares was suspended on 9 July 2019, and the shares were effectively delisted on 26 July 2019. As of 10 July 2019, after the expiration of the sustained order for the purchase of shares in Telepizza Group, Tasty Bidco, S.L. held 84,566,689 shares in Telepizza, representing 83.96% of the share capital of the Company.

(ii) Pinta operation

In May 2018, the Telepizza Group announced it would enter into a long-term strategic alliance with Pizza Hut, a Yum! Brands. 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 10).

- 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 system'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" system.

- 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.

(Continue)

- 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 and Portugal 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 operates through a master franchisee) (see note 6).

- As part of the agreement, Tele Pizza, S.A. 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.

Telepizza Group 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 (f)(iv)). 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 10), 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 added more than 950 outlets to its network, and at the end of 2018 managed more than 2,550 outlets, compared to close to 1,600 in 2017.

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Main accounting impacts

The transaction was recognised as a collaboration agreement, whereby each party recognises the interest accrued and the costs incurred. Accordingly, the Group recognises, 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 incurred costs totalling Euros 12,146 thousand, which were recognised under other expenses in the consolidated income statement of 2018.

As already mentioned, the Group 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 in accordance with the agreement 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 and 2019 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 10, 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(f)(iv)).

(Continue)

(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 2019 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 2019 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 2019, authorised for issue on 11 March 2020, 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.

(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 (f)).

(Continue)

- 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 (h) and 10).

- 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 13).

- 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 27). 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.

- 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.

Although estimates are calculated by the Company's directors based on the best information available at 31 December 2019, 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.

(Continue)

(c) Consolidated Group

In 2019, Tasty Bondco 1, S.A. was acquired (see note 1(a)) and Telepizza Andina, S.C.A. and Compañía de Negocios de Paraguay, S.A. were divested.

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

(d) Standards and interpretations issued

Standards and interpretations effective since 2019

The modifications to the Group's accounting policies as a result of amendments to standards and interpretations or new standards introduced since 1 January 2019, and the corresponding impacts are as follows:

- 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.

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 Group applied 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 had 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 of each country.

(Continue)

- 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 time 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—except in the transition on 1 January 2019 since the modified retroactive method enables this difference to be recognised in reserves—, 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 expense (associated with the liability held for the sublease) shall be recognised over the lease term.

(Continue)

The effect of implementing IFRS 16 on the statement of financial position at 1 January 2019 is as follows:

	Thousands of Euros		
Assets	31/12/2018	IFRS 16	01/01/2019
Property, plant and equipment	51,262	-	51,262
Right-of-use assets	-	83,352	83,352
Goodwill	397,261	-	397,261
Other intangible assets	341,263	-	341,263
Net investment in subleases	-	52,983	52,983
Deferred tax assets	39,999	1,462	52,983
Non-current financial assets	32,493	-	32,493
Total non-current assets	862,278	137,797	1,000,075
Inventories	10,208	-	10,208
Trade and other receivables	40,916	-	40,916
Rental usage rights	-	11,229	11,229
Other current financial assets	2,745	-	2,745
Other current assets	1,402	-	1,402
Cash and cash equivalents	56,698	-	56,698
Subtotal current assets	111,969	11,229	123,198
Non-current assets held for sale	14,981	4,106	19,087
Total current assets	126,950	15,335	142,285
Total assets	989,228	153,132	1,142,360

(Continue)

Equity and Liabilities	31/12/2018	IFRS 16	01/01/2019
Share capital	25,180	-	25,180
Share premium	533,695	-	533,695
Retained earnings	60,592	(5,253)	55,339
Own shares	(15,500)	-	(15,500)
Translation differences	(9,118)	-	(9,118)
Equity	594,849	(5,253)	589,596
Non-controlling interests	836	-	836
Equity	595,685	(5,253)	590,432
Loans and borrowings	197,743	-	197,743
Finance lease liabilities	-	147,577	147,314
Other financial liabilities	9,544	-	9,544
Tax liabilities	81,955	-	81,955
Provisions	4,558	(3,485)	1,073
Other non-current liabilities	16,336	-	16,336
Total non-current liabilities	310,136	144,092	454,288
Loans and borrowings	962	-	962
Finance lease liabilities	-	11,229	11,229
Other financial liabilities	3,291	-	3,291
Trade and other payables	65,705	-	65,705
Provisions	4,733	(1,078)	3,655
Other current liabilities	4,050	-	4,050
Subtotal current liabilities	78,741	10,151	88,892
Liabilities directly associated with non-current assets held for sale	4,666	4,142	8,808
Total current liabilities	83,407	14,293	97,700
Total equity and liabilities	989,228	153,132	1,142,360

(Continue)

The effect of implementing IFRS 16 on the consolidated income statement for 2019 is as follows:

	Thousands of Euros		
	2019	IFRS 16	without 2019 IFRS 16
Revenues	384,361	10,861	395,222
Merchandise and raw materials used	(102,007)	-	(102,007)
Employee benefits expense	(94,763)	-	(94,763)
Depreciation and amortisation	(36,349)	17,603	(19,178)
Other expenses	(132,674)	(31,182)	(163,856)
Impairment/(Reversal) of non-current assets	(17,740)	-	(17,740)
Other losses	(2,209)	2,155	(689)
Loss from operating activities	(1,381)	(563)	(3,012)
Finance income	3,777	(2,552)	1,225
Finance costs	(31,126)	8,544	(22,582)
Loss before tax from continuing operations	(28,730)	5,429	(24,369)
Income tax expense	(18,238)	(459)	(18,697)
Loss for the year from continuing operations	(46,968)	4,970	(43,066)
Loss of discontinued operations	(6,851)	78	(6,773)
Loss for the year	(53,819)	5,048	(49,839)
Profit/(loss) attributable to non-controlling interests	(1,121)	-	(1,121)

- 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 did not expect its adoption will have an impact on its consolidated annual accounts.

Standards and interpretations issued but not applied

At the date of authorisation for issue of these consolidated annual accounts, no regulations have been adopted by the EU to be applied to the consolidated annual accounts for 2020 and subsequent years and having a material impact on the Group.

(Continue)

(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 2019 include comparative figures for 2018, 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 17 June 2019, details of these differences are provided below.

The balances in the consolidated income statement and consolidated statement of cash flows for 2018 have been restated in order to make them comparable with the figures for 2019 as the Group has classified certain operations as discontinued operations in the consolidated income statement for 2019 (see note 4(g) (i) and 6).

(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) Appropriation of profit/(loss) of the Parent Company

The Parent's board of directors has proposed that the Euros 20,474,904 loss of Telepizza Group, S.A. be transferred in full to previous years' losses. This proposal is pending approval by the Shareholders at their General Meeting.

The proposed appropriation of the Euros 2,290,807 profit for 2018 of Telepizza Group, S.A., approved by the Shareholders at the General Meeting held on 17 June 2019, was that it be fully transferred to voluntary reserves.

(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.

(Continue)

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.

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.

(Continue)

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.

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.

(Continue)

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) *<u>Translation of foreign operations</u>*

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.

(Continue)

- 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. In the subsequent reviews, the depreciation period is determined in accordance with the best estimate on the date the investments are made.

(Continue)

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 (h) of this note.

(e) Right-of-use assets

(i) *Identification of a lease*

At inception of a contract, the Group assesses whether the contract contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The period in which a Group uses an asset includes consecutive and non-consecutive periods. The Group only reassesses the conditions when there is a modification to the contract.

(ii) *Lessee accounting*

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The payments made by the Group that do not imply the transfer of goods or services thereto by the lessor do not constitute a separate lease component, but form part of the total contractual consideration.

The Group has opted not to apply the accounting policies shown below for short-term leases and those with a value of less than Euros 5 thousand.

The Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

(Continue)

At the lease commencement date the Group recognises a right-of-use asset and a lease liability. The right-of-use asset comprises the amount of the initial measurement of the lease liability, any lease payment made at or before the commencement date, less any lease incentives received, any initial direct costs incurred.

The Group measures the lease liability at the present value of the lease payments that are not paid at that date. The Group discounts lease payments at the appropriate incremental interest rate, unless it can readily determine the lessor's implicit interest rate.

Lease payments pending comprise fixed payments less any incentives receivable, variable payments that depend on an index or rate, initially measured using the index or rate as at the commencement date, the amounts expected to be payable under residual value guarantees, the exercise price of the purchase option if the lessee is reasonably certain to exercise that option, and the payment of penalties terminating the lease, provided that the lease term reflects the lessee exercising an option to terminate the lease.

The Group measures right-of-use assets at cost, less any accumulated depreciation and impairment, adjusted for any re-measurement of the lease liability.

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the Group depreciates the right-of- use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group applies to the right-of-use asset the impairment of non-current assets criteria set forth in section (h) of this note.

The Group measures lease liabilities by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made, and remeasuring the carrying amount to reflect any lease modifications or to reflect revised in-substance fixed lease payments.

The Group recognises variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

The Group recognises the amount of remeasurement of the liability as an adjustment to the right-of-use asset until this is reduced to zero and subsequently in profit or loss.

(Continue)

The Group remeasures lease liabilities by discounting the revised lease payments using a revised discount rate, of there is a change in the lease term or a change in assessment of an option to purchase the underlying asset.

The Group accounts for a lease modification as a separate lease if it increases the scope of the lease by adding the right to use one or more underlying assets and the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

If the modification does not result in a separate lease, on the effective lease modification date the Group allocates the consideration in the modified contract in accordance with the above, it re-determines the modified lease term and it remeasures the lease liability by discounting the revised lease payments using a revised discount rate. The Group decreases the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, in those modifications that diminish the lease scope, and it recognises any gain or loss in profit or loss. For all other lease modifications, the Group adjusts the carrying amount of the right-of-use asset.

(iii) *Lessor accounting*

In contracts containing a lease component and one or more additional lease or non-lease components, the Group allocates the contractual consideration as indicated in the accounting policy on revenue from contracts with customers.

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.

- Finance leases

  The Group recognises a receivable in the amount equal to the current value of lease income, plus the unguaranteed residual value, discounted at the interest rate implicit in the lease (net lease investment). Initial direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term. Finance income is taken to income using the effective interest method.

(Continue)

At the commencement of the lease, the Group recognises in the lease receivable the payments pending relating to fixed payments less any incentives receivable, variable payments that depend on an index or rate, initially measured using the index or rate as at the commencement date, any amounts paid to the lessor under residual value guarantees by the lessee, a party related thereto or an unrelated third party with the financial capacity to meet the obligation, the exercise price of any purchase option if the lessee is reasonably certain to exercise that option, and the payment of penalties terminating the lease, provided that the lease term reflects the lessee exercising an option to terminate the lease

The Group accounts for a modification to a finance lease as a separate lease if the modification increases the scope of the lease by adding the right to use one or more underlying assets and the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

If the modification does not result in a separate lease and the lease had been classified as an operating lease, if the modification took place at the commencement of the lease term, the Group accounts for the modification as a new lease from the effective date of modification and measures the carrying amount of the underlying asset as the net lease investment immediately before the effective modification date. Otherwise, the Group applies the modification requirements indicated in the accounting policy for financial instruments.

The Group periodically assesses unguaranteed residual values. If there is a reduction, the recognition of income in the residual period is reviewed and any decrease relating to the accrued amounts is immediately recognised in income.

The finance lease assets that meet the criteria to be classified as non-current assets held for sale are recognised and measured in accordance with the provisions of section (g) of this note.

- <u>Operating leases</u>

The Group presents assets leased to third parties under operating lease contracts according to their nature, applying the accounting policies set out in section (i) of this note.

The Group recognises operating lease income, net of incentives granted, as income on a straight-line basis over the lease term, unless another systematic basis is more representative of the pattern in which benefit from the use of the underlying asset is 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.

The Group recognises variable payments as income when they are likely to be received, which is generally when the events triggering their payment take place.

The Group recognises modifications to operating leases as a new lease from the effective date of modification, considering any early or deferred payment for the original lease as a part of the lease payments for the new lease.

- Subleases

The Group classifies a sub-lease as an operating lease if the head lease is a short-term lease. Otherwise, the Group classifies the sub-lease as an operating or finance lease by reference to the right-of-use asset of the head lease and not by reference to the underlying asset.

(iv) *Other considerations*

Permanent investments in buildings leased by the Group are classified as property, plant and equipment. Investments made at the lease commencement are depreciated over the shorter of the lease term and their useful life, consistent with the determination of the lease term. In the subsequent reviews, the depreciation period is determined in accordance with the best estimate on the date the investments are made.

(f) 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.

(Continue)

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.

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 10).

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. In the subsequent reviews, the depreciation period is determined in accordance with the best estimate on the date the investments are made.

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

(g) 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.

(Continue)

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

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

The consolidated annual accounts for 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)).

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.

(h) 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 brands, 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.

(Continue)

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 10).

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.

(Continue)

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.

(i) Leases (accounting policy applicable in 2018)

(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.

- *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.

(j) Financial instruments

(i) *Recognition and classification of instruments*

The changes introduced by the new IFRS 9 had 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.

(Continue)

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.

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.

(Continue)

(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.

(k) 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.

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.

(l) 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.

(m) 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.

(Continue)

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.

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.

(n) 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.

(o) 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.

(p) 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:

- Capital grants: Capital grants awarded as monetary assets are recognised under government grants 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 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.

(q) Employee benefits

(i) Termination benefits

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

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

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

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

(ii) *Short-term employee benefits*

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

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

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

(r) 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 associated future cash flows have not been adjusted at each reporting date.

(Continue)

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.

(s) Revenue recognition

The Group operates chains 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.

(t) 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.

(Continue)

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., Luxtor, S.A. and Procusto, S.L. at 31 December 2019.

(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.

(Continue)

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

(iii) *Measurement of deferred tax assets and liabilities*

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

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

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

(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.

(u) 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.

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.

(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.

(Continue)

(v) 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.

(w) 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.

(x) Environment

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.

Items of property, plant and equipment acquired by the Group for consistent use in its activity and whose main purpose is 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).

(Continue)

(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 2019 and 2018, 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.

(Continue)

	2019					
	Thousands of Euros					
	Spain	Other Europe	Latin America	Master franchise and rest of the world	Eliminations	Total
Revenue						
Outlet sales to customers	71,608	35,974	64,299	-	-	171,881
Wholesale factory sales to franchisees and other sales	94,324	14,290	11,400	-	-	120,014
Royalties	47,581	10,234	12,208	578	-	70,601
Revenue from franchising activity	5,136	(65)	343	-	-	5,414
Other services rendered to franchisees	4,839	1,407	1,119	168	-	7,533
Income from incentives	7,634	-	-	-	-	7,634
Revenue from initial fees	1,095	-	189	-	-	1,284
To other segments	92,512	-	-	-	(92,512)	-
Total revenues	324,729	61,840	89,558	746	(92,512)	384,361
Amortisation	(21,172)	(3,564)	(12,032)	(13)	-	(36,781)
Impairment/(Reversal) of non-current assets	(11,667)	-	(6,073)	-	-	(17,740)
Other net gains/(losses)	(3,929)	30	1,055	-	-	(2,844)
Operating profit/(loss)	(3,531)	9,099	(8,311)	294	-	(2,449)
Net finance income/(cost)	(18,063)	(2,350)	(6,967)	31	-	(27,349)
Income tax	(23,222)	2,736	2,290	(42)	-	(18,238)
Profit/(loss) from continuing operations	(46,835)	9,486	(10,969)	283		(48,035)
Profit/(loss) from discontinued operations	-	(6,502)	(349)	-	-	(6,851)
Non-controlling interests	-	(1,121)	-	-	-	(1,121)
Profit/(loss) attributable to the Parent	(46,835)	1,863	(11,318)	283	-	(56,007)
Segment assets	883,105	57,136	168,255	1,579	-	1,110,075
Assets from discontinued operations or held for sale	-	22,717	-	-	-	22,717
Group assets	883,105	79,853	168,255	1,579	-	1,132,792
Segment liabilities	975,724	57,095	90,767	1,009	-	1,124,595
Liabilities from discontinued operations or held for sale	-	8,197	-	-	-	8,197
Unassigned liabilities	-	-	-	-	-	-
Group liabilities	975,724	65,292	90,767	1,009	-	1,132,792
Investments in property, plant and equipment and intangible assets	30,286	2,151	37,688	-	-	70,125

(Continue)

	2018					
	Thousands of Euros					
	Spain	Other Europe	Latin America	Master franchise and rest of the world	Eliminations	Total
Revenue						
Own outlet sales	76,684	36,223	42,067	134	-	155,108
Factory sales to franchisees	92,754	10,621	12,736	573	-	116,684
Royalties	26,765	4,998	3,635	10		35,408
Revenue from franchising activity	5,889	346	5,243	1	-	11,479
Other services rendered to franchisees	2,320	326	1,388	-	-	4,034
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	52,633	66,062	718	(34,578)	331,878
Amortisation	(11,387)	(1,224)	(3,194)	(30)	-	(15,835)
Impairment/(Reversal) of non-current assets	(4,944)	-	(2,256)	-	-	(7,200)
Other net gains/(losses)	(280)	115	(887)	(144)	-	(1,196)
Operating profit/(loss)	10,510	5,583	(9,246)	(134)	-	6,713
Net finance income/(cost)	(5,820)	102	(1,288)	(10)	-	(7,016)
Income tax	3,732	(7,249)	1,021	(7)	-	(2,503)
Profit/(loss) from continuing operations	13,844	(4,229)	(12,126)	(295)	-	(2,806)
Profit/(loss) from discontinued operations	(234)	(3,875)	(2,702)	-	-	(6,811)
Non-controlling interests	-	751	(83)	-	-	668
Profit/(loss) attributable to the Parent	13,610	(7,353)	(16,247)	(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	804,711	65,977	106,832	1,728	-	979,248
Liabilities from discontinued operations or held for sale	-	9,126	482	372	-	9,980
Unassigned liabilities	-	-	-	-	-	-
Group liabilities	804,711	75,103	107,314	2,100	-	989,228
Investments in property, plant and equipment and intangible assets	27,756	3,278	26,694	-	-	57,729

(Continue)

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

In 2018, the global agreement between the Telepizza Group and Pizza Hut (see note 1) set 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.

Regarding the Czech Republic, in August 2018 AmRest and Telepizza reached an agreement to purchase the assets of Forty's Pizza. On completion of the business due diligence at the end of 2018, AmRest confirmed its interest in acquiring the Czech assets.

On 7 March 2019, the Telepizza Group was informed by AmRest of its decision not to extend the deadline for compliance with the condition relating to the approval of the operation by the competition authorities in Poland and, as a result, terminating the sale-purchase agreement of both the Poland and Czech Republic operations.

In 2019, the Group held talks with several groups interested in acquiring the Poland and Czech Republic businesses, and on the date of authorising these consolidated annual accounts for issue the terms and conditions for their potential sale are being negotiated.

In view of the foregoing, the Telepizza Group's businesses in Poland and the Czech Republic were classified on 31 December 2018 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 2020.

Moreover, in 2019 the Group classified as assets held for sale and discontinued operations its subsidiaries in Peru and Paraguay, which were sold in August and October 2019, respectively.

In addition, at 31 December 2019 the Group presents as non-current assets held for sale a group of outlets in Spain under the "telepizza" and "Pizza Hut" trademarks.

The non-current assets held for sale of the Polish and Czech subsidiaries, and the set of outlets in Spain under the "telepizza" and "Pizza Hut" trademarks, are measured at their estimated fair value in the sale transaction, which is not higher than the previous carrying amount.

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

	Thousands of Euros	
	2019	2018
Assets held for sale:		
Technical installations and machinery	9,871	3,489
Rights-of-use	2,893	-
Goodwill	4,070	6,105
Other intangible assets	211	128
Other non-current assets	364	321
Inventories	153	116
Other current assets	4,220	4,071
Cash	935	751
Total assets	22,717	14,981
Liabilities directly associated with non-current assets held for sale:		
Loans and borrowings	-	198
Payables to suppliers for non-current leases	1,429	-
Trade and other payables	6,768	4,468
Total liabilities	8,197	4,666

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

	Thousands of Euros	
	2019	2018
Revenue	27,411	29,476
Merchandise and raw materials used	(9,388)	(10,026)
Employee benefits expense	(6,724)	(7,357)
Depreciation and amortisation	(2,835)	(1,172)
Other expenses	(10,460)	(16,929)
Other losses	(4,453)	(499)
Operating profit/(loss)	(6,449)	(6,507)
Finance income	121	(154)
Finance costs	(526)	(149)
Profit/(loss) before income tax	(6,854)	(6,810)
Income tax expense	3	(1)
Post-tax loss of discontinued operations	(6,851)	(6,811)

(Continue)

(7) Business Combinations

In 2019, the Group acquired a franchise business with 43 outlets in Chile and various outlets in Colombia under the "Pizza Hut" trademark, as well as several operating outlets, primarily in Spain and Portugal.

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.

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

	Thousands of Euros	
	2019	2018
Cost of the combinations, cash paid	27,531	21,626
Less, fair value of net assets acquired	(6,647)	(2,009)
Goodwill (note 10)	20,884	19,617

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 2019 and 2018 amounts to Euros 20,884 thousand and Euros 5,998 thousand.

The acquisition cost of the business combinations carried out in 2019 amounts to Euros 30 thousand was recorded in other expenses of the Consolidated Income Statement.

(Continue)

The amounts recognised in 2019 and 2018, by significant class of asset and liability at the acquisition date, are as follows:

	Thousands of Euros	
	Fair value	
	2019	2018
Intangible assets (note 10)	-	686
Property, plant and equipment (note 8)	6,647	4,417
Inventories	-	214
Trade and other receivables	-	1,777
Cash and cash equivalents	-	5
Total assets	6,647	7,099
Trade and other payables	-	(5,090)
Total net assets acquired	6,647	2,009
Cash paid	27,531	21,626
Cash and cash equivalents of the acquiree	-	(5)
Cash outflow for the acquisition	27,531	21,621

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 businesses acquired in 2019 generated consolidated revenues of Euros 18,998 thousand and Euros 2,703 thousand for the Group for the period from the acquisition date to the reporting date. 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.

Had the 2019 acquisition taken place at 1 January 2019, the Group would have posted revenue and a consolidated profit for the year ended 31 December 2019 of Euros 14,111 thousand and Euros 1,211 thousand, respectively.

(8) Property, Plant and Equipment

Details and consolidated balance sheet movements 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 31/12/2017	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 (note 7)	162	3,865	322	-	68	4,417
Disposals	-	(15,363)	(2,633)	(1,672)	(3,234)	(22,902)
Transfers from 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	12,751	126,182
Additions	1,358	23,288	3,247	2,126	3,738	33,757
Additions due to business combinations (note 7)	-	6,410	189	-	48	6,647
Disposals	(3)	(15,522)	(1,445)	-	(2,368)	(19,338)
Transfers from held for sale	(29)	(8,717)	(939)	-	(1,078)	(10,763)
Other transfers	(1,345)	952	16	(1,359)	1,736	-
Translation differences	(115)	(465)	(88)	6	(159)	(821)
Balance at 31/12/2019	5,038	101,576	13,395	988	14,668	135,664
Depreciation or impairment						
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 in 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
Amortisation at 31/12/2018	(4,442)	(53,350)	(7,553)	-	(7,766)	(73,111)
Impairment at 31/12/2018	-	(1,152)	(657)	-	-	(1,809)
Depreciation for the year	(228)	(7,049)	(886)	(5)	(1,528)	(9,696)
Disposals	596	4,534	805	5	224	6,164
Transfers from held for sale	23	1,688	166	-	441	2,318
Other transfers	898	263	-	-	(1,161)	-
Translation differences	1,021	559	44	-	(1,057)	567
Impairment	-	(429)	-	-	-	(429)
Depreciation at 31/12/2019	(2,132)	(53,355)	(7,424)	-	(10,847)	(73,758)
Impairment at 31/12/2019	-	(1,581)	(657)	-	-	(2,238)
Carrying amount						
At 31/12/2018	730	41,128	4,204	215	4,985	51,262
At 31/12/2019	2,906	46,640	5,313	988	3,821	59,668

(Continue)

In 2019 and 2018 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, and in 2019 also reflecting the conversion of outlets to the “Pizza Hut” brand. 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 2019 and 2018 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 2019 and 2018 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 2019 the Group recognised an impairment loss totalling Euros 142 thousand (income from the reversal of impairment of Euros 344 thousand in 2018) (see note 26). 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 10. The impaired assets are primarily outlet fixtures and rights of use.

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 2019 and 2018 are as follows:

	Thousands of Euros	
	2019	2018
Technical installations and machinery	50,702	30,664
Other	11,548	13,661
	62,250	44,325

(9) Leases

(a) Right-of-use assets and lease liabilities

The details and movements by class of right-of-use assets in 2019 were as follows:

	Thousands of Euros
Net carrying amount at 1 January 2019	82,718
Additions	16,656
Disposals	(3,010)
Transfers to assets held for sale	(2,311)
Amortisation and depreciation	(19,134)
Derecognition from accumulated depreciation	1,477
Translation differences	351
Other movements	4,930
Cost, attributed cost or revalued cost	99,334
Cumulative depreciation and impairment losses	(17,657)
Carrying amount at 31 December 2019	81,677

Most of the right-of-use assets correspond to leased premises where the Group conducts its activities as well as the plants and headquarters.

(i) *Nature and exposure to lease contract risk*

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.

Property lease contracts also have various renewal and cancellation options. Renewal options are granted to be able to take best advantage of the area in those cases in which the business responds appropriately.

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.

(Continue)

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

In addition, sometimes, when the Group goes from operating an outlet as an owner to its operation as a franchise, it maintains the original lease contract, which it subsequently sub-leases to the franchisee.

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.

(ii) *Details and material amounts in lease contracts*

The details and material amounts in lease contracts by asset class are as follows:

	Thousands of Euros
31 December 2019	
Amounts	
Fixed lease payments	32,911
Finance expenses from lease liabilities	8,544
Income from sub-leases (note 2 (b))	11,229
Non-current lease liabilities	118,886
Current lease liabilities	44,224

As previously mentioned, the initial lease term of each contract is usually of 10 years, with few exceptions, and contracts may be cancelled with notice, which is usually of three months. In these cases, the Group has assessed two aspects:

- The possibility that the option to cancel is exercised at some time during the contract lifetime, and

- Establishing a period in which it is considered reasonably certain that said cancellation may be executed.

The following factors were identified that affect the assessment of whether it is reasonably certain that the early cancellation option will not be exercised:

- Possible future relocation for demographic reasons: delivery zone coverage, socio-demographic changes, etc.

- Possible future relocation due to business reasons: high sensitivity to the weighting of the lease price on the restaurant’s profit and loss (<7% sales).

- High volatility and uncertainty in the real estate market in the long term

(Continue)

- Forecast relocations underway and historical information as a reference

The Group considers that these factors may imply that, during the contract lifetime, it may be cancelled early. This possibility increases the longer the time frame considered (higher probability of cancellation in the last few years of the contract than at the start), considering that in terms of 10 years it is determined that there is a higher probability of cancellation of the contract.

In conclusion, the Group has determined that, for lease contracts pertaining to commercial premises used as restaurants, if the initial duration is equal to or longer than 10 years and there is an early cancellation option without penalty, the contract duration is of 10 years.

(iii) *Details of lease payments and liabilities*

The analysis of the contractual maturity of lease liabilities, including future interest payable, is as follows:

	Thousands of Euros
	2019
Six months	17,057
Six months to one year	16,514
From one to two years	31,101
Two to three years	28,651
Three to four years	26,086
Four to five years	23,371
More than five years	53,056
	195,836

(b) Finance leases – Lessor (Net investment in subleases)

(i) *Nature and exposure to finance lease contract risk*

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.

(ii) *Movement of net investment and valuation adjustment for impairment of finance lease contracts*

Movement in net investment in finance lease contracts in 2019 is as follows:

	Thousands of Euros
	2019
Balance at 1 January	64,212
Finance income	2,552
New contracts	29,575
Receipts	(11,229)
Disposals of subsidiaries	(291)
Transfers to non-current assets held for sale	(683)
Balance at 31 December	66,538

(iii) *Reconciliation of the gross amount receivable and the net investment in finance lease contracts*

The reconciliation between the total gross amount of finance leases and the current value of the minimum amounts receivable is as follows:

	Thousands of Euros	
	2019	
	Non-current	Current
Gross amount receivable	79,823	12,200
Unaccrued finance income	(25,485)	-
Current value of finance leases receivable	54,338	12,200

(Continue)

(iv) *Breakdown of the gross amount receivable by maturity of finance lease contracts*

The gross amounts receivable for finance lease contracts broken down by maturities is as follows:

	Thousands of Euros
	2019
Up to one year	12,200
One to two years	11,438
Two to three years	11,043
Three to four years	10,544
Four to five years	9,878
More than five years	11,435
Less current part	(12,200)
Total non-current	66,538

(c) Other Information – Leases in 2018

Operating lease instalments recognised as income in 2018 correspond to lease income totalling Euros 9,117 thousand. They were recognised as “other income” (see note 22(b)).

Future minimum amounts receivable under non-cancellable operating subleases at 31 December 2018 were as follows:

	Thousands of Euros
	2018
Up to one year	10,895
One to five years	36,878
More than five years	21,132
	68,905

Future minimum payments under operating leases at 31 December 2018, 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
Less than one year	31,069
One to five years	96,359
More than five years	49,831
	177,259

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

	Thousands of Euros
	2018
Less than one year	18,460
One to five years	46,919
More than five years	20,643
	86,022

(10) Intangible Assets and Goodwill

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

	Thousands of Euros
Cost	
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 26)	(1,551)
Balance at 31/12/2018	397,261
Goodwill on business combinations for the year (note 7)	20,884
Translation differences	(157)
Disposals	(2,403)
Transfers to assets held for sale (note 6)	(2,838)
Impairment losses for the year (note 26)	(13,835)
Balance at 31/12/2019	398,912

(Continue)

Details of goodwill by country at 31 December 2019 and 2018 are as follows:

	Thousands of Euros	
	2019	2018
Spain	257,462	266,671
Portugal	62,529	62,529
Chile	56,225	40,413
Colombia	5,866	10,324
Switzerland	2,103	2,045
Ireland	752	752
Paraguay	-	581
Ecuador	13,975	13,946
	398,912	397,261

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 5 years. Cash flows subsequent to this 5-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 pre-tax discount rate and growth rate assumptions used in the impairment tests in 2019 and 2018 are as follows:

	2019					
	Spain	Portugal	Chile	Colombia	Ecuador	Switzerland
Discount rate (WACC)	7.47%	8.06%	8.35%	10.13%	13.16%	6.86%
Growth rate of income in perpetuity (g)	1.90%	1.80%	4.00%	3.4%	2.2%	2.1%

	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%

To calculate the fair value of the different groups of CGUs over the 5-year budget periods, the directors' business operating assumptions were net annual revenue growth rates of between 2% and 5%, in accordance with the features of each market and estimated inflation. 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.

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.

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 2019 and 2018, except for the goodwill from the Colombia CGU group in which, based on a deviation of 75 basis points, would present an impairment of Euros 1,368 thousand, and, based on a deviation of 50 basis points, would present an impairment of Euro 974 thousand.

Details of “Other intangible assets” and movement are as follows:

(Continue)

	Thousands of Euros					
	Concessions, patents and licences	Trademarks	Contractual and other rights	Other property, plant and equipment	Computer software	Total
Cost						
Balance at 31/12/2017	1,765	263,704	152,691	492	28,884	447,536
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	152,691	523	32,854	464,311
Additions	1,337	-	-	-	11,126	12,462
Disposals	(22)	-	(259)	-	(177)	(459)
Transfers from/to held for sale (note 6)	(45)	-	-	-	(116)	(161)
Additions due to business combinations (note 7)	137	-	6	-	39	182
Other transfers	-	-	-	-	9	9
Translation differences	167	-	13	-	(180)	(1)
Balance at 31/12/2019	16,112	263,704	152,451	523	43554	476,345
Amortisation or impairment						
Amortisation at 31/12/2017	(970)	(18,526)	(69,357)	(351)	(21,199)	(110,403)
Impairment at 31/12/2017	(8)	-	-	-	-	(8)
Depreciation 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
Other transfers	-	-	(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)
Depreciation for the year	(553)	(222)	(4,307)	-	(4,892)	(9,974)
Disposals	-	-	156	-	82	238
Transfers from/to held for sale (note 6)	-	-	-	-	46	46
Other transfers	-	-	-	-	(1)	(1)
Translation differences	(96)	-	(5)	(24)	170	45
Impairment	8	-	-	-	(871)	(863)
Amortisation at 31/12/2019	(1,619)	(18,748)	(78,071)	(386)	(28,054)	(126,878)
Impairment at 31/12/2019	-	(5,808)	-	-	(871)	(6,679)
Carrying amount						
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
At 31/12/2019	14,493	239,148	74,380	137	14,629	342,788

(Continue)

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 2019 and 2018 of Euros 228,502 thousand (see note 4(f)); 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 2019 and 2018, 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 had 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 26) 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, as in 2018, 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 budget approved by the directors of the parent and the business plan prepared by the parent company’s management. Beyond the projection 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 in 2018, and as a result of the Pinta project, in 2019 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 fair value in 2019 and 2018 for intangible assets with an indefinite useful life, and the perpetuity growth rates, are as follows:

	2019	2018
Discount rate (WACC)	7.57%	7.55%
Growth rate of income in perpetuity (g)	1.88%	2.07%

(Continue)

To calculate fair value over budget periods, the directors' operating assumptions for the business consider average growth of net revenues of 2% (4.7% in 2018). 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.

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 2019 and 2018.

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
2019					
"telepizza" brand	Indefinite	-	18,526	-	228,502
"Jeno's Pizza" brand	2	222	222	(5,808)	444
"Apache" brand	Indefinite	-	-	-	10,202
Contractual rights	18	4,296	59,919	-	73,041
		4,518	78,667	(5,808)	312,189
2018					
"telepizza" brand	Indefinite	-	18,526	-	228,502
"Jeno's Pizza" brand	3	-	-	(5,808)	666
"Apache" brand	Indefinite	-	-	-	10,202
Contractual rights	19	4,296	55,623	-	77,337
		4,296	74,149	(5,808)	316,707

(Continue)

At 31 December 2019 and 2018 the Group has no commitments to purchase intangible assets.

Details of the cost of fully amortised intangible assets at 31 December 2019 and 2018 are as follows:

	Thousands of Euros	
	2019	2018
Computer software	19,098	16,610
Other	40	1,802
	19,138	18,412

(11) Non-current Financial Assets

Details of other non-current financial assets at 31 December 2019 and 2018 are as follows:

	Thousands of Euros	
	2019	2018
Security and other deposits	6,741	5,869
Non-current trade receivables	20,322	24,702
Other loans and receivables	2,944	4,138
Impairment losses (note 13)	(3,825)	(2,216)
	26,182	32,493

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 2019 and 2018 is 4.24 years and 4.48 years, respectively.

In 2016, the Group had granted loans to the directors and personnel amounting, as of 31 December 2019 and 2018, to Euros 3,794 thousand and Euros 3,879 thousand, respectively, which fall due in 2021 and earn a market rate of interest. Interest accrued in 2019 and 2018 and capitalised with the principal totals Euros 34 thousand and Euros 33 thousand, respectively. The Group recognised a valuation adjustment due to the impairment of these loans amounting to Euros 956 thousand.

(Continue)

(12) Inventories

Details at 31 December 2019 and 2018 are as follows:

	Thousands of Euros	
	2019	2018
Merchandise	12,129	9,204
Raw materials	886	761
Finished goods	82	243
Total inventories	13,097	10,208

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

	Thousands of Euros	
	2019	2018
Net purchases	105,310	95,032
Change in inventories	(3,303)	(438)
	102,007	94,594

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 2019 and 2018 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.

(13) Trade and Other Receivables

Details are as follows:

	Thousands of Euros	
	2019	2018
Trade receivables	59,077	44,769
Other receivables	3,736	3,321
Public entities	11,306	4,227
Impairment losses	(16,672)	(11,401)
Trade and other receivables	57,447	40,916

(Continue)

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			
	2019		2018	
	Non-current	Current	Non-current	Current
Current				
Balance at 1 January	(2,216)	(11,401)	-	(8,758)
Transition to new standards (IFRS 9)	-	-	(2,216)	(2,993)
Charge	(1,609)	(10,637)	-	(1,000)
Application	-	5,302	-	-
Transfers to assets held for sale	-	64	-	1,350
Balance at 31 December	(3,825)	(16,672)	(2,216)	(11,401)
	(note 11)		(note 11)	

(14) Cash and Cash Equivalents

Details at 31 December 2019 and 2018 are as follows:

	Thousands of Euros	
	2019	2018
Cash in hand and at banks	39,776	56,698
Cash and cash equivalents	39,776	56,698

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.

(15) 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	Leases	Other	Total
Balance at 31/12/2017	1,415	8,798	19,931	-	294	30,438
Taken/(charge) to the income statement (note 27)	622	(1,292)	7,864	-	2,367	9,561
Balance at 31/12/2018	2,037	7,506	27,795	-	2,661	39,999
Taken/(Charge) to the income statement (note 27)	-	542	(27,795)	1,916	5,524	(19,813)
Balance at 31/12/2019	2,037	8,048	-	1,916	8,185	20,186

The deferred tax assets recognised in the consolidated statement of financial position at 31 December 2019 mainly correspond to tax loss carryforwards generated by the Group companies Telepizza Group, S.A., Tele Pizza, S.A. and Mixor, S.A. (see note 27).

Other deferred tax assets include the tax effect of the impairment of trade receivables in Chile amounting to Euros 3,150 thousand.

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, except in 2018 and 2019 due to non-recurring expenses.

At 31 December 2018, the Group had recognised deferred tax assets in relation to non-deductible interest from previous years amounting to Euros 27,795 thousand. It is considered probable that sufficient future taxable income will be available to allow these tax assets to be utilised. In 2019, as a result mainly of the change in the Group’s financial structure in Spain, their recoverability is not estimated to be probable and, accordingly, all deferred tax assets relating to non-deductible interest recognised in previous years have been derecognised.

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 deferred tax assets recognised are expected to be recovered in 2024.

In the case of Spanish companies and under Royal Decree-Law 3/2018, 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.

(Continue)

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 31/12/2017	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
Taken to the income statement (note 27)	(12)	(4,712)	582	(4,142)
Balance at 31/12/2019	12	76,771	1,030	77,813

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 10. 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.

(16) Equity

(a) Capital

At 31 December 2019 and 2018 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.

The companies that hold a direct or indirect interest of 10% or more in the share capital of the Parent at 31 December 2019 and 2018 are as follows:

	31.12.2019	31.12.2018
Tasty Bidco, S.L. (KKR Group)	84.3%	-
Boussard & Gavaudan Asset Management	15.1%	-
KKR Credit Advisors (US) LLC	-	26.32%

(b)

(c) Share premium

At 31 December 2019 and 2018, the share premium is freely distributable.

As mentioned in note 1, as part of the entry process of the new majority shareholder, on 17 June 2019 the General Meeting of Shareholders of Telepizza Group, S.A. approved the distribution of an extraordinary dividend amounting to Euros 130,936,883, equivalent to a payout of Euros 1.30 gross per share in Telepizza Group, S.A., charged to the issue premium of the parent company.

(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. The legal reserve of the Parent amounts to Euros 10,832 thousand at 31 December 2019 and is higher than the legal minimum.

- 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.

  Furthermore, in 2016 it increased by Euros 9,971 thousand due to 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

These are mainly those generated by the subsidiaries using currencies other than the Euro, since the inclusion in the Group of the Telepizza sub-group in September 2006, and those generated by business combinations subsequent to that date.

(Continue)

(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 applied to 3,435,946 own shares, representing the Parent's share capital, for a monetary amount executed in 2018 of Euros 15,500,000.

In 2019, as a result of the public offering for shares in the Company, all own shares were sold at a price of Euros 6 each, for a total of Euros 16,427,784.

Movement in Parent shares in 2019 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
Sale	(2,737,979)	(16,427,874)	6.00
Balance at 31.12.2019	-	-	-

These shares are earmarked to cover the commitments undertaken through share-based payment plans, which at 31 December 2019 were no longer in force.

(17) 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.

	2019	2018
Profit/(loss) for the year attributable to equity holders of the Parent (in Euros)	(54,939,104)	(10,285,517)
Weighted average number of ordinary shares outstanding (number of shares)	99,730,506	99,394,488
Basic earnings/(losses) per share (in Euros)	(0.5509)	(0.1035)

The weighted average number of ordinary shares outstanding in 2019 and 2018 was determined as the weighted average number of ordinary shares considering own shares purchased or sold during the year.

(b) Diluted

At 31 December 2019 and 2018 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.

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

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

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

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 2017 and expires on 29 April 2021. At 31 December 2018 it had a negative fair value of Euros 562 thousand.

(Continue)

In 2019, as a result of the cancellation of the syndicated loan (see note 19(b)) the interest rate hedge was also early cancelled, generating income of Euros 572 thousand. Expenses incurred on financial instruments totalled Euros 436 thousand in 2018.

At 31 December 2019 and 2018, other financial liabilities included a debt payable to the former shareholder of the company acquired in Ireland in 2017 – The Good Food Company, Ltd., amounting to Euros 6,149 thousand and Euros 6,973 thousand, respectively.

(19) Debentures, Bonds, Loans and Other Remunerated Liabilities with credit institutions

(a) Debentures and bonds

AS a result of the public offering for shares in the Parent company (see note 1), on 12 June 2019 Telepizza Group, S.A. completed the refinancing of its financial debt by means of the following transactions:

- The acquisition of all shares representing the share capital of Tasty Bondco 1, S.A. from Tasty DebtCo S.à.r.l., an affiliate of Tasty Bidco, S.L. which completed a Euros 335,000 thousand bond issue at a fixed interest rate of 6.25%, maturing in 2026. This bond is listed in the Luxembourg stock exchange's Euro MTF market.

- Early repayment of the Euros 200,000 thousand syndicated loan arranged by the Group with certain banks on 8 April 2016 and, simultaneously, the syndicated loan guarantees were released and guarantees were provided to bondholders.

Moreover, linked to the financing obtained through issuance of the bond, the Group has a revolving credit facility syndicated by four banks for a maximum drawdown amount of Euros 45,000 thousand, at an interest rate of 3.25% and maturing in 2026. At 31 December 2019 there are no drawn down amounts of this credit facility.

The costs incurred by the issuance of the aforementioned bond amounted to Euros 18,763 thousand, which are included in the measurement at amortised cost of said debt.

Details of non-current loans and borrowings at 31 December 2019 are as follows:

		Thousands of Euros		
Type	Final maturity date	Deadline	Balance 31/12/2019	Interest rate
Senior				
Bond	2026	335,000	335,000	6.25%
Revolving credit facility	2026	45,000	-	3.25%
Arrangement costs			(17,222)	
Balance at 31 December			317,778	

At 31 December 2019, the accrued interest payable on these loans amounted to Euros 13,798 thousand (see note 19(b)). An amount of Euros 1,542 thousand was recognised under interest expenses relating to the measurement of the bond issuance costs at amortised cost.

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

There are also obligations relating to shareholder information and the verification of compliance with certain ratios, including, in the case of significant investments, increases in indebtedness, dividend payment or the sale of material assets.

(b) 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.

(Continue)

At 31 December 2018 the fair value of this loan was Euros 197,743 thousand 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.

This loan was cancelled by means of early repayment in the amount of Euros 200,000 thousand on 10 June 2019.

The finance costs accrued on the syndicated loan amounted to Euros 2,138 thousand and Euros 6,250 thousand in 2019 and 2018, respectively. Moreover, in 2019 as a result of the aforementioned cancellation, the amount of Euros 1,848 thousand was recognised in the consolidated income statement relating to loan origination and arrangement fees pending recognition in the consolidated income statement.

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

		Thousands of Euros		
Type	Final maturity date	Deadline	Balance 31/12/2018	Margin 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	

At 31 December 2018 the accrued interest payable on these loans amounted to Euros 805 thousand.

Details of payments and the present value of bank loans and borrowings at 31 December 2018 by maturity are as follows:

	Thousands of Euros	
	Principal	Interest
Less than one year	-	895
Two to five years	196,687	-
	196,687	895

(Continue)

Although the interest rates are as listed above, the Group had arranged a variable-to-fixed interest rate swap, detailed in note 18, which was also cancelled in 2019.

The Group 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 made up practically all of the assets and liabilities pledged as collateral.

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 2018	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
Accrued interest		29,585	29,585
Interest paid		(8,048)	(8,048)
Finance expense due to the updating of rental rates		(8,544)	(8,544)
(Redemption)/issuance of debt	(200,000)	2,343	(197,657)
Issuance of bonds and debentures	335,000	-	335,000
Bond and debenture issuance expenses	(18,763)	-	(18,763)
Amortised cost (arrangement costs)	3,798	-	3,798
Balance at 31 December 2019	317,778	16,298	334,076

Details of current financial debt in the consolidated statement of financial position at 31 December are as follows:

	Thousands of Euros	
	2019	2018
Accrued interest (note 19 (a))	13,798	805
Credit facility	2,374	-
Other payables	126	157
	16,298	962

The credit facility corresponds to Telepizza Chile to tackle various local payment obligations

(Continue)

(20) Provisions

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

	Thousands of Euros			
	2019		2018	
	Non-current	Current	Non-current	Current
Onerous contracts	-	-	3,485	1,078
Litigation, claims and inspections	700	-	200	3,655
Other provisions	34	-	85	-
Share-based payments	-	-	788	-
Total	734	-	4,558	4,733

Details of provisions and movement in 2018 and 2019 are as follows:

	Thousands of Euros				
	Litigation, claims and inspections	Onerous contracts	Other provisions	Share-based payments (note 21 (b))	Total
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
Transition to new standards (note 2(d))	-	(4,563)	-	-	(4,563)
At 1 January 2019	3,885	-	85	788	4,758
Allowances	500	-	-	-	500
Disposals	(3,685)	-	(51)	-	(3,736)
Payments	-	-	-	(788)	(788)
At 31 December 2019	700	-	34	-	734

(a) Litigation, claims and inspections

At 31 December 2018, the provision for litigation, claims and inspections primarily included the liability resulting from a tax inspection at a foreign subsidiary, which was taken to arbitration. In 2019 the arbitration was resolved in a manner satisfactory to the Group and, accordingly, the provision was fully reversed in the amount of Euros 3,685 thousand.

Moreover, at 31 December 2019, the Group has certain administrative claims ongoing, which it estimates could give rise to a payable of approximately Euros 700 thousand (Euros 200 thousand in 2018).

(Continue)

(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 reflected the net obligation arising from this transaction, which has been determined as the net cost of fulfilling it.

In 2019, as a result of the implementation of IFRS 16, this provision was reclassified as an impairment in the rights-of-use value recognised on 1 January 2019 (see notes 2(d) and 9).

(c) Contingencies

The Group has contingent liabilities for bank and other guarantees related to its normal business operations amounting to Euros 10,065 thousand at 31 December 2019 (Euros 6,052 thousand at 31 December 2018). No significant liabilities are expected to arise from these guarantees.

(21) Employee Benefits

(a) Termination benefits

The total expense recognised in 2019 and 2018 for termination benefits is Euros 1,829 thousand and Euros 2,552 thousand, respectively (see note 24).

(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.

In 2019, the first cycle of this plan was completed and the target price was not reached, so no amount was paid to beneficiaries.

Moreover, in 2019 the Company's Board of Directors, at its meeting of 28 March, agreed to postpone advanced payment of the second cycle due to the takeover bid launched by Tasty Bidco, S.L. and before the acceptance period ended, offering beneficiaries the alternative of settling the plan by means of delivery of the total accrued amount in cash. Notwithstanding this, beneficiaries could opt to receive 40% in Telepizza Group, S.A. shares and the remaining 60% in cash. Consequently, having achieved the targets, in May 2019 the beneficiaries were paid a total of Euros 2,169 thousand. The third cycle of this plan was cancelled in advance, without the target price having been reached, so no amount was paid to beneficiaries.

(i) <u>2018 share-based payment plan</u>

On 24 May 2018 the board of directors, at the proposal of the appointments and remuneration committee, approved a long-term incentive plan for 2019-2021, consisting of the delivery of shares in the Parent provided certain targets are met (hereinafter, the 2019 Plan). This plan was 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 consisted of the delivery of shares in the Company provided a target increase in the price of such shares is achieved.

The plan was 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 2019 (“First cycle”).

- 2019 Cycle: from 1 January 2019 to 31 December 2021 (“Second cycle”).

In each cycle of the plan a reference amount would be allocated to each beneficiary, determined based on their salary, which would serve as a basis for awarding a certain number of restricted stock units (RSUs), which would 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 would 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 had been achieved, would 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 could 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.

Since the advance settlement of this plan was envisaged in the event of a change of control in the Telepizza Group’s ownership structure, the takeover resulted in the advance settlement of the plan, although, since the takeover price was of Euros 6.00 per share, which was below then thresholds at which the plan’s targets for each cycle were considered to be met, the shares were not delivered to the beneficiaries.

(Continue)

(ii) Measurement of share-based payment plans in 2018

	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	-
2019 Plan, 1st cycle	1,827	-
2019 Plan, 2nd cycle	329	-
	2,576	788

The fair value of the options granted during the year had 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 assumed that the shares followed the stochastic process developed by Black-Scholes.

For the three cycles of the 2016 Share Revaluation Plan, the valuation date was 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 2019 Incentive Plan, granted at 28/05/2019, 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 2020 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 coincided 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 estimated would arise at the end of the first quarter of 2020.

(Continue)

(22) Trade and Other Payables

Details are as follows:

	Thousands of Euros	
	2019	2018
Trade payables and other payables	88,756	52,842
Public entities	9,032	7,185
Salaries payable	6,248	5,678
	104,036	65,705

At 31 December 2019 trade payables include Euros 12,888 thousand payable to financial institutions for reverse factoring transactions (Euros 14,482 thousand at 31 December 2018).

The balance of remuneration pending payment at 31 December 2019 includes Euros 1,983 thousand for adjustments pending payment in connection with the increase in the minimum wage in Spain. 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).

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:

	2019	2018
	Days	Days
Average supplier payment period	86	91
Transactions paid ratio	94	97
Transactions payable ratio	53	72
	Thousands of Euros	Thousands of Euros
Total payments made	138,285	147,948
Total payments outstanding	32,175	38,872

(Continue)

(23) Income

(a) Revenue from contracts with customers

Details are as follows:

	Thousands of Euros	
	2019	2018
Outlet sales to customers	171,881	155,108
Wholesale factory sales to franchisees and other sales	121,506	116,684
Royalties	70,601	35,408
Revenue from franchising activity	4,035	11,479
Other services rendered to franchisees	8,561	4,034
Income from incentives (note 1)	7,634	-
Revenue from initial fees	413	48
	384,361	322,761

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	
	2019	2018
Sublease income (note 9)	-	9,117
	-	9,117

(24) Employee Benefits Expense

Details of personnel expenses in 2019 and 2018 are as follows:

	Thousands of Euros	
	2019	2018
Salaries, wages and similar	80,249	75,593
Social Security	12,234	13,694
Termination benefits (note 21)	1,829	2,534
Other employee benefits expenses	451	713
Total personnel expenses	94,763	92,534

(Continue)

Salaries, wages and similar include Euros 2,240 thousand in 2019 (Euros 3,365 thousand in 2018) relating to share-based payments (see note 21(b)). This item in 2018 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 2019 and 2018, distributed by category, is as follows:

	Number	
	2019	2018
Management	46	42
Outlet managers	404	353
Other personnel	5,653	4,806
	6,103	5,201

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

	Number			
	2019		2018	
	Male	Female	Male	Female
Directors	1	4	7	-
Management	35	8	25	18
Outlet managers	181	241	195	147
Other personnel	3,376	2,369	2,674	2,012
	3,593	2,622	2,901	2,177

The average number of Group employees with a minimum disability rating of 33% (or local equivalent) of the Spanish companies in 2019 and 2018, distributed by category, is as follows:

	Number	
	2019	2018
Technicians	1	1
Outlet managers	-	1
Other personnel	101	66
	102	68

(Continue)

(25) Other Expenses

Details of other expenses are as follows:

	Thousands of Euros	
	2019	2018
Operating leases	-	30,068
Fees and royalties	30,529	-
Transport	17,007	15,657
Advertising and publicity	18,324	17,556
Utilities	11,654	9,947
Other expenses	55,161	40,580
	132,675	113,808

Fees and royalties include mainly the royalties paid to the Yum group for use of the "Pizza Hut" trademark and the partnership fee (see note 1). Other expenses in 2019 include an amount of Euros 8,680 thousand relating to the takeover process and other costs linked thereto, and an amount of Euros 12,246 thousand corresponding to an impairment of accounts receivable (see note 13). In 2018, in "Other expenses" was 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 20).

(26) Impairment of Non-current Assets

Details at 31 December 2019 and 2018 are as follows:

	Thousands of Euros	
	2019	2018
Impairment of goodwill (note 10)	(13,835)	(1,551)
Impairment of other intangible assets (note 10)	(863)	(5,808)
Impairment of assets held for sale	(2,900)	(185)
Impairment losses/(reversals of impairment) on property, plant and equipment (note 8)	(142)	344
	(17,740)	(7,200)

(Continue)

(27) 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 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
Profit/(loss) for the year before tax from continuing operations	(28,730)	(303)
Tax losses not recognised as tax credits	43,502	23,084
	14,772	22,781
Expected tax expense/(income) at the tax rate applicable to the Parent (25%)	3,693	5,695
No deductible expenses at the tax rate	202	729
Portugal tax inspection and withholding tax	(748)	7,638
Recognition(adjustment) of deferred taxes	15,499	(10,781)
Deductions for the year applied	-	(506)
Expense/(income) due to different tax rates	(318)	(272)
Income tax expense	18,328	2,503

Income tax payable/recoverable for 2019 and 2018 is calculated as follows:

	Thousands of Euros	
	2019	2018
Income tax expense	18,328	2,503
Deductible temporary differences and tax credits (note 15)	(18,836)	9,140
Taxable temporary differences (note 15)	4,141	1,420
Portugal tax inspection	(4,248)	(6,132)
Payments on account	(2,149)	(6,038)
Income tax payable/recoverable	(2,764)	893

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.

(Continue)

At 31 December 2019 and 2018 the Group has recognised the following deferred tax assets (see note 15) in respect of tax loss carryforwards in Spain:

	Thousands of Euros	
Year	2019	2018
2009	5,234	5,689
2010	628	628
2011	14,366	14,366
2012	4,343	4,343
2013	1,182	1,182
2014	491	532
2018	3,293	3,312
Total	29,537	30,052

At 31 December 2019 and 2018 the Group has the following unrecognised deferred tax assets in respect of tax loss carryforwards of companies in Switzerland, Czech Republic, Colombia and Poland:

	Thousands of Euros	
Year	2019	2018
2012	-	934
2013	202	1,040
2014	5,448	7,019
2015	4,631	5,146
2016	1,572	2,356
2017	3,581	-
2018	2,165	2,998
2019 (estimated)	1,531	2,146
Total	19,130	21,639

(Continue)

At 31 December 2019, the Group has non-deductible interest arising from the Group companies in Spain and Portugal in amounts of Euros 147,702 thousand and Euros 13,217 thousand, respectively (Euros 143,223 thousand and Euros 4,266 thousand, respectively, at 31 December 2018), available for future offset indefinitely. Details are as follows:

	Thousands of Euros	
Year	2019	2018
2012	33,042	31,591
2013	38,045	38,045
2014	53,296	48,939
2015	20,153	15,938
2016	11,356	11,356
2017	2,000	1,620
2019	3,027	-
	160,919	147,489

As mentioned in note 15, at 31 December 2018 the Group had recognised deferred tax assets in relation to non-deductible interest amounting to Euros 27,795 thousand. It is considered probable that sufficient future taxable income will be available to allow these tax assets to be utilised. However, in 2019, as a result mainly of the change in the Group's financial structure in Spain, their recoverability is not estimated to be probable and, accordingly, all deferred tax assets relating to non-deductible interest recognised in previous years have been derecognised.

Based on the tax returns filed by the Group companies in 2019 and prior years, the Group has no available deductions.

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 2015.

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.

(Continue)

(28) Commitments

As stated in notes 8 and 10, at 31 December 2019 and 2018 the Group has no commitments relating to investing activities.

(29) Information on the Parent’s Directors and Senior Management Personnel

The Parent's directors received remuneration of Euros 2,569 thousand in 2019 (Euros 3,723 thousand in 2018). Moreover, the Group has extended loans or advances to the directors totalling Euros 1,381 thousand (Euros 1,369 thousand in 2018). These loans are secured by the directors with certain shares of the Parent. The main conditions and characteristics of the loans granted to the directors are described in note 11. Life insurance premiums of Euros 6 thousand were paid on behalf of the directors in 2019 (Euros 6 thousand in 2018) and the savings plan contributions made amounted to Euros 191 thousand (Euros 191 thousand in 2018).

Public liability insurance premiums paid on behalf of the directors in 2019 amounted to Euros 94 thousand (Euros 31 thousand in 2018).

The members of the Group's senior management received remuneration of Euros 2,989 thousand in 2019 (Euros 7,827 thousand in 2018). Moreover, the Group has extended loans or advances to senior management totalling Euros 2,414 thousand (Euros 2,509 thousand in 2018). 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 11. Life insurance premiums of Euros 15 thousand were paid on behalf of senior management in 2019 (Euros 11 thousand in 2018) and the savings plan contributions made amounted to Euros 82 thousand (Euros 228 thousand in 2018).

In 2019 and 2018 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.

Conflicts of interest concerning the directors

In 2019 and 2018 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.

(30) 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.

(Continue)

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 2019 and 2018.

(31) 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 2019 and 2018:

	Thousands of Euros	
	2019	2018
Audit services	240	330
Other assurance services	306	2
Other services	-	3
	546	335

The amounts detailed in the above table include the total fees for services rendered in 2019 and 2018, irrespective of the date of invoice.

Other accounting verification services relating to the 2018 audit mainly include work to issue a comfort letter for the bond prospectus.

Other entities affiliated with KPMG International invoiced the Group the following fees and expenses for professional services during the years ended 31 December 2019 and 2018:

	Thousands of Euros	
	2019	2018
Audit services	83	80
Other services	37	274
	120	354

(32) Events after the Reporting Period

In January 2020, the Group acquired control of Pizza Hut's Mexico business by means of a subsidiary in Mexico 75%-owned by Tele Pizza, S.A. and 25%-owned by the former owners of the Pizza Hut business in Mexico.

In relation to the Coronavirus outbreak (Covid-19), due to its rapid global spread, affecting more than 150 countries, some governments are taking restrictive measures to curb the spread, which include: isolation, confinement, quarantine and restrictions on the free movement of people, closure of public and private premises except those considered essential or relating to healthcare, border closures and drastic reductions in air, sea, rail and road transport.

This situation is having a significant impact on the global economy, due to the disruption or slowing of supply chains and the sizeable increase in economic uncertainty, evidenced by an increase in the volatility of asset prices, exchange rates and cuts in long-term interest rates.

The consequences of Covid-19 are considered a subsequent event that does not require an adjustment of the consolidated annual accounts of 2019, without prejudice to their being recognised in the consolidated annual accounts of 2020.

Although at the time of authorising these consolidated annual accounts for issue it is not possible to estimate the present and future impacts of this crisis on the Group, the health alert triggered by the coronavirus pandemic led the Group to devise a "Covid-19 Prevention Protocol" comprising the safety measures it has rolled out to tackle the situation with the best possible health safeguards and always in accordance with strict protocols. The aim is to ensure the health and welfare of its employees and customers at all times. The Telepizza Group has set up a Covid-19 Crisis Committee to monitor the situation closely and to advise all the teams to adopt new safety measures in the event of any change in the situation or new guidelines from health authorities or the government.

The Telepizza Group is working, coordinating with and at the disposal of the authorities to ensure the health and welfare of employees and customers alike, and to meet any needs we can by contributing our resources.

The Group's financial capacity is robust, and includes, among other resources, a credit facility of Euros 45,000 thousand in addition to the financing we have currently been using (see note 19) to enable us to tackle this health emergency and continue the Group's activities, and, in any event, take any necessary measures to ensure the continuity of the Group's operations.

In 2020 the Group will assess the impact of the aforementioned events and any taking place in the future on its capital and financial situation at 31 December 2020 and on the results of its operations and the cash flows relating to the year ended on that date.

(33) 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.

(Continue)

The structure of financial risk at 31 December 2019 and 2018 is as follows:

Type of financing	Interest rate	Benchmark	Thousands of Euros	
			2019	2018
Bond	Fixed (6.25%)	-	317,798	-
Syndicated loan	Variable	Euribor	-	198,705
Total			317,798	198,705

The benchmark interest rates for the debt undertaken by Group companies is primarily a fixed rate of 6.25%, and interest on the revolving credit facility is charged at 3.25%. In 2018, the Group obtained non-current resources at a variable interest rates which it swapped for fixed rates.

The Group managed 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 had arranged a fixed interest rate swap for a three-year period to hedge a portion of the drawdowns on the syndicated loan (see note 18).

At 31 December 2019, had interest rates been 25 basis points higher or lower, with the other variables remaining constant, this would not have affected income for the year, because almost all of the Group's indebtedness is at a fixed rate.

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.

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.

At 31 December 2019, had the Euro weakened/strengthened by 10% against the Chilean Peso and the Colombian Peso, with the other variables remaining constant, consolidated post-tax loss would have been Euros 2,964 thousand lower (Euros 122 thousand in 2018), 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 2,845 thousand (Euros 4,283 thousand in 2018), 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.

The Group's exposure to liquidity risk at 31 December 2019 and 2018 is shown below. These tables present an analysis of financial liabilities by remaining contractual maturity dates.

	Thousands of Euros					
	Amount at 31/12/2019	Future cash flow maturities	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Bonds and loans from credit institutions						
Principal	320,278	337,500	2,500	-	-	335,000
Interest	13,798	147,260	14,656	10,469	93,346	21,810
Trade and Other Payables	104,036	104,036	104,036	-	-	-
Total	438,112	588,796	121,192	10,469	93,346	356,810

(Continue)

	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	-

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

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

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

Credit risk

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	26,182
Trade and other receivables	57,447
Cash and cash equivalents	39,776
	123,405

(Continue)

(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.

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	7.3%	39,021	(2,841)	17.1%	15,042	(2,570)
Less than 3 months	4.0%	2,332	(92)	29.1%	217	(63)
3 to 6 months	9.9%	708	(70)	43.5%	8	(3)
6 months to 1 year	32.6%	466	(152)	64.7%	2	(1)
More than 1 year	90.3%	7,799	(7,043)	55.5%	13,796	(7,661)
	20.3%	50,326	(10,198)	35.4%	29,063	(10,299)

Nevertheless, for trade receivables that are more than 360 days overdue, the Group determines expected credit losses on an individual basis. In 2019, the Group recognised impairment of Euros 12,246 thousand (Euros 1,000 thousand in 2018) in respect of receivables exposed to credit risk.

(Continue)

(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.

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

31 December 2019

(Expressed in thousands of Euros)

	Registered office	Percentage ownership	Capital	Reserves	Profit/(loss)	Total Equity
Tele Pizza, S.A. (1)	Madrid	100%	16,380	57,000	(33,678)	39,702
Mixor, S.A. (3)	Madrid	100%	3,215	3,715	(9,230)	(2,300)
Circol, S.A. (3)	Madrid	100%	1,085	843	751	2,679
Foodco Bondco, S.A.	Madrid	100%	25,180	461,990	(20,475)	466,695
Telepizza Chile, S.A. (2)	Santiago de Chile	100%	3,050	46,508	(20,315)	29,243
Telepizza Portugal Comercio de Produtos Alimentares, S.A. (1)	Lisbon	100%	1,900	67,897	7,339	77,136
Telepizza Poland Sp. Z o.o. (1)	Warsaw	100%	13,708	(10,672)	(1,250)	1,786
Telepizza Guatemala S.A (3)	Guatemala	100%	-	262	188	450
Luxtor, S.A. (1)	Avila	100%	6,128	1,435	9,546	17,109
Telepizza Ecuador S.A. (3)	Quito	100%	3,057	(2,873)	219	403
Alimentos de la Costa Costahut, S.A. (3)	Ecuador	100%	1	10	7	18
Sociedad de Turismo Sodetur, S.A. (3)	Ecuador	100%	1,369	116	369	1,854
Telepizza Industries International Telepizzainter, S.A.	Ecuador	100%	1	-	(127)	(126)
Inverjenos S.A.S. (1)	Bogota	100%	1,594	(3,726)	4,201	2,069
Telepizza Shanghai S.A. (3)	Shanghai	100%	-	-	-	-
Procusto Activos, S.L.U (4)	Madrid	100%	3	(2)	1	2
Telepizza Switzerland GmbH(3)	Berne	100%	17	(1,932)	(346)	(2,261)
Fortys Pizza SRO (3)	Czech Republic	100%	1,034	(1,175)	(533)	(674)
The Good Food Company Ltd (3)	Ireland	51%	-	2,497	1,796	4,293
Mooncharm Limited (3)	Ireland	51%	-	125	492	617
TDS Telepizza, S.L.	Spain	100%	3	10,100	99	10,202
Insular Procurement & Services, S.A. (3)	Spain	100%	-	-	(145)	(145)

(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 2019, in conjunction with which it should be read.

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

31 December 2018

(Expressed in thousands of Euros)

	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			1,900	(8,016)	(4,048)	(10,164)
Alimentares, S.A. (1)	Lisbon	100%				
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)	Bogota	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	51%	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.	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 2019, in conjunction with which it should be read.

TELEPIZZA GROUP, S.A.
AND SUBSIDIARIES

Directors report

2019

Corporate history – Telepizza Group

Telepizza was created in 1987 as a family business. Since opening its very first outlet in Madrid in 1988, the Group has gradually ramped up its activities and expanded internationally. In 1992, Telepizza opened its first pizza dough production plant in Guadalajara (Spain) and its first outlets in Poland, Portugal and Chile. Telepizza was listed on Spain's stock exchanges in 1996 via initial public offering. In 2004, Telepizza began its digital expansion in Spain and, four years later, in 2008, Telepizza relaunched its telepizza.es website to improve home delivery.

In 2007, the Company suspended trading in Spain's stock exchanges. Telepizza continued its international expansion, entering into master franchise agreements in Guatemala, El Salvador and the United Arab Emirates in 2009. In 2010, the Group acquired the Colombian pizza chain Jeno's Pizza, the country's biggest pizza chain with 80 outlets, and in the subsequent years the Group opened its first outlet in Peru and entered the airline catering sector. In 2012, Telepizza established a presence in Ecuador. In 2013, Telepizza expanded its network of franchises in Panama, Russia and Bolivia. In 2014, the Group gained a foothold in Angola. After observing a greater reliance on technology among its customer base, in 2015 Telepizza developed "Click & Pizza", an online delivery service, and started creating smartphone applications.

In April 2016, Telepizza was again listed in the Spanish stock market and continued its international expansion, announcing its entry into new markets in EMEA and Latin America, under the Telepizza brand, and Ireland, under the Apache brand. In December 2018, Telepizza signed a strategic agreement with Yum! Brands, making it the largest master franchisee of Pizza Hut in the world.

The alliance with Yum! (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 Group 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 pizzerias company with nearly 17,000 restaurants in over 100 countries. As a result of the transaction, on 30 December 2018 Telepizza operated a total of 1,011 Pizza Hut outlets (in addition to its current 1,620 network outlets and including the 38 outlets in Ecuador acquired prior to formalisation of the agreement), thus making it the largest Pizza Hut master franchisee in the world by number of outlets and a leading pizza operator worldwide with an ambitious growth plan in the coming years.

On the back of 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). At 30 December 2018, the Telepizza Group practically doubled the number of its outlets to 2,631, extending its international reach to 39 markets (more than 500 million potential customers) with total system sales of approximately Euros 1,200 million.

In Spain and Portugal, the Group will continue to operate the Telepizza brand along with the Pizza Hut 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 franchisee for Pizza Hut that operates throughout Latin America will generate 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. There is also a solid justification for this agreement, which authorises the Telepizza Group as a supplier of Pizza Hut, opening up significant opportunities through the resulting synergies due to the current and future business growth.

As a result of the foregoing, Telepizza's Board of Directors expects the alliance to create value for all stakeholders.

Recent changes in the corporate and capital structures

With regard to the voluntary takeover bid for all shares in Telepizza Group, S.A. by Tasty Bidco, S.L.U., an investment vehicle wholly-owned by funds and accounts managed or advised by KKR Credit Advisors (US) LLC or affiliated entities Torreal, Safra, Artá and Altamar as co-investors, which was approved by the Spanish National Securities Market Commission (CNMV).

On 21 January 2019, Tasty Bidco S.L.U., filed with the Spanish National Securities Market Commission (CNMV) a voluntary takeover bid of Euros 6.00 per share for all the shares of Telepizza Group, S.A. Tasty Bidco S.L.U. filed the bid with the CNMV on 25 March and it was approved and published by the CNMV on 28 March 2019. The result of the voluntary takeover process was published on 8 May 2019 and it was resolved on 13 May 2019. The takeover resulted in Tasty Bidco owning 56,699,827 shares in Telepizza, representing 56.29% of its share capital. Subsequently, Tasty Bidco S.L.U. approved a sustained order to acquire shares in the Telepizza Group.

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As a result of the takeover, on 10 June 2019, the Group completed the refinancing of its existing financial debt by means of the following transactions:

- The acquisition of all shares representing the share capital of Tasty Bondco 1, S.A. from Tasty DebtCo S.à.r.l., an affiliate of Tasty Bidco, S.L.U. which completed a Euro 335,000 thousand bond issue at a fixed interest rate of 6.25%, maturing in 2026. These bonds are listed in the Luxembourg stock exchange’s Euro MTF market.

- Early repayment of the Euros 200,000 thousand syndicated loan arranged by the Group with certain banks on 8 April 2016 and, simultaneously, the syndicated loan guarantees were released and guarantees were provided to bondholders.

As part of the recapitalisation of the Telepizza Group, the Company’s shareholders, at their General Meeting held on 17 June 2019, approved the distribution of an extraordinary dividend charged to unrestricted reserves amounting to Euros 130,936,882.70.

Furthermore, the General Meeting of Shareholders of the Telepizza Group, held on 17 June 2019, also approved the delisting of shares traded in the Securities Markets of Madrid, Barcelona, Bilbao and Valencia and, as a result, in the electronic market, in accordance with the exemption provided in article 11.d) of Royal Decree 1066/2007. Trading in Telepizza Group, S.A. shares was suspended on 9 July 2019, and the shares were effectively delisted on 26 July 2019. As of 10 July 2019, after the expiration of the sustained order for the purchase of shares in Telepizza Group, Tasty Bidco, S.L. held 84,566,689 shares in Telepizza, representing 83.96% of the share capital of Telepizza Group, S.A.

As previously stated, Tasty Bondco 1, SA.U. is a limited liability company incorporated in accordance with the laws of Spain, which on 3 May 2019 issued a Euros 335,000 thousand senior secured bond maturing in 2026.

On 12 December 2019, a merger was approved between the issuer Tasty Bondco 1, S.A.U. and Foodco Bondco, S.L., identified as “Tasty Bondco 2, S.A.” in the Indenture and Merger Memorandum, which was approved by the competent bodies of the merged entities. On 26 February 2020 the merger deed was filed with the Madrid Companies Register and, as a result, Foodco Bondco, SAU (transformed into a corporation – sociedad anónima) assumed all the Issuer’s obligation in connection with the bonds, the Indenture, the Intercreditor agreement and any other document relating to the issue, in accordance with Spanish law.

The bonds accrue interest at an annual rate of 6.25%. The bonds will mature on 15 May 2026 and the Issuer will pay interest on the bonds half-yearly every 15 January and 15 July, from 15 January 2020.

The Group's position and business performance

System sales 2019

	EMEA	LatAm	Total
System sales [1] growth	**5.5%**	**3.6%**	**4.5%**
Growth in system sales [1] in constant currency (%)	5.5%	0.4%	2.8%
Growth in system sales [1] in constant currency - Telepizza (%)	5.0%	-7.0%	2.9%
Growth in system sales [1] in constant currency - Pizza Hut (%)	8.3%	1.8%	2.7%

Summary of the 2019 statement of profit or loss (excluding discontinued operations)

(millions of Euros)	2018 (without effect of IFRS 16)	2019 (With effect of IFRS 16)	2019 (Without effect of IFRS 16)	% change
Own outlet sales	155.1	171.9	171.9	*10.8%*
Supply chain, royalties, marketing fee and other revenue	176.8	212.5	223.3	*26.3%*
Revenues	**331.9**	**384.4**	**395.2**	***19.1%***
Product cost	-94.6	-102.0	-102.0	*7.8%*
% Gross margin	*71.5%*	*73.5%*	*74.2%*	*+2.7pp*
Royalties and fees paid to Yum!	-	-31.4	-31.4	N/A
Operating expenses excluding royalties and fees paid to Yum![2]	-169.0	-164.0	-195.2	*15.5%*
Adjusted EBITDA	**68.3**	**86.9**	**66.6**	***-2.5%***
% adjusted EBITDA margin	*20.6%*	*22.6%*	*16.9%*	*-3.9pp*
Non-recurring cost linked to both the partnership with Pizza Hut and the new corporate structure[3]	-15.9	-14.0	-14.0	N/A
Non-operating costs[3]	-3.4	-2.7	-2.7	N/A
Temporary impacts[3]	-1.5	N/A	N/A	N/A
Accounting adjustments[3]	-16.5	-15.3	-15.3	N/A
EBITDA reported	**30.9**	**54.9**	**34.6**	***11.8%***

[1] Excluding the discontinued operations in Poland and the Czech Republic, chain sales in 2018 are presented pro-forma with the contribution of Pizza Hut chain sales
[2] Including personnel costs, leases, advertising, logistics and other expenses
[3] Detailed in the section "Alternative performance measures"

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In 2019, the Group reported growth in system sales (which includes the total sales of own stores, franchisees and master franchisees) of 4.5% to Euros 1,253.7 million, compared with Euros 1,119.9 in the same period of 2018 (excluding discontinued operations in Poland and the Czech Republic, including pro-forma Pizza Hut sales in 2018).

These figures reflect solid system sales growth across the various geographies in this initial period of the integration of the Pizza Hut business, and this despite consumer sentiment in some Latin American countries.

Total system sales, excluding pro-forma Pizza Hut sales in 2018, increased by +105.8% to Euros 1,254 million, compared with Euros 609.1 million in the same period of 2018 (excluding discontinued operations in Poland and the Czech Republic). This translated into an increase of +19.1% in revenues, to Euros 395.2 million, compared with Euros 331.9 million in the same period of 2018, due to the inclusion of Pizza Hut in the consolidated perimeter and the related flow of royalties.

EBITDA reported in 2019 amounted to Euros 34.6 million, compared with Euros 30.9 million in the same period of 2018 (+11.8%). Adjusted EBITDA, excluding non-operating costs, temporary impacts, accounting adjustments and non-recurring costs linked to both the partnership with Pizza Hut and the new corporate structure, amounted to Euros 66.6 million, compared with Euros 68.3 million in the same period of 2018 (-2.5%).

The decrease in adjusted EBITDA was the result of (i) the impact of 22.3% growth in Spain's minimum wage in 2019, (ii) the impact of the updating process and launch of Pizza Hut outlets in Spain, (iii) the increase in international pork prices due to swine flu in China, (iv) market performance in Chile after the macroeconomic disruption and worsening consumer sentiment from July 2018, in addition to the riots and social protests which began in October 2019 and resulted in a temporary shutdown in operations and damage to more than 30 outlets; the decline in this situation in early 2020 translated into an additional slump in consumer spending in the country.

During the year, Telepizza Group has focused on building an efficient growth platform for the new Pizza Hut business. Our supply chain system has been approved to cover the Pizza Hut perimeter, the new pizza dough production plants were completed in this period and the expected progress has been achieved in connection with M&A transactions.

M&A

In the context of the global partnership with Pizza Hut, certain M&A transactions materialised in 2019.

In July, Telepizza Group acquired 45 outlets in the local Pizza Hut franchisee in the country, the operation acquired generated EBITDA totalling Euros 2.4 million in 2018. The investment amounted to Euros19.7 million, representing a multiple of 8.0x before synergies.

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In October 2019, an agreement was signed to transfer the operation of Telepizza in Peru to the local franchisee of Pizza Hut, this operation had a marginal impact in terms of EBITDA, with significant cash generation from the divestment, while agreements were also reached to expand outlets and ensure supply chain continuity.

After talks in 2019, in January 2020 the acquisition of the Pizza Hut business in Mexico was formalised, by means of creation of a joint venture 75%-owned by the Telepizza Group and 25%-owned by the previous Pizza Hut investor in Mexico. This acquisition represents an excellent opportunity to invest in the largest restaurant market in Latin America.

EMEA

System sales in EMEA increased by +5.5% in the year, to Euros 617.3 million, compared with Euros 585.4 million in the same period of 2018 (excluding discontinued operations in Poland and the Czech Republic, including pro-forma Pizza Hut sales in 2018).

Sales in Spain and Portugal have been solid, with half-digit growth, while the tasks of building the Pizza Hut brand in Spain has begun. In Ireland and Switzerland, sales performance was excellent, logging double-digit growth.

Progress was made in Spain to integrate the operations of Pizza Hut after acquiring 13 outlets from small franchisees in 2019 to build a foundation for growing the brand in the country. We have updated the outlets acquired to align them with our advanced digital systems and home delivery services.

The Pizza Hut operation in EMEA increased with 30 new outlets compared to the final 2018 figure, of these 11 are conversions from Telepizza to Pizza Hut brand outlets.

Net profit in Spain was negatively impacted by the 22.3% increase in the minimum wage in 2019, as well as the process to update and launch the Pizza Hut outlets.

Latam

System sales in LatAm increased by +3.6% in the year, to Euros 636.4 million, compared with Euros 614.5 million in the same period of 2018 (excluding pro-forma Pizza Hut sales in 2018).

Sales growth in the region is underpinned by a positive exchange rate effect.

The decrease in Telepizza sales in constant exchange rate terms reflects the result of converting Telepizza outlets to the Pizza Hut brand.

Pizza Hut, meanwhile, is a business with a high proportion of franchised outlets, and is currently in a transition period with a view to accelerating growth and improving the performance of some countries in the region.

Operations in Chile were impacted in the period by the market performance in the wake of macroeconomic disruption and worsening consumer sentiment starting in July 2018, in addition to the riots and social protests which began in October 2019 and resulted in a temporary shutdown in operations and damage to more than 30 outlets; the decline in this situation in early 2020 translated into an additional slump in consumer spending in the country. Since consumer sentiment started to decline we have focused on repositioning the commercial offering and restructuring the operation in the country.

The operation in Ecuador also endured the consequences of social protests and riots in the country, but the disruption to the business and the ensuing impact were not significant.

Expansion of the store network (continued operations)

At 31 December 2019, the perimeter of the Pizza Hut master franchise (Spain, Portugal, Switzerland and Latin America, except Brazil) included 2,416 outlets belonging to the Telepizza and Pizza Hut brands, of which 1,030 were located in EMEA and 1,386 in LatAm. This figure compares with a total of 2,337 outlets on 31 December 2018.

81 outlets have transitioned from the Telepizza to the Pizza Hut brand, 11 in EMEA and 70 in LatAm. Sales at outlets with a brand change outperformed expectations, with double-digit improvements resulting from a limited investment in the outlets.

Discontinued operations in Poland and the Czech Republic, classified as available for sale, had a total of 95 outlets at 31 December 2019.

Outlook for 2020

In 2020, the Company will focus on consolidating 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 and the integration in the Group of the acquisition of the Pizza Hut business in Mexico.

The Group expects to continue seeing its sales grow in open outlets and to open new establishments under the Telepizza brand in Spain and Portugal and the Pizza Hut brand in all geographies. Investments will be aimed at expanding the outlet network and strengthening the industrial system with the launch of two new plants in Chile and another in Ecuador, as well as a capacity increase in Spain.

Investment in technology is another significant area in the Group to further boost the digital sales of its products.

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.

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.

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.

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. In 2019, as a result of the public offering for shares in the Company, all own shares were sold at a price of Euros 6 each, for a total of Euros 16,427,784.

Average supplier payment period

The average payment period for suppliers of the consolidated Spanish companies is 86 days, 5 days less than in the previous year, and actions continue to be implemented to facilitate reverse factoring lines in order to reduce this average payment period.

Non-financial Information Statement

The Group's Non-financial Information Statement, a requirement under Law 11/2018, of 28 December 2018, concerning non-financial reporting and diversity, is presented in the Consolidated Directors' Report of the Tasty Bidco, S.L. and Subsidiaries to which the Group belongs, which will be deposited in the Madrid Companies Register.

Events after the reporting period

In January 2020, the Group acquired control of Pizza Hut's Mexico business by means of a subsidiary in Mexico 75%-owned by Tele Pizza, S.A. and 25%-owned by the former owners of the Pizza Hut business in Mexico.

In relation to the Coronavirus outbreak (Covid-19), due to its rapid global spread, affecting more than 150 countries, some governments are taking restrictive measures to curb the spread, which include: isolation, confinement, quarantine and restrictions on the free movement of people, closure of public and private premises except those considered essential or relating to healthcare, border closures and drastic reductions in air, sea, rail and road transport.

This situation is having a significant impact on the global economy, due to the disruption or slowing of supply chains and the sizeable increase in economic uncertainty, evidenced by an increase in the volatility of asset prices, exchange rates and cuts in long-term interest rates.

The consequences of Covid-19 are considered a subsequent event that does not require an adjustment of the consolidated annual accounts of 2019, without prejudice to their being recognised in the consolidated annual accounts of 2020.

Although at the time of authorising these consolidated annual accounts for issue it is not possible to estimate the present and future impacts of this crisis on the Group, the health alert triggered by the coronavirus pandemic led the Group to devise a "Covid-19 Prevention Protocol" comprising the safety measures it has rolled out to tackle the situation with the best possible health safeguards and always in accordance with strict protocols. The aim is to ensure the health and welfare of its employees and customers at all times. The Telepizza Group has set up a Covid-19 Crisis Committee to monitor the situation closely and to advise all the teams to adopt new safety measures in the event of any change in the situation or new guidelines from health authorities or the government.

The Telepizza Group is working, coordinating with and at the disposal of the authorities to ensure the health and welfare of employees and customers alike, and to meet any needs we can by contributing our resources.

Alternative performance measures

This report includes various financial and non-financial metrics used to better explain the performance of the Telepizza Group's business.

- **System sales:** System sales are the retail sales of our own stores, plus those of the franchised stores and master franchisees.

- **LFL sales growth:** LFL growth is system 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 ("system sales excluded") because they were obtained in operating months that were not operating months in the comparable period by (ii) the system sales for the prior period as adjusted to deduct system sales excluded from such period ("adjusted system sales"). This gives the actual changes in system 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.

- **Adjusted EBITDA:** Adjusted EBITDA is adjusted for non-operating costs, temporary impacts, accounting adjustments and non-recurring costs relating both to the partnership with Pizza Hut and the new corporate structure.

- **Non-operating costs:** Expenses, linked mainly to onerous leases, which are not operating leases.

- **Temporary impacts:** Normalisation of certain expenses over the course of the year.

- **Non-recurring costs linked to both the partnership with Pizza Hut and the new corporate structure:** Extraordinary costs linked to the establishment of the partnership with Pizza Hut (strategic consultancy, legal expenses, unemployment bonus and other expenses) also include the extraordinary expenses linked to establishing a new corporate structure (financial consultancy, legal expenses and other expenses), and other lesser impacts relating to discontinued operations.

- **Accounting adjustments:** These are adjustments explained mainly by provisions of unrecoverable receivables in Chile, as detailed in note 13 to the consolidated annual accounts, as well as other lesser adjustments.

SIGNATURE PAGE

The Board of Directors of the Company TELEPIZZA GROUP, S.A. in the meeting held on 11 March 2020 and in compliance with the requirements set out in article 253.2 of the Spanish Companies Act and in article 37 of the Code of Commerce, draw up the consolidated annual accounts and the management report of TELEPIZZA GROUP, S.A. and the companies within its group corresponding to fiscal year beginning on 1 January 2019 and ending on 31 December 2019. The annual accounts are formed by the annexed documents preceding to this page.

For the purposes of complying with the provisions of article 253.2 of the Spanish Companies Act, each and every one of the members of the Board of Directors of the Company sign this document:

Pablo Juantegui Azpilicueta
Board Chairman - Chief Executive Officer

Kristin Hall
Natural person representing Tasty Bidco, S.L

John Derkach

Javier Gaspar Pardo de Andrade
Secretary

Javier Gaspar Pardo de Andrade, in my condition of Secretary non-director of the Board of Directors, hereby certify that the signatures which are above the names are authentic and corresponds to the members of the Board of Directors of the Company.

I, Mr Javier Gaspar Pardo de Andrade, Secretary, non-director, to the Board of Directors of Telepizza Group, S.A., domiciled in Isla Graciosa, 7, San Sebastián de los Reyes (Madrid), with tax ID code A84342229,

HEREBY CERTIFY:

That the Directors of Telepizza Group, S.A. and subsidiaries, on 11 March 2020, have authorised for issue the Consolidated Annual Accounts and Consolidated Directors' Report for 2019.

That said consolidated annual accounts were approved by all the directors.

That one of the directors was unable to sign the consolidated annual accounts by hand or by means of recognised electronic signature because of the material impossibility of doing so as a result of the health alert due to the coronavirus pandemic (Covid-19) in Spain. Specifically, the director that was not able to physically sign the accounts is Ms Kristin Hall.

And in witness of their authenticity, I issue this Certification in Madrid, on 11 March 2020.

Mr Pablo Juantegui Azpilicueta Chairman - Chief Executive Officer	Mr Javier Gaspar Pardo de Andrade Secretary