# Foodco Pastries Spain, S.L.U.

## Consolidated Annual Accounts

December 31, 2013

## 2013 Director's Report

(With Auditors' Report Thereon)

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

**KPMG Auditores S.L.**
Torre Europa
Paseo de la Castellana, 95
28046 Madrid

# Auditors' Report on the Consolidated Annual Accounts

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

To the Sole Shareholder of
Foodco Pastries Spain, S.L.U.

We have audited the consolidated annual accounts of Foodco Pastries Spain, S.L.U. (the Parent) and subsidiaries (the Group), which comprise the consolidated statement of financial position at 31 December 2013, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended and the notes thereto. As specified in note 2 to the accompanying consolidated annual accounts, the Company's directors are responsible for the preparation of the consolidated annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union, and other provisions of the financial information reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on our audit, which was conducted in accordance with prevailing legislation regulating the audit of accounts in Spain, which requires examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated annual accounts and evaluating whether their overall presentation, the accounting principles and criteria used and the accounting estimates made comply with the applicable legislation governing financial information.

In our opinion, the accompanying consolidated annual accounts for 2013 present fairly, in all material respects, the consolidated equity and consolidated financial position of Foodco Pastries Spain, S.L.U. and subsidiaries at 31 December 2013 and the consolidated results of their operations and consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and other provisions of the applicable financial information reporting framework.

The accompanying consolidated directors' report for 2013 contains such explanations as the Directors of the Parent consider relevant to the situation of the Group, the evolution of its business and other matters, and is not an integral part of the consolidated annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the consolidated annual accounts for 2013. Our work as auditors is limited to the verification of the consolidated directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Foodco Pastries Spain, S.L.U. and subsidiaries.

KPMG Auditores, S.L.

(*Signed on original in Spanish*)

Tatiana Marcinova

24 March 2014

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Reg. Mer Madrid, T. 11.961, F. 84, Sec. 8, H. M -188.007, Inscrip. 1
N.I.F. B-78510153

FOODCO PASTRIES SPAIN, S.L.U.
AND SUBSIDIARIES

Consolidated Annual Accounts and Directors' Report

31 December 2013

(With Auditors' Report Thereon)

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

FOODCO PASTRIES SPAIN, S.L. AND SUBSIDIARIES

Consolidated Statements of Financial Position
31 December 2013 and 2012

(Expressed in thousands of Euros)

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

| Assets | 2013 | 2012 |
|---|---|---|
| Property, plant and equipment (note 7) | 39.311 | 47.788 |
| Goodwill (note 8) | 376.040 | 415.396 |
| Other intangible assets (note 8) | 345.714 | 352.837 |
| Other financial assets (note 9) | 23,888 | 14,227 |
| Total non-current assets | 784,953 | 830,248 |
| Inventories (note 10) | 13.454 | 13.183 |
| Trade and other receivables (note 11) | 37.830 | 39.249 |
| Other current financial assets | 370 | 186 |
| Other current assets | 3,169 | 5,445 |
| Cash and cash equivalents (note 12) | 8,798 | 24,832 |
| Subtotal current assets | 63,621 | 82,895 |
| Non-current assets held for sale (note 5) | 1,953 | 656 |
| Total current assets | 65,574 | 83,551 |
| Total assets | 850,527 | 913,799 |

The accompanying consolidated notes form an integral part of the consolidated annual accounts for 2013.

FOODCO PASTRIES SPAIN, S.L. AND SUBSIDIARIES

Consolidated Statements of Financial Position
31 December 2013 and 2012

(Expressed in thousands of Euros)

| Equity and Liabilities | 2013 | 2012 |
|---|---|---|
| Share capital | 17,779 | 14,979 |
| Share premium | 236.796 | 183.596 |
| Accumulated losses | (268,595) | (183.905) |
| Translation differences | (3,795) | 3,959 |
| Equity attributable to equity holders of the Parent and total equity (note 14) | (17,815) | 18,629 |
| Borrowings (note 17 (a)) | 504,229 | 495.382 |
| Financial liabilities at fair value (note 16) | 2.329 | 2,467 |
| Capital grants (note 20) | 1,163 | 1.692 |
| Deferred tax liabilities (note 13) | 96,192 | 75.598 |
| Provisions | 237 | 237 |
| Group companies (note 28) | 192,924 | 222.891 |
| Other non-current liabilities | 3,987 | 2.476 |
| Total non-current liabilities | 801,061 | 800.743 |
| Borrowings (note 17 (b)) | 14,411 | 24,127 |
| Financial liabilities at fair value (note 16) | 14 | 4,572 |
| Trade and other payables (note 21) | 47,700 | 55,088 |
| Group companies (note 28) | 2,753 | 6,319 |
| Current tax liabilities (note 26) | 970 | 1.248 |
| Provisions (note 18) | 857 | 934 |
| Other current liabilities | 493 | 2.056 |
| Subtotal current liabilities | 67,198 | 94,344 |
| Liabilities directly associated with non-current assets held for sale (note 5) | 83 | 83 |
| Total current liabilities | 67,281 | 94,427 |
| Total equity and liabilities | 850,527 | 913,799 |

