

**TELEPIZZA GROUP, S.A.  
AND SUBSIDIARIES**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the nine-months period ended 30 September 2019

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Condensed Consolidated Statement of Financial Position  
30 September 2019 and 31 December 2018

(Expressed in thousands of euros)

<u>Assets</u>	<u>30.09.19</u>	<u>31.12.18</u>
Property, plant and equipment (note 5)	59,880	51,262
Goodwill (note 6)	415,057	397,261
Other intangible assets (note 7)	341,091	341,263
Deferred tax assets	38,458	39,999
Non-current financial assets (note 8)	<u>32,241</u>	<u>32,493</u>
Total non-current assets	<u>886,727</u>	<u>862,278</u>
Inventories	12,607	10,208
Trade and other receivables (note 9)	51,788	40,916
Other current financial assets	1,323	2,745
Other current assets	7,360	1,402
Cash and cash equivalents (note 10)	<u>43,937</u>	<u>56,698</u>
Subtotal current assets	117,015	111,969
Non-current assets held for sale (note 3)	<u>28,095</u>	<u>14,981</u>
Total current assets	<u>145,110</u>	<u>126,950</u>
Total assets	<u><u>1,031,837</u></u>	<u><u>989,228</u></u>

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Position  
at 30 September 2019 and 31 December 2018

(Expressed in thousands of euros)

<u>Liabilities and equity</u>	<u>30.09.19</u>	<u>31.12.18</u>
Share capital (note 11 (a))	25,180	25,180
Share premium	402,759	533,695
Retained earnings	61,703	60,592
Own shares (note 11 (d))	-	(15,500)
Translation differences	(8,369)	(9,118)
	<u>481,273</u>	<u>594,849</u>
Equity attributable to equity holders of the Parent and total equity (note 11)		
Non-controlling interests	1,514	836
	<u>482,787</u>	<u>595,685</u>
Equity		
Loans and borrowings (note 12)	316,265	197,743
Other financial liabilities	8,589	9,544
Deferred tax liabilities	81,364	81,955
Provisions	3,770	4,558
Other non-current liabilities	17,209	16,336
	<u>427,197</u>	<u>310,136</u>
Total non-current liabilities		
Loans and borrowings (note 12)	6,335	962
Other financial liabilities	2,280	3,291
Trade and other payables (note 14)	98,309	65,705
Provisions	4,501	4,733
Other current liabilities	1,705	4,050
	<u>113,130</u>	<u>78,741</u>
Subtotal current liabilities		
Liabilities directly associated with non-current assets held for sale (note 3)	8,723	4,666
	<u>121,853</u>	<u>83,407</u>
Total current liabilities		
Total equity and liabilities	<u><u>1,031,837</u></u>	<u><u>989,228</u></u>

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Condensed Consolidated Income Statements  
for the nine-months period ended at 30 September 2019 and 2018

(Expressed in thousands of euros)

	<u>30.09.19</u>	<u>30.09.18 (*)</u>
Revenues (note 15 (a))	290,713	249,203
Merchandise and raw materials use	(75,064)	(65,672)
Personnel expense (note 15 (b))	(71,928)	(65,936)
Amortization and depreciation (notes 6 and 7)	(12,770)	(11,979)
Other expenses (note 15 (c))	(111,872)	(80,999)
Other losses	<u>(1,352)</u>	<u>(571)</u>
Operating profit	<u>17,727</u>	<u>24,046</u>
Finance profit / (loss)	<u>(13,313)</u>	<u>(4,993)</u>
Profit before tax from continuing operations	<u>4,414</u>	<u>19,053</u>
Income tax/expense	<u>(2,661)</u>	<u>(4,968)</u>
Profit/ (loss) for the period from continuing operations	1,753	14,085
Post-tax profit/(loss) of discontinued operations	<u>(1,146)</u>	<u>(1,558)</u>
Profit/ (loss) for the period	607	12,527
Profit/ (loss) attributable to non-controlling interests	<u>760</u>	<u>504</u>
Profit/(loss) for the period attributable to equity holders of the Parent		
Continuing operations	993	13,581
Discontinued operations	<u>(1,146)</u>	<u>(1,558)</u>
	<u>(153)</u>	<u>12,023</u>

(\*) Restated figures

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income  
for the nine-months period ended at 30 September 2019 and 2018

(Expressed in thousands of euros)

	<u>30.09.2019</u>	<u>30.09.2018 (*)</u>
Profit/(loss) for the period	607	12,527
Other comprehensive income:		
Items that will be reclassified to profit or loss		
Translation differences of financial statements of foreign operations	<u>749</u>	<u>(2,123)</u>
Total comprehensive income for the period	<u>1,356</u>	<u>10,404</u>
(Profit)/loss attributable to non-controlling interests	<u>(760)</u>	<u>(504)</u>
Total comprehensive income/(loss) for the period/year attributable to equity holders of the Parent	<u>596</u>	<u>9,900</u>

(\*) Restated figures

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Condensed Consolidated Statement of Changes in Equity  
for the nine-months period ended at 30 September 2019 and for the year ended 31 December 2018

(Expressed in thousands of Euros)

	Share capital	Share premium	Own shares	Previous years profit and loss	Other equity instruments	Translation differences	Non-controlling interests	Total equity
Balance at 31.12.17	<u>25,180</u>	<u>533,695</u>	<u>-</u>	<u>74,669</u>	<u>-</u>	<u>(5,070)</u>	<u>168</u>	<u>628,642</u>
Dividends	-	-	-	(6,370)	-	-	-	(6,370)
Transaction with own shares	-	-	(15,500)	-	-	-	-	(15,500)
Share-base payments	-	-	-	-	2,578	-	-	2,578
Profit/(loss)for the year	-	-	-	(10,285)	-	(4,048)	668	(13,665)
Balance at 31.12.18	<u>25,180</u>	<u>533,695</u>	<u>(15,500)</u>	<u>58,014</u>	<u>2,578</u>	<u>(9,118)</u>	<u>836</u>	<u>595,685</u>
Dividends	-	(130,936)	-	-	-	-	-	(130,936)
Transaction with own shares	-	-	15,500	928	-	-	-	16,428
Share-base payments	-	-	-	-	859	-	-	859
Other changes	-	-	-	(523)	-	-	(82)	(605)
Profit/(loss)for the period	-	-	-	(153)	-	749	760	1,356
Balances at 30.09.19	<u>25,180</u>	<u>402,759</u>	<u>-</u>	<u>58,266</u>	<u>3,437</u>	<u>(8,369)</u>	<u>1,514</u>	<u>482,787</u>

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Condensed Consolidated Statement of Cash Flows  
for the nine-months period ended at 30 September 2019 and 2018

(Expressed in thousands of Euros)

	30.09.19	30.09.18 (*)
<b>Cash Flows from operating activities</b>		
<b>Post tax profit/(loss) of continued operations</b>	(153)	12,023
<i>Adjustments for:</i>		
Amortization and depreciation	12,770	12,398
(Reversal of) / impairment losses	(129)	-
Financial income	(1,561)	(782)
Finance costs	13,313	6,383
Loss on disposal of property, plant and equipment and other losses	1,351	671
Share-based payment costs	1,241	-
Change in value of financial assets	-	(373)
	<b>26,832</b>	<b>30,320</b>
Change in working capital		
Increase / (decrease) in inventories	(2,411)	(238)
Increase / (decrease) in trade and other receivables	(9,386)	753
Increase / (decrease) in other current and non current assets	(4,536)	1,605
Increase / (decrease) in trade and other payables	34,399	(6,553)
Increase / (decrease) in provisions	(1,020)	(151)
Increase / (decrease) in other current and non current liabilities	(1,135)	(3,208)
Increase / (decrease) in financial liabilities	134	1,066
Increase / (decrease) in financial non current assets	1,523	(72)
	<b>17,568</b>	<b>(6,798)</b>
Income tax paid	(3,938)	782
<b>Cash generated from operations</b>	<b>40,462</b>	<b>24,304</b>
<b>Cash flows from investing activities</b>		
Proceed from sale of property plant and equipment and intangible assets	4,125	4,548
Acquisition of property plant and equipment	(22,714)	(13,257)
Acquisition of intangible assets	(8,394)	(3,609)
Acquisition of goodwill	(20,425)	(6,105)
Cash flows from (used in) discontinued operations	(2,620)	(1,507)
<b>Net cash used in investing operations</b>	<b>(50,028)</b>	<b>(19,930)</b>
<b>Cash flows from financing activities</b>		
Bond issued	335,000	-
Bond expenses	(18,735)	-
Syndicated loan	(200,000)	-
Interest received	1,561	782
Interest paid	(7,783)	(5,299)
Own shares	16,428	(15,500)
Dividend paid	(130,937)	(6,370)
<b>Net increase / (decrease) in cash and cash and equivalents</b>	<b>(4,466)</b>	<b>(26,387)</b>
<b>Effect of exchange rate differences</b>	<b>1,271</b>	<b>1,951</b>
<b>Net increase / (decrease) in cash and cash and equivalents</b>	<b>(12,761)</b>	<b>(20,063)</b>
Cash and cash equivalents at the beginning of the period	56,698	87,279
Cash and cash equivalents at the end of the period	43,937	67,217

Cash and equivalents don't include cash in discontinued operations

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 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 2017, and raised to public deed on 5 February 2017, approval was given to transform the Company into a corporation and to issue new articles of association to reflect the new corporate structure. On March 17th, 2016, the Company changed its name to the current one. From 27 April 2016, the Company's shares traded on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia. These shares were freely transferable. The Company's registered office is located at Calle Isla Graciosa, 7, San Sebastián de los Reyes, (Madrid).

On 21 December 2018, the Group's main shareholder KKR Creditor Advisors (US) (see note 11 (a)) announced its intention to acquire all the shares of Telepizza Group, S.A., and to delist the Parent from the Spanish stock market. The price offered was Euros 6 per share. This takeover bid was approved by the Spanish National Securities Market Commission on 28 April 2019. The results were published on 9 May 2019, the take-over was settled on 13 May 2019, and pursuant to article 226 of the consolidated text of the Spanish Securities Market Law approved by Royal Legislative Decree 4/2015 of 23 October. As a result of this takeover bid Tasty Bidco S.L.U., an investing vehicle controlled by various funds and accounts that are managed or advised by KKR Credit Advisors (US) LLC or its affiliates, with entities affiliated to Torreal, Safra, Artá and Altamar as co-investors, became the main shareholder of Telepizza Group S.A.

The main activity of Telepizza Group, S.A. consists of the ownership of the holding in Tele Pizza, S.A. and in performing services related with corporate and strategic management on behalf of Tele Pizza, S.A.

The main activity of its subsidiaries consists of the management and operation of stores under the "Telepizza" "Pizza Hut", "Apache", "Pizza World" and "Jeno's Pizza" brands for consumption at home and on the premises which, at 30 September 2019, was performed through 506 own premises and 2,147 franchises, located in 36 countries.

The Group purchases cheese in Spain through a supplier with which it has signed a long-term exclusivity agreement, with a minimum annual volume. This agreement provides flexibility and optimum maintenance of inventories. Also, through its factory and logistics centre in Daganzo (Madrid), Tele Pizza, S.A. supplies all the stores in Spain and Portugal operated directly by the Group or through its franchisees. Also, the Group has six other factories distributed in other countries, which also serve as logistics centers. The high volume of purchases provides economies of scale and facilitates the unification of the products purchased.

(Continued)



## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 2019

The franchise business consists mainly of providing advice on the management of third-party stores that operate with the “Telepizza” “Pizza Hut”, “Apache”, “Pizza World” and “Jeno’s Pizza” brands, with the Telepizza Group receiving a percentage of the sales of its franchises (royalty) as consideration. Likewise, it centralizes the promotion and advertising activity of all stores operating under the aforementioned brands, obtaining a percentage of its franchisees’ sales. Also, the Group sub-leases some of the premises at which its franchisees carry out their activity, and it provides services consisting of employee management, such as the preparation of the payroll of certain of its franchisees.

The master franchise business includes operations performed in those countries in which the Group does not operate directly, since it has signed a contract in which the brand is licensed with a local operator. The master franchise contracts guarantee that the master franchisee can operate with the Telepizza brand in a certain market, enabling them to open their own stores or to franchise them in turn.

(a) Relevant events in 2019 and 2018

(i) Pizza Hut Agreement

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

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

- The Group has become the exclusive master franchisee of Pizza Hut for the Iberian peninsula, Latin America (including the Caribbean, with the sole exception of Brazil) and Switzerland, except in Mexico where it is not the exclusive master franchisee.
- The master franchise contracts have a term of 30 years, with two 10-year extensions (30+10+10) in Spain, Portugal and Chile, and a term of 10 years plus extensions of 10 years and 5 years, respectively, (10+10+5) in other markets.
- The contract stipulates an initial franchise fee/transfer fee of Euros 11,850 thousand, payable by the Group to Yum! at the end of the third year of the contract, which has been recognized as an intangible asset (see note 9).
- The Group will receive a royalty, generally of 6%, from the Pizza Hut franchisees and will pay Yum! a royalty of 3.5% of the Pizza Hut chain sales within the territories covered by the contract. The Group will also pay Yum! an alliance fee amounting to 3.5% of Telepizza chain sales.

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 2019

- Over the next 17 years, the Group will benefit from a royalty credit of the expenses mentioned in the previous paragraph: in the first year no royalties are payable on the first USD 250 million in sales, an amount that declines over the remaining years.
- In Latin America, the Group is required to convert the outlets under the “telepizza” name to “Pizza Hut” within a period of either 5 to 10 years (Chile) or 3 to 5 years (other markets). The Group is not required to convert these outlets in Spain and Portugal, where 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 target for opening and converting outlets in each of the first three years has been met, the Group will receive a further advanced royalty relief (or incentive fee) worth US Dollars 25 million in these three years. This incentive will be recognised as income to the extent that the opening and conversion targets are met.
- The Group may open outlets for the “telepizza” business in Spain as it considers necessary.
- In countries where the Telepizza Group operates under the “telepizza” brand but which are not covered by the master franchise contract, a period has been established for carrying out divestments (Poland, the Czech Republic and other minor countries where the Group only operates through a master franchisee) (see note 6).
- As part of the agreement, Tele Pizza, S.A. has contributed the bare ownership of the “telepizza” brand to a newly-created Group company TDS Telepizza, S.L. in which Pizza Hut holds a non-controlling interest. Tele Pizza, S.A. reserves the right to use and avail of the benefits of the brand through a 30-year usufruct agreement with the aforementioned new company, which has not led to any change in the brand in these consolidated annual accounts.
- Telepizza Group has granted a call option for the aforementioned bare ownership to Pizza Hut for Euros 1,750 thousand, which may be exercised at a single time three years after signing the agreements for the agreed price. The price agreed is equal to the fair value of this asset at that moment, which reflects the residual value of the “telepizza” brand at the end of the master franchise contract indicated above (30+10+10 years) which would amount to Euros 10,100 thousand. Exercise of this option by Pizza Hut will not affect the Group’s rights for the exclusive use of the brand (see note 4 (e)). This call option may only be settled through the physical delivery of non-financial consideration; consequently, it is not accounted for as a derivative financial instrument.

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 2019

(ii) Takeover bid, refinancing and dividend

On 21 December 2018, the Group's main shareholder KKR Creditor Advisors (US) (see note 15 (a)) announced its intention to acquire all the shares of Telepizza Group, S.A., and to delist the Parent from the Spanish stock market. The price offered was Euros 6 per share. This takeover bid was approved by the Spanish National Securities Market Commission on 28 April 2019. The results were published on 9 May 2019, the takeover was settled on 13 May 2019, and pursuant to article 226 of the consolidated text of the Spanish Securities Market Law approved by Royal Legislative Decree 4/2015 of 23 October. As a result of this takeover bid Tasty Bidco S.L.U., an investing vehicle controlled by various funds and accounts that are managed or advised by KKR Credit Advisors (US) LLC or its affiliates, with entities affiliated to Torreal, Safra, Artá and Altamar as co-investors, became the main shareholder of Telepizza Group S.A.

As of 12 June 2019, Telepizza Group completed the refinancing of its existing debt through the following transactions:

- The acquisition by the Company of all the shares representing the share capital of Tasty Bondco 1, S.A. On May 3rd, 2019, Tasty Bondco 1 S.A., a company affiliated with Tasty Bidco, completed the issuance of €335 million 6.25 per cent. senior secured notes due 2026. The Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange.
- The early in-full repayment of the outstanding amounts under the senior facilities agreement amounting to €200 million entered into, among others, the company Tele Pizza, S.A.U. and certain financial entities on April 8th, 2016, out of the proceeds of the Notes. Simultaneously, the guarantees of the senior facilities were released, and the Bonds were guaranteed.

As part of the recapitalization of Telepizza Group, the general shareholders meeting of the Company held on 17 June 2019, approved the distribution of an extraordinary dividend with charge to unrestricted reserves for an amount of Euros 130,936,882.70. This amount arised from adjustments depending on the operating cash needs of the Telepizza Group entities and the final amount of the costs and expenses related to the refinancing.

The general shareholders meeting of the Company held on 17 June 2019, also approved the delisting of the shares traded in the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges and, consequently, from the Automated Quotation System (Mercado Continuo), pursuant to the exemption provided for in article 11.d) of Royal Decree 1066/2007.

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 2019

The trading shares of Telepizza Group was suspended on 9 July 2019, and effectively delisted on 26 July 2019. As of 10 July 2019, after the expiration of the sustained order for the purchase of shares of Telepizza Group, S.A. Tasty Bidco held 84,566,689 shares in Telepizza, representing 83.96% of the share capital of Telepizza Group

(2) Basis of presentation of the interim financial statements

As explained previously, following the takeover bid Tasty Bidco, a company domiciliated in Spain, became the main shareholder of Telepizza Group S.A. For the purpose of this reporting and in order to facilitate the comparison with 2018 the information reported is about Telepizza Group, S.A. and subsidiaries.

These condensed consolidated financial statements for the nine-months period ended 30 September 2019, have been prepared from the accounting records of Telepizza Group, S.A. and of its consolidated entities. They have also been prepared in conformity with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other applicable provisions of the financial reporting regulatory framework. Accordingly, they present fairly the consolidated equity and the consolidated financial position of Telepizza Group, S.A. and Subsidiaries at 30 September 2019, and the consolidated financial results, the consolidated cash flows and the changes in consolidated equity for the year ended as of that date.

The Group adopted the IFRS-EU at January 1st, 2004, and applied IFRS 1 “First-time Adoption of International Financial Reporting Standards” as of that date.

These interim condensed consolidated financial statements were approved by the Parent’s Board of Directors at its meeting held on 29 October 2019.

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

- Derivative financial instruments, which are recognized 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.

(a) Comparative information

In accordance with paragraph 20 of IAS 34, and in order to obtain comparative information, these condensed consolidated interim financial statements include the condensed consolidated statements of financial position at 30 September 2019 and 31 December 2018, the condensed consolidated income statements for the nine-months period ended 30 September 2019 and 2018, the condensed consolidated statements of comprehensive income for the nine-months period ended 30 September 2019 and 2018, the condensed consolidated statements of changes in equity for the nine-months period ended 30 September 2019 and 2018, the condensed consolidated cash flow statements for the nine-months period ended 30 September 2019 and 2018, together with the explanatory notes to the condensed consolidated interim financial statements for the nine-months period ended 30 September 2019 and 2018.

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 2019

The balances in the condensed consolidated income statement, the condensed consolidated statements of comprehensive income and the condensed consolidated statement of cash flows for the nine-months period ended 30 September 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 2018 (see note 3).

(b) Responsibility for the information provided and estimates made

The information contained in these interim condensed consolidated financial statements is the responsibility of the Parent's directors, who are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the applicable financial reporting regulatory framework (see section a) above), together with the internal control required to enable the preparation of the interim condensed consolidated financial statements free from material errors.

Likewise, although the estimates performed by the Parent Company's directors were calculated based on the best available information at 30 September 2019, it is possible that events that may take place in the future may force them to be amended in the coming years. The effect on the consolidated financial statements of the amendments which, where appropriate, arise from the adjustments to be performed in the coming years would be recognized prospectively.

(c) Accounting policies and measurement bases

The accounting policies and measurement bases used in these interim condensed consolidated financial statements at 30 September 2019, are the same as those used in the consolidated annual accounts for the year ended 31 December 2018.

IFRS 16 is applicable for the Group for the first time on 1 January 2019. In order to facilitate the comparison with 2018 and for the purpose of this report the Group has applied in this condensed consolidated financial statements IAS 17 Leases instead of IFRS 16.

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 January 1st, 2018, and the corresponding impacts are as follows:

- IFRS 16 Leases

At the date of authorization for issue of these consolidated annual accounts, IFRS 16 has come into force, has been adopted by the EU, and will therefore be applied to the consolidated annual accounts for 2019. In order to facilitate the comparison with 2018 the Group has not taken into account IFRS 16 in this consolidated condensed financial statement.

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 2019

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

IFRS 16 replaces the existing guidelines for leases, such as IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

- IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies how to recognize and measure current and deferred tax assets and liabilities when there is uncertainty over income tax treatments. This standard applied for first time on 1 January 2019 and has not have any material impact in the group accounts.

(f) Functional and presentation currency

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

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

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

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

On 7 March 2019, the Group was informed by AmRest, regarding its decision not to extend the deadline for compliance with the condition for the approval of the operation by pertinent Polish authorities and, consequently, the sale-purchase agreement was expired. The Group is currently negotiating the sale these business with other potential acquirers.

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 2019

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

Moreover, in September 2019, Telepizza has signed a binding agreement with Delosi, the master franchisee in Perú of Pizza Hut, to sell 100% of its shares in its subsidiary Telepizza Andina S.A. The closing of the transaction, subject to the successful completion of the Due Diligence process, is planned before year-end.

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

(4) Business Combinations

In July 2019, the Group, through its subsidiary Telepizza Chile S.A., purchased to Aresta Group, 43 Pizza Hut stores in Chile for a total consideration of Euros19.8 million. This acquisition reinforces the leadership of Telepizza in the Chilean market and allows an accelerated deployment of synergies in the supply chain and our corporate structure in the country. Additionally, the Group has acquired several operating outlets, primarily in Spain and Colombia.

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.

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 2019

(5) Property, plant and equipment

The breakdown of and changes in “Property, plant and equipment” in the consolidated statement of financial position are as follows:

Data	Thousands of euros					Total
	Land and buildings	Technical installations and machinery	Other installations, equipment and furniture	Advances and property, plant and equipment in progress	Other property, plant and equipment	
<u>Cost</u>						
Balances at 31.12.17	6,925	101,722	14,142	963	15,617	139,369
Additions	389	11,515	1,443	935	1,453	15,735
Additions due to business combinations	162	3,865	322	-	68	4,417
Disposals	-	(15,363)	(2,633)	(1,672)	(3,234)	(22,902)
Transfers to assets held for sale	(2,079)	(5,035)	(726)	(6)	(1,014)	(8,860)
Translation differences	(225)	(1,074)	(134)	(5)	(139)	(1,577)
Balances at 31.12.18	5,172	95,630	12,414	215	12,751	126,182
Additions	-	14,132	1,476	-	2,233	17,841
Additions due to business combinations	-	4,415	202	205	51	4,873
Transfers to held for sale	-	(5,741)	(542)	-	(575)	(1,579)
Disposals	(117)	(6,190)	(485)	(6)	(2,048)	(12,323)
Translation differences	(19)	584	92	-	152	809
Balances at 30.09.19	5,036	102,830	13,157	414	12,564	135,803
<u>Decline or loss in value</u>						
Depreciation at 31.12.17	(4,962)	(62,533)	(8,901)	-	(9,849)	(86,245)
Impairment at 31.12.17	(373)	(1,638)	(657)	-	-	(2,668)
Depreciation for the year	(273)	(6,298)	(833)	-	(1,280)	(8,684)
Depreciation for the year of discontinued operations	(32)	(289)	(41)	-	(69)	(431)
Disposals	-	11,418	1,602	-	2,923	15,943
Transfers from held for sale	722	3,648	509	-	492	5,371
Translation differences	103	704	111	-	17	935
Impairment	373	486	-	-	-	859
Depreciation balance at 31.12.18	(4,442)	(53,350)	(7,553)	-	(7,766)	(73,111)
Impairment at 31.12.18	-	(1,152)	(657)	-	-	(1,809)
Depreciation for the period	(107)	(3,350)	(563)	-	(1,043)	(6,865)
Disposals	2	2,159	461	-	1,983	4,605
Translation differences	(70)	(825)	(39)	-	(84)	(1,018)
Transfer to assets held for sale	77	1,090	232	-	755	2,154
Impairment	-	94	-	-	27	121
Depreciation balance at 30.09.19	(4,540)	(54,276)	(7,462)	-	(6,155)	(74,235)
Impairment at 30.09.19	-	(1,058)	(657)	-	27	(1,688)
<u>Carrying amount</u>						
At 31.12.18	730	41,128	4,204	215	4,985	51,262
At 30.09.19	496	47,496	5,038	414	6,436	59,880

(Continued)



## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 2019

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. 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 30 September 2019, no provision was recognised for the impairment of assets.

(6) Goodwill

The breakdown of and changes in “Goodwill” in the consolidated statement of financial position are as follows:

	Thousands of Euros
<u>Cost</u>	
Balance at 31/12/2017	<u>387,976</u>
Goodwill on business combinations for the year (note 4)	19,617
Translation differences	(380)
Disposals	(2,296)
Transfers to assets held for sale (note 3)	(6,105)
Impairment losses for the year	<u>(1,551)</u>
Balance at 31/12/2018	<u><u>397,261</u></u>
Goodwill on business combinations for the year (note 4)	20,425
Translation differences	23
Disposals	(1,126)
Transfers to assets held for sale (note 3)	<u>(1,526)</u>
Balance at 30/09/2019	<u><u>415,057</u></u>

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 2019

Additions are related to the acquisition of stores from franchises. The detail of goodwill at 30 September 2019, and 31 December 2018, by country, is as follows:

	Thousands of euros	
	30.09.19	31.12.18
Spain	267,445	266,671
Portugal	63,249	62,529
Chile	57,259	40,413
Colombia	10,285	10,324
Switzerland	2,099	2,045
Ireland	752	752
Paraguay	537	581
Ecuador	13,431	13,946
	<u>415,057</u>	<u>397,261</u>

During the nine-months period ended the Group has acquired several stores, mainly in Spain and Chile. These acquisitions are part of the Group's global strategy to review its distribution landscape, including the mix between own and franchised stores.

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 2019

(7) Other intangible assets

The breakdown of and changes in “Other intangible assets” in the consolidated statement of financial position are as follows:

	Thousands of euros					Total
	Concessions, patents, licences	Trademarks	Contractual rights and others	Other intangible assets	Computer software	
<u>Cost</u>						
Balance at 31.12.17	1,765	263,704	151,352	492	28,884	446,197
Additions	12,063	-	-	41	5,170	17,274
Disposals	-	-	-	(6)	(312)	(318)
Transfers from/to held for sale	1	-	-	-	(744)	(743)
Business combinations	686	-	-	-	-	686
Translation differences	24	-	-	(4)	(144)	(124)
Balance at 31.12.18	14,539	263,704	151,352	523	32,854	462,972
Additions	173	-	-	7	8,214	8,394
Disposals	-	-	-	(9)	(110)	(119)
Transfers from/to held for sale	-	-	-	(263)	(140)	(403)
Translation differences	242	-	-	15	(10)	247
Balance at 30.09.19	14,954	263,704	151,352	273	40,808	471,091
<u>Decline or loss in value</u>						
Amortisation balance at 31.12.17	(970)	(18,526)	(68,018)	(351)	(21,199)	(109,064)
Impairment at 31.12.17	(8)	-	-	-	-	(8)
Amortisation for the year	-	-	(4,549)	(12)	(3,286)	(7,847)
Disposals	-	-	1	1	272	274
Transfers from/to held for sale	-	-	-	-	617	617
Translation differences	-	-	(9)	-	136	127
Impairment	-	(5,808)	-	-	-	(5,808)
Amortisation balance at 31.12.18	(970)	(18,526)	(72,575)	(362)	(23,460)	(115,893)
Impairment at 31.12.18	(8)	(5,808)	-	-	-	(5,816)
Amortisation for the period	(300)	-	(3,927)	(11)	(3,469)	(7,707)
Disposals	-	-	-	1	9	10
Transfers from/to held for sale	-	-	-	158	38	196
Translation differences	-	-	-	(7)	(791)	(798)
Impairment	8	-	-	-	-	8
Amortisation balance at 30.09.19	(1,270)	(18,526)	(76,502)	(221)	(27,673)	(124,192)
Impairment at 30.09.2019	-	(5,808)	-	-	-	(5,808)
<u>Carrying amount</u>						
At 31.12.18	13,561	239,370	78,777	161	9,394	341,263
At 30.09.19	13,684	239,370	74,850	52	13,135	341,091

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 2019

In 2019 the main changes are the amortization and the investment in software (Euros 8,206 thousand). In 2018 the main impact in intangible asset was the impairment of “Jeno’s pizza” brand (Euros 5,170 thousand) and the entry fee under the agreement with Pizza Hut (Euros 11,750 thousand and the amortization. At 30 September 2019 and 31 December 2018, the Group had no commitments to acquire intangible assets in a significant amount.

(8) Non-current financial assets

The detail of other non-current financial assets at 30 September 2019, and 31 December 2018, was as follows:

	<u>Thousands of euros</u>	
	<u>30.09.19</u>	<u>31.12.18</u>
Security and other deposits	6,280	5,869
Non-current trade receivables	24,188	24,702
Other loans and receivables	3,989	4,138
Impairment losses (note 12)	<u>(2,216)</u>	<u>(2,216)</u>
	<u>32,241</u>	<u>32,493</u>

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.

Other loans and receivables are related to the loans granted by the Group to the directors and personnel for the payment of tax withholdings relating to the portion of the incentives plan for management.

(9) Trade and other receivables

Details are as follow:

	<u>Thousands of euros</u>	
	<u>30.09.19</u>	<u>31.12.18</u>
Trade receivables	47,020	44,769
Other receivables	9,849	3,321
Public entities	4,046	4,227
Impairment losses	<u>(9,127)</u>	<u>(11,401)</u>
Trade and other receivables	<u>51,788</u>	<u>40,916</u>

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.

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 2019

(10) Cash and Cash Equivalents

Details at 30 September 2019 and 31 December 2018, are as follows:

	Thousand of euros	
	30.09.19	31.12.18
Cash in hand at banks	43,937	56,698
Cash and cash equivalents	<u>43,937</u>	<u>56,698</u>

Cash and cash equivalents recognized 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.

Cash and equivalents don't include cash in discontinued operations (Poland, Czech Republic and Peru) of Euros 1,478 thousand at 30 September 2019 and Euros 751 thousand at 31 December 2018.

(11) Equity(a) Share capital

At 30 September 2019, the share capital of Telepizza Group, S.A. was represented by 100,720,679 ordinary shares represented by book entries, of 0.25 euros par value each, belonging to a single class and series. All shares have been fully subscribed and paid and have the same voting and dividend rights.

The companies that holds a direct or indirect interest of 10% or more in the share capital of the Parent at 30 September 2019 and 31 December 2018 is as follows:

	30.09.2019	31.12.2018
Tasty Bidco, S.L.	83.9%	-
Boussard & Gavaudan Asset Management	15.1%	-
KKR Credit Advisors (US) LLC	-	26.32%

(b) Share premium

At 30 September 2019 and 31 December 2018, this premium was unrestricted, provided that, as a result of the distribution, the Parent's equity was not lower than the share capital amount.

As part of the recapitalization of Telepizza Group, the general shareholders meeting of the Company held on 17 June 2019, approved the distribution of an extraordinary dividend with charge to share premium of Euros 130,936 thousand that has been fully paid.

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 2019

(c) Retained earnings• Legal reserve

The Parent's legal reserve at 30 September 2019 and 31 December 2018, stood at Euros 10,832 thousand.

• Shareholder contributions

Shareholder contributions relate to monetary and non-monetary contributions received in 2014, totalling Euros 157,615,105 and Euros 3,615,885, and to the capital increase expenses in 2008, 2010, 2011, 2013 and 2014, net of the tax effect.

• Remaining accumulated gains/losses

This heading includes the gains/losses obtained by Group companies and the related consolidation adjustments.

(d) Own shares

The minutes containing the decisions of the sole shareholder dated 31 March 2016, reflect the authorization 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%. Authorization 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 authorization granted to the board on 31 March 2016. The buy-back programme applied to a maximum of 3,435,946 own shares, representing approximately 3.41% of the Parent's share capital, for a maximum monetary amount of Euros 15,500,000.

In 2018 the company acquired 2,737,979 shares, in an amount of 15,500,004 euros or an average price of 5.66 euros per share. In this first half of the year, as a result of the takeover bid the group has sold all the own shares. The price of sale has been 6 euros per share what means a total of Euros 16.428 thousand of nominal.

(e) Translation differences

Translation differences relate to the differences generated from the inclusion in the Group of the Telepizza subgroup in September 2006.

(f) Distribution of profit/(loss)

On 17 June 2019, the Parent's General Shareholders' Meeting resolved to allocate the Parent's result for 2018, amounting to Euros 2,290,807 to Voluntary Reserves.

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 2019

(12) Obligations, Loans and Other Remunerated Liabilities

On 8 April 2016, the Parent, together with its subsidiary, Tele Pizza, S.A. and various financial institutions, with Banco Santander acting as lead bank, signed a syndicated loan for 200,000,000 euros, whose date of entry into force depended upon the stock market flotation, together with a revolving facility with a limit of 15,000 thousand euros. At 31 December 2018, the fair value of this loan was Euros 197,743 thousand, and the nominal value as of the same date amounted to 200,000 thousand euros. The difference between the aforementioned fair value and the nominal value related to the loan origination and arrangement fees, totalling 5,023 thousand euros. The loan repayment schedule was as follows: 15% of the principal at 48 months from the effective date of use of the loan, 20% of the principal at 54 months from the effective date of use of the loan, and the remainder at 5 years from the effective date of use of the loan.

As a consequence of the takeover bid as of 12 June 2019, Telepizza Group, S.A. completed the refinancing of its existing debt through the following transactions:

- The acquisition by Telepizza Group, S.A. of all the shares representing the share capital of Tasty Bondco 1, S.A. On 3 May 2019, Tasty Bondco, 1 S.A., a company affiliated with Tasty Bidco, completed the issuance of Euros 335 million, 6.25 per cent senior secured notes due 2026. The Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange.
- The early repayment in full of the outstanding amounts under the senior facilities agreement amounting to Euros 200 million entered into, among others, the Company, Tele Pizza, S.A.U. and certain financial entities on 8 April 2016, out of the proceeds of the Notes. Simultaneously, the guarantees of the senior facilities were released, and the Notes were guaranteed in substantially equivalent economic terms.

Details of the payments and the present value of the financial liabilities with credit institutions, broken down by maturity date, is as follows:

	Thousands of euros			
	30.09.19		31.12.18	
	Principal	Interest	Principal	Interest
Less than one year (note 18(b))	-	6,335	-	805
Two to five years	-	-	197,743	-
Six to ten years	316,265	-	-	-
	<u>316,265</u>	<u>6,335</u>	<u>197,743</u>	<u>805</u>

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 2019

At 30 September 2019 and 31 December 2018, the detail of the non-current payables to credit institutions was as follows:

Type	Final maturity	Thousands of euros		
		Limit	Balance 30.09.19	Fix Rate
Notes	2026	335,000	335,000	6,25%
Revolving	2026	45,000	-	6,25%
Debt arrangement expenses			(18,735)	
Balances at 30 September 2019			<u>316,265</u>	

Type	Final maturity	Thousands of euros		
		Limit	Balance 31.12.18	Margin as of % Euribor
<b>Senior</b>				
Senior facility	2021	200,000	200,000	EUR+2.25%
Revolving	2021	15,000	-	EUR+2,25%
Debt arrangement expenses			(2,257)	
Balance at 31 December 2018			<u>197,743</u>	

In order to secure and guarantee the notes detailed previously, the Group entered into a pledge agreement over the shares of Tele Pizza, S.A., Telepizza Chile, S.A., and Luxtor, S.A. and Telepizza Portugal Comercio de Produtos Alimentares, S.A, on June 2019.

At 30 September 2019 and 31 December 2018 other financial liabilities includes 6,150 thousand euros of debt payable to the former shareholder of the company acquired in Ireland in 2017 The Good Food Company Ltd.

(13) Current and Non-Current Financial Liabilities at Fair Value

In 2016, the Group arranged an interest rate hedge instrument amounting to 100,000 thousand euros, covering the Euribor with a floor of 0% at a fixed rate of 0.27%. This instrument has an effective start date of April 29<sup>th</sup>, 2018, and a maturity date of April 29<sup>th</sup>, 2021. At June 30<sup>th</sup>, 2018, and December 31<sup>st</sup>, 2017, it had a negative fair value of Euros 499 thousand and Euros 126 thousand, respectively. After the refinancing of the debt as a consequence of the cancellation of the syndicated loan, the Group has cancelled this hedging

(Continued)



## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 2019

The detail of the derivative financial instruments valued at fair value at 31 December 2018, was as follows:

31 December 2018	Notional amount	Fair values	
		Liabilities	
		Non-current	Current
<i>Derivatives</i>			
Interest rate swaps	(100,000)	(562)	-
Total derivatives at fair value through consolidated profit or loss	(100,000)	(562)	-

(14) Trade and Other Payables

Details are as follows:

	Thousand of euros	
	30.09.19	31.12.18
Trade payables and other payables	88,877	52,842
Public entities	2,657	7,185
Salaries payables	6,775	5,678
	98,309	65,705

At 30 September 2019, trade payables include Euros 11,300 thousand of payable to financial institutions for reverse factoring transactions (Euros 14,482 thousand at 31 December 2018).

(15) Income and expenses(a) Income

	Thousands of euros	
	30.09.19	30.09.18
Own outlet sale	126,449	119,107
Factory sales to franchisees	88,469	85,758
Royalty	51,237	25,924
Revenue from franchising activity	3,606	8,627
Other services rendered to franchisees	11,369	3,048
Sublease income	9,583	6,739
Total income	290,713	249,203

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 2019

(b) Personnel expenses

The detail of personnel expenses in the interim condensed consolidated income statement was as follows:

	Thousands of euros	
	30.09.19	30.09.18
Wages, salaries and similar expenses	59,216	54,029
Social security	10,680	10,050
Termination benefits	867	1,267
Other employee benefit expenses	1,165	590
Total personal expenses	<u>71,928</u>	<u>65,936</u>

At 30 September 2019, personnel expenses include Euros 2,240 thousand of non-recurring expenses related to long-term incentive plan. At 30 September 2018, personnel expenses include Euros 4,546 thousand of euros of non-recurring expenses related to Yum! Brands agreement

(c) Other expenses

	Thousands of euros	
	30.09.19	30.09.18
Operating leases	36,622	22,787
Transport	12,409	11,489
Advertising and publicity	13,381	12,940
Utilities	8,357	7,877
Other expenses	41,103	25,906
Total Other expenses	<u>111,872</u>	<u>80,999</u>

At 30 September 2019 and 2018, other expenses include Euros 8,852 thousand and Euros 9,051 thousand, respectively, of non-recurring expenses related to Yum! Brands agreement.

(d) Income tax

At 30 September 2019, the Group had recognized deferred tax assets relating to the tax loss carryforwards and finance costs to be deducted in future years generated by the Group in Spain, amounting to 28,549 thousand euros (30,040 thousand euros at 31 December 2018), having applied an amount of Euros 1,491 thousand in the first nine months of the year.

The Group companies calculated the income tax provision at 30 September 2019, in line with the legislation in force in each of the countries in which it carries on its activities.

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Notes to the Condensed Consolidated Interim Financial Statements

Nine-months period ended at 30 September 2019

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute-of-limitations period has expired. At 30 September 2019, the Company had all the main taxes applicable to it open for review by the tax authorities from 1 January 2015.

Due, among others, to the different interpretations that may be afforded to the tax regulations applicable to the Group, certain additional liabilities could arise as the result of an inspection. However, in the opinion of the Parent's directors, should such liabilities arise they would not have a material impact on the financial statements.

(16) Commitments

As stated in notes 6 and 7, at 30 September 2019 and 31 December 2018 the Group has no significant commitments relating to investing activities.

In the nine-months period ended 30 September 2019, there were no significant variations in the securities granted with respect to 31 December 2018. The Group had contingent liabilities for bank and other guarantees related to its normal business operations amounting to Euros 6,052 thousand at 31 December 2018. No significant liabilities are expected to arise from these guarantees.

(17) Information relating to the directors and senior management of the Parent

During the nine-months period ended 30 September 2019, the Parent's directors received remuneration of Euros 2,504 thousand (Euros 2,962 thousand in 2018). Moreover, the Group has extended loans or advances to the directors totalling Euros 1,380 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 to the directors are described in note 8. 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).

During the nine-months period ended 30 September 2019, the members of the Group's senior management received remuneration of Euros 2,309 thousand (Euros 2,847 thousand in 2018). Moreover, the Group has extended loans or advances to senior management totalling Euros 2,522 thousand (Euros 2,509 thousand in 2018). These loans are secured by the senior management personnel with certain shares of the Parent.

(18) Events after the reporting period

On 22 October 2019 a sale and purchase agreement to transfer the Telepizza operation in Peru to the local Pizza Hut franchisee was signed. The agreement entered in force on 31 October 2019.

(Continued)

# TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Consolidated Directors' Report

Nine-months period ended at 30 September 2019

### INTRODUCTION

Telepizza Group S.A., through its fully owned subsidiary, Tasty Bondco 1, S.A.U., a public limited liability company incorporated under the laws of Spain, issued on May 3<sup>rd</sup> of 2019, €335.0 million in aggregate principal amount of its Senior Secured Notes due 2026.

The Notes will bear interest at a rate of 6.25% per annum. The Notes will mature on May 15, 2026. The Issuer will pay interest on the Notes semi-annually in arrears on January 15 and July 15, commencing on January 15, 2020. Prior to May 15, 2022, the Issuer will be entitled, at its option, to redeem all or a portion of the Notes by paying a “make-whole” premium. At any time on or after May 15, 2022, the Issuer may redeem all or part of the Notes at the redemption prices set forth in the offering memorandum. In addition, prior to May 15, 2022, the Issuer may redeem, at its option, up to 40% of the Notes (including the aggregate principal amount of any additional Notes issued) with the net cash proceeds from certain equity offerings so long as at least 50% of the original principal amount of the Notes (including any additional Notes), issued under the Indenture (as defined herein) remain outstanding. Prior to May 15, 2022, the Issuer may redeem up to 10% of the aggregate principal amount of the Notes originally issued (including the aggregate principal amount of any additional Notes issued) in each calendar year at a redemption price equal to 103% of the principal amount thereof. Additionally, upon certain events defined as constituting a change of control triggering event or upon certain asset sales, the Issuer may be required to make an offer to purchase the Notes. A change of control triggering event, however, will not be deemed to have occurred if a specified consolidated net leverage ratio is not exceeded in connection with such event. In the event of certain developments affecting taxation, the Issuer may elect to redeem all, but not less than all, of the Notes. In addition, in connection with certain tender offers for the Notes, if holders of not less than 90% in aggregate principal amount of the applicable outstanding Notes validly tender and do not withdraw such Notes in such tender offer and the Issuer, or any third party making such a tender offer in lieu of the Issuer, purchases all of the Notes validly tendered and not withdrawn by such holders, the Issuer or such third party will have the right to redeem the Notes that remain outstanding in whole, but not in part, following such purchase at a price equal to the price offered to each other holder of Notes. See “Description of the Notes—Optional Redemption.”

The Notes will be senior secured obligations of the Issuer, will rank senior in right of payment to all of the Issuer's future debt that is expressly subordinated in right of payment to the Notes and will rank *pari passu* in right of payment with the Issuer's existing and future debt that is not so subordinated.

The Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF market.

None of the Notes or the Guarantees have been, or will be, registered under the U.S. federal securities laws or the securities laws of any other jurisdiction. The Notes are being offered and sold in the United States only to qualified institutional buyers in reliance on Rule 144A (“Rule 144A”) under the U.S. Securities Act of 1933, as amended (the “Securities Act”), that are also “Qualified Purchasers” (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended (the “Investment Company Act”), and outside the United States in reliance on Regulation S under the Securities Act. Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. None of the Notes or the Guarantees is transferable except in accordance with the restrictions described under “Plan of Distribution” and “Notice to Investors.” in the Offering Memorandum.

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

### Consolidated Directors' Report

Nine-months period ended at 30 September 2019

This Unaudited Selected Consolidated Financial Information is provided to the holders of the Notes pursuant to Article 4 Section 4.02 "Reports" of the Indenture.

### ***Corporate History – Telepizza Group***

Telepizza was founded in 1987 as a family business. Since the opening of its first store in Madrid in 1988, the Group has gradually increased its activities and expanded internationally. In 1992, Telepizza opened its first production facility for producing pizza dough in Guadalajara (Spain) and opened its first stores in Poland, Portugal and Chile. Telepizza completed its initial public offering in 1996 and its shares began trading on the Spanish Stock Exchanges. In 2004, Telepizza began its online expansion in Spain and four years later in 2008, Telepizza re-launched its telepizza.es site to improve home delivery.

In 2007, the Company delisted its shares from the Spanish Stock Exchanges. Telepizza continued its international expansion entering into master franchise agreements in Guatemala and El Salvador and the United Arab Emirates in 2009. In 2010, the Group acquired the Colombian pizza chain, Jenó's Pizza, the largest pizza chain in Colombia with 80 stores, and the following year, the Group opened its first store in Peru and entered the airline catering sector. In 2012, Telepizza established its footprint in Ecuador and expanded its presence in the air catering sector through partnerships with airlines. In 2013, Telepizza expanded its franchises network in Panama, Russia and Bolivia. In 2014, the Group entered Angola. Noting increased reliance on technology by its customer base, in 2015, Telepizza developed "Click & Pizza," an online delivery service, and started creating smartphone applications.

In April 2016, Telepizza once again became a listed company in Spain and entered Morocco and Saudi Arabia. Telepizza continued its expansion in 2017, announcing its entry in new markets, including the United Kingdom, France, Switzerland, the Czech Republic, Malta, Paraguay and Ireland (under the Apache brand). In December 2018, Telepizza signed a strategic agreement with Yum! Brands, becoming Pizza Hut's largest master franchisee globally.

### **Yum! (Pizza Hut) alliance**

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

Following the approval of the transaction by the European Commission's antitrust authority on December 3<sup>rd</sup>, 2018, the global alliance and master franchise agreement with Pizza Hut was signed and came into force on December 30<sup>th</sup>, 2018.

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

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

### Consolidated Directors' Report

Nine-months period ended at 30 September 2019

With the transaction, the Company is able to develop and improve its capacity to manage networks and supply pizza dough and ingredients while fostering its international growth (taking advantage of the synergies existing between both groups). As of December 30<sup>th</sup>, 2018, the Company almost doubled the number of Telepizza Group stores to 2,631, extending its international reach to 39 markets (more than 500 million potential customers), and recording total system sales of approximately Euros 1,200 million.

In Iberia, the Group will continue to operate the Telepizza brand alongside 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 converted so as to operate solely under the Pizza Hut brand in the coming years, thereby taking advantage of its greater brand recognition in Latin America. A single master franchise for Pizza Hut that operates throughout Latin America will result in operating benefits and synergies, as well as accelerated growth. The long-term alliance with Pizza Hut is reinforced by a well-defined expansion plan, which considers 250 net openings in 2019-2021. There is also solid sector justification for this agreement, including the Telepizza Group becoming an authorized supplier for Pizza Hut, opening up significant opportunities with the resulting synergies due to the growth in current and future business.

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

#### **Recent corporate and capital structure changes**

In relation to the voluntary takeover bid for the acquisition of all the shares in Telepizza Group, S.A. made by Tasty Bidco, S.L.U., an investing vehicle controlled by various funds and accounts that are managed or advised by KKR Credit Advisors (US) LLC or its affiliates, with entities affiliated with Torreal, Safra, Artá and Altamar as co-investors, which was approved by the Spanish National Securities Market Commission (Comisión Nacional del Mercado de Valores) on April 28<sup>th</sup>, 2019, the results of which were published on May 9<sup>th</sup>, 2019 and which was settled on May 13<sup>th</sup>, 2019, and pursuant to article 226 of the consolidated text of the Spanish Securities Market Law approved by Royal Legislative Decree 4/2015 of October 23<sup>rd</sup>, Tasty Bidco reports the following:

On January 21<sup>st</sup> 2019, Tasty Bidco S.L.U., submitted to the Spanish National Securities Market Commission (CNMV) a voluntary takeover bid with a tender offer of €6.00 per share for the acquisition of all the shares in Telepizza Group S.A.. The offer was published by the CNMV on March 29<sup>th</sup> and approved by the CNMV on April 28<sup>th</sup>, 2019. The results of the voluntary takeover bid were published on May 9<sup>th</sup>, 2019, and settled on May 13<sup>th</sup>, 2019, resulting in Tasty Bidco as a holder of 56,699,827 shares in Telepizza, representing 56.29% of its share capital. Subsequently a sustained order for the purchase of shares of Telepizza Group was approved by Tasty Bidco.

As of June 12<sup>th</sup>, 2019, Telepizza Group completed the refinancing of its existing debt through the following transactions:

- The acquisition by the Company of all the shares representing the share capital of Tasty Bondco 1, S.A. On May 3<sup>rd</sup>, 2019, Tasty Bondco 1 S.A., a company affiliated with Tasty Bidco, completed the issuance of €335 million 6.25% senior secured notes due 2026. The Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange.

(Continued)

# TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

## Consolidated Directors' Report

Nine-months period ended at 30 September 2019

- The early repayment in full of the outstanding amounts under the senior facilities agreement amounting to €200 million entered into, among others, the company Tele Pizza, S.A.U. and certain financial entities on April 8<sup>th</sup>, 2016, out of the proceeds of the Notes. Simultaneously, the guarantees of the senior facilities were released and the Bonds were guaranteed.

As part of the recapitalization of Telepizza Group, the general shareholders meeting of the Company held on June 17<sup>th</sup>, 2019, approved, under item 5 of the agenda, the distribution of an extraordinary dividend with charge to unrestricted reserves for an amount of €130,936,882.70 million. This amount arises from adjustments depending on the operating cash needs of the Telepizza Group entities and the final amount of the costs and expenses related to the refinancing.

The general shareholders meeting of the Company held on June 17<sup>th</sup>, 2019 also approved the delisting of the shares traded in the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges and, consequently, from the Automated Quotation System (Mercado Continuo), pursuant to the exemption provided for in article 11.d) of Royal Decree 1066/2007. The trading shares of Telepizza Group was suspended on July 9<sup>th</sup>, and effectively delisted on July 26<sup>th</sup>. As of July 10<sup>th</sup>, after the expiration of the sustained order for the purchase of shares of Telepizza Group, Tasty Bidco held 84,566,689 shares in Telepizza, representing 83.96% of the share capital of Telepizza Group.

### ***Business review and result of continued operations***

#### **System sales 9M 2019**

	EMEA	LatAm	Total
<b>System sales<sup>1</sup> growth</b>	<b>5.3%</b>	<b>4.3%</b>	<b>4.8%</b>
System sales growth <sup>1</sup> constant currency (%)	5.3%	0.4%	2.8%
System sales growth <sup>1</sup> constant currency – Telepizza (%)	5.2%	-4.1%	3.5%
System sales growth <sup>1</sup> constant currency – Pizza Hut (%)	6.2%	1.3%	2.0%

<sup>1</sup> Excluding discontinued operations of Poland and Czech Republic; 2018 sales are shown pro forma for Pizza Hut system sales contribution

<sup>2</sup> Including personnel costs, rents, advertising, transport and other expenses

<sup>3</sup> As detailed in the Alternative Performance Measures section

(Continued)

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Directors' Report

Nine-months period ended at 30 September 2019

**Income statement summary**

<b>€m (unless otherwise stated)</b>	<b>9M 2018</b>	<b>9M 2019</b>	<b>% change</b>
Own Store Sales	119.2	126.4	6.0%
Supply chain, royalties, marketing & other income	133.7	165.7	23.9%
<b>Total revenue</b>	<b>253.0</b>	<b>292.2</b>	<b>15.5%</b>
COGS	-66.6	-73.8	10.7%
<i>% Gross margin</i>	<i>73.7%</i>	<i>74.8%</i>	<i>+1.1p.p.</i>
Royalties and fees paid to Yum!	-	-22.5	n.m.
Operating Expenses excluding royalties and fees paid to Yum! <sup>2</sup>	-134.6	-146.1	8.6%
<b>Adjusted EBITDA</b>	<b>51.8</b>	<b>49.8</b>	<b>-3.9%</b>
<i>% Adjusted EBITDA margin</i>	<i>20.5%</i>	<i>17.0%</i>	<i>-3.5p.p.</i>
Non-recurring expenses related to Pizza Hut alliance and new corporate structure <sup>3</sup>	-13.6	-10.9	n.m.
Non-operating items <sup>3</sup>	-2.6	-2.1	n.m.
Phasing impacts <sup>3</sup>	0.9	-4.1	n.m.
<b>Reported EBITDA</b>	<b>36.5</b>	<b>32.6</b>	<b>-10.5%</b>

In the first 9 months of 2019, Telepizza Group reported growth in system sales (which includes the total sales of own stores, franchisees and master franchisees) of +4.8%, up to €924.5 million, versus €882.4 million in the same period in 2018 (excluding discontinued operations of Poland and Czech Republic, including Pizza Hut sales proforma in 2018). This figure reflects a solid top line performance across geographies during the initial period of the integration of the Pizza Hut business.

The total growth in system sales, excluding the proforma adjustment for 2018, was a +106.5%, up to €924.5 million, versus €447.7 million in the same period in 2018 (excluding discontinued operations of Poland and Czech Republic). This translated to a +15.5% increase in revenue, up to €292.2 million, versus €253.0 million in the same period in 2018, due to the inclusion of the Pizza Hut perimeter and its corresponding the royalty flow.

The difference on own stores sales revenue and own stores system sales is related to the reclassification of Peru and Paraguay as discontinued.

The reported EBITDA for the first 9 months of 2019 was €32.6 million, versus €36.5 million in the same period in 2018 (-10.7%). The adjusted EBITDA, excluding non-recurring expenses related to Pizza Hut alliance, new corporate structure, non-operating items and phasing impacts, was €49.8 million, versus €51.8 million in the same period in 2018 (-3.9%).

(Continued)



## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

### Consolidated Directors' Report

Nine-months period ended at 30 September 2019

The bottom line results in the first 9 months reflect a strong underlying base business performance, yet being more than offset by (i) the negative short-term impact of the mandatory minimum salary increase of +22.3% approved in Spain for 2019, (ii) the impact of the turnaround process of the acquired Pizza Hut stores in the country, and (iii) the slow recovery of our Chilean business in the aftermath of the macro-economic and consumer sentiment meltdown in July 2018.

During the first 9 months of 2019, Telepizza has focused on building a successful growth platform for the new Pizza Hut business. Our supply chain system was homologated to supply Pizza Hut, the new dough production plants have been already completed, the planification for new openings and stores conversion have been laid out with encouraging initial results, and we have made the expected progress in M&A operations.

#### **M&A**

In the context of the global alliance with Pizza Hut, certain M&A opportunities have materialized during 2019.

In July, Telepizza acquired 45 stores in Chile from local Pizza Hut franchisee, the operation generated an EBITDA of €2.4 million in 2018. The investment amounted to €19.7 million, 8.0x multiple pre-synergies, after incorporating expected synergies, a c.6.4x multiple is expected.

In October, an agreement to transfer the Telepizza operation in Peru to the local Pizza Hut franchisee was signed, this operation would imply marginal impact at EBITDA level, generating significant cash proceeds while deploying a store development and a supply chain agreement.

#### **EMEA**

System sales in EMEA rose by +5.3% in the semester, up to €455.1 million, versus €432.3 million in the same period in 2018 (excluding discontinued operations of Poland and Czech Republic, including Pizza Hut sales proforma in 2018).

Spain and Portugal had solid top line performance, with medium single-digit growth while building growth platform for Pizza Hut in Spain. In Ireland and Switzerland, sales performance was also excellent with double-digit growth.

In Spain we are successfully integrating the existing Pizza Hut operation, following the acquisition of 13 stores from small franchisees during 2019 in order to build the growth platform for the brand in Spain. We have been upgrading the acquired stores to our state-of-the-art digital and delivery platforms.

The Pizza Hut operation in EMEA has increased by 15 new stores, of which 9 are Telepizza stores converted to Pizza Hut during the first 9 months of the year. Those figures will keep increasing throughout the year as we accelerate expansion and conversions.

Bottom line results in Spain are negatively impacted in the short term by the mandatory minimum salary increase of +22.3% approved for 2019, and by the turnaround process of the acquired Pizza Hut.

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

### Consolidated Directors' Report

Nine-months period ended at 30 September 2019

#### **Latam**

System sales in Latam rose by +4.3% in the semester, up to €469.4 million, versus €450.1 million in the same period in 2018 (including Pizza Hut sales proforma in 2018).

Positive topline growth across the region, underpinned by positive currency effect. Telepizza negative constant currency results reflect conversion of Telepizza stores to Pizza Hut. Pizza Hut, being mainly a franchised business, in transition with opportunity to accelerate growth and fix some underperforming countries.

The foodservice market in Chile suffered a downturn in July 2018, the recovery of which has been slow. Since the consumer sentiment meltdown, we have been focused on repositioning our commercial offer and restructuring the operation in the country.

#### **Expansion of the store network (continued operations)**

As of September 30<sup>th</sup>, 2019, there were 2,370 Telepizza and Pizza Hut stores within the master franchisee perimeter (Spain, Portugal, Switzerland and Latam ex-Brazil), of which 1,004 were located in EMEA and 1,366 in Latam, this compares to a total of 2,337 stores at December 31<sup>st</sup>, 2018.

We rebranded 58 stores from Telepizza to Pizza, 9 in EMEA and 49 in Latam. The sales increase of the rebranded stores in Latam have exceeded expectations, achieving high double-digit sales uplifts with limited capex investment.

The discontinued operations in Poland and Czech, classified as available for sale, accounted for a total of 99 stores operating as of September 30<sup>th</sup>, 2019.

#### ***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 mainly aim 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 Group regularly launches new products and pizza varieties, the common aim of these product launches is to reinforce the idea of variety, offering something new to consumers, as well as to provide a qualitative improvement in the range of products.

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

(Continued)

## TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

### Consolidated Directors' Report

Nine-months period ended at 30 September 2019

#### *Alternative performance measures*

This report includes several financial and non-financial metrics used to better represent the performance of Telepizza Group 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 operating profit plus asset depreciation and amortization.
- **Adjusted EBITDA:** Adjusted EBITDA is EBITDA adjusted for costs that are non-operating in nature, phasing impacts, and non-recurring costs related to both the Pizza Hut alliance and the new corporate structure.
- **Non-operating items:** Certain expenses, mainly related to onerous leases that are non-operating in nature
- **Phasing impacts:** Normalization of certain expenses across the year
- **Non-recurring costs related to Pizza Hut alliance and new corporate structure:** Extraordinary expenses related to the set-up of the Pizza Hut alliance (strategy consulting, legal fees, performance bonuses and other expenses), also extraordinary expenses related to the set-up of new corporate structure (finance consulting, legal fees and other expenses) and minor impact related to discontinued operations