The accompanying consolidated notes form an integral part of the consolidated annual accounts for 2013.

FOODCO PASTRIES SPAIN, S.L. AND SUBSIDIARIES

Consolidated Income Statements
for the years ended
31 December 2013 and 2012

(Expressed in thousands of Euros)

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

| | 2013 | 2012 (*) |
|---|---|---|
| Revenues (note 22 (a)) | 326,226 | 345,824 |
| Other income (note 22 (b)) | 10,582 | 12,725 |
| Total income | 336,808 | 358,549 |
| Merchandise and raw materials used (note 10) | (74,276) | (82,398) |
| Personnel expenses (note 23) | (104,861) | (110,742) |
| Amortisation and depreciation (notes 7 and 8) | (17,456) | (20,962) |
| Other expenses (note 24) | (99,034) | (107,174) |
| Operating profit | 41,181 | 37,273 |
| Finance income | 5,530 | 1,299 |
| Finance costs | (61,999) | (72,516) |
| Other losses (note 25) | (44,376) | (22,435) |
| Loss before tax of continuing operations | (59,664) | (56,379) |
| Income tax income/(expense) (note 26) | (23,884) | 24,487 |
| Loss for the year of continuing operations | (83,548) | (31,892) |
| Loss on discontinued operations (note 5) | (1,206) | (869) |
| Loss for the year | (84,754) | (32,761) |
| Loss for the year attributable to equity holders of the Parent | | |
| Continuing operations | (83,548) | (31,892) |
| Discontinued operations | (1,206) | (869) |
| | (84,754) | (32,761) |

(*) Restated amounts

The accompanying consolidated notes form an integral part of the consolidated annual accounts for 2013.

FOODCO PASTRIES SPAIN, S.L. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
for the years ended
31 December 2013 and 2012

(Expressed in thousands of Euros)

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

| | 2013 | 2012 |
|---|---|---|
| Loss for the year | (84,754) | (32,761) |
| Other comprehensive income: | | |
| Items that will be reclassified to profit or loss | | |
| Translation differences on financial statements of foreign operations | (7,754) | 3,091 |
| Comprehensive losses for the year | (92,508) | (29,670) |
| Total comprehensive income attributable to equity holders of the Parent | (92,508) | (29,670) |

The accompanying consolidated notes form an integral part of the consolidated annual accounts for 2013.

FOODCO PASTRIES SPAIN, S.L. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
for the years ended
31 December 2013 and 2012

(Expressed in thousands of Euros)

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

| | 2013 | 2012 |
|---|---|---|
| Cash flows from operating activities | | |
| Loss for the year before tax | (59.664) | (57.232) |
| *Adjustments for:* | | |
| Amortisation and depreciation (notes 7 and 8) | 17.457 | 21.269 |
| (Reversal of) impairment losses (notes 7 and 8) | 2.112 | 18.637 |
| Changes in provisions for non-current liabilities | - | 108 |
| Exchange gains/losses | - | 1.660 |
| Finance income | (5.530) | (1.820) |
| Finance costs | 61.999 | 71.521 |
| Losses on disposal of property, plant and equipment and other losses (note 25) | 42.264 | 3.766 |
| Deferred capital grants (note 20) | (529) | (328) |
| Change in fair value of financial assets | - | 1.545 |
| | 58.109 | 59.125 |
| Change in working capital | | |
| (Increase)/decrease in inventories | (271) | 656 |
| (Increase)/decrease in trade and other receivables | 1.419 | (10.260) |
| (Increase)/decrease in financial assets | (184) | - |
| (Increase)/decrease in other current assets | (3.498) | (641) |
| Assets held for sale and discontinued operations | 430 | - |
| Increase/(decrease) in trade and other payables | (7.388) | 10.214 |
| Increase/(decrease) in trade provisions | (77) | - |
| Increase/(decrease) in other current liabilities | (1.563) | 1.011 |
| Increase/(decrease) in non-current liabilities held for sale and discontinued operations | - | 1.193 |
| | (11.132) | 2.174 |
| Cash generated from operations | | |
| Income tax paid | (3.568) | (2.290) |
| Post-tax loss on discontinued operations | (1.206) | - |
| | (4.774) | (2.290) |
| Net cash from operating activities | 42.203 | 59.009 |
| Cash flows from investing activities | | |
| Proceeds from sale of property, plant and equipment and intangible assets | 4.537 | - |
| Acquisition of property, plant and equipment (note 7) | (12.481) | (12.123) |
| Acquisition of intangible assets (note 8) | (1,265) | (2.312) |
| Acquisition of goodwill (note 8) | (1,375) | (690) |
| Net cash from investing activities | (10,584) | (15,125) |
| Cash flows from financing activities | | |
| Decrease in other non-current financial assets | (9,661) | (5,829) |
| Increase/decrease in other non-current liabilities | 1,511 | - |
| Decrease in financial debt | (15.355) | (13.588) |
| Interest received | 834 | 1.820 |
| Interest paid | (25,046) | (31.421) |
| Changes in reserves | 64 | (431) |
| Net cash generated by financing activities | (47.653) | (49.449) |
| Decrease in cash and cash equivalents at 31 December | (16,034) | (5.565) |

The accompanying consolidated notes form an integral part of the consolidated annual accounts for 2013.

FOODCO PASTRIES SPAIN, S.L. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
for the years ended
31 December 2013 and 2012

(Expressed in thousands of Euros)

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

| | Share capital | Share premium | Accumulated losses | Translation differences | Total Total equity |
|---|---|---|---|---|---|
| Balances at 31/12/2011 | 14,979 | 183,596 | (150,712) | 868 | 48,731 |
| Share capital increase | - | - | - | - | - |
| Other movements | - | - | (432) | - | (432) |
| Loss for the year | - | - | (32,761) | 3,091 | (29,670) |
| Balances at 31/12/2012 | 14,979 | 183,596 | (183,905) | 3,959 | 18,629 |
| Capital increase | 2,800 | 53,200 | - | - | 56,000 |
| Other movements | - | - | 64 | - | 64 |
| Loss for the year | - | - | (84,754) | (7,754) | (92,508) |
| Balances at 31/12/2013 | 17,779 | 236,796 | (268,595) | (3,795) | (17,815) |

FOODCO PASTRIES SPAIN, S.L. AND SUBSIDIARIES
Details of Shareholdings in Group companies
31 December 2013

(Expressed in thousands of Euros)

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

| | Registered offices | Percentage ownership | Capital | Reserves | Profit/(loss) | Total Total equity |
|---|---|---|---|---|---|---|
| Tele Pizza S.A. (1) | Madrid | 100.00% | 7,717 | 87,043 | (2,031) | 93,005 |
| Mixor, S.A. (1) | Madrid | 100.00% | 3,215 | 3.951 | (48) | 7,118 |
| Circol, S.A. (3) | Madrid | 100.00% | 1,085 | 2.767 | 124 | 3,975 |
| Telepizza Chile Group (2) | Santiago de Chile | 100.00% | 3,065 | 37.140 | 5,509 | 45,714 |
| Telepizza Portugal Group (2) | Lisbon | 100.00% | 1,900 | 12.387 | 2,427 | 16,713 |
| Telepizza Poland Sp. Z o.o. (1) | Warsaw | 100.00% | 9,319 | (8.346) | (1,332) | 359 |
| Pizzas del Centro, S.A. de C.V. (3) (4) | Mexico City | 100.00% | 1,624 | (2.280) | - | (655) |
| Telepizza Maroc, S.A. (3) (4) | Casablanca | 100.00% | 59 | (763) | - | (704) |
| A Tu Hora, S.A. (1) | Madrid | 100.00% | 450 | (8.287) | (1,166) | (9,003) |
| Lubasto Holding, B.V. (3) | Ámsterdam | 100.00% | 27 | (125) | (9) | (107) |
| Telepizza Guatemala (3) | Guatemala | 100.00% | - | 94 | 347 | 441 |
| Luxtor, S.A. (1) | Avila | 100.00% | 6.128 | 12.675 | 7,239 | 26,042 |
| Telepizza Ecuador S.A. (3) | Quito | 100.00% | 50 | (30) | (181) | (161) |
| Cozicharme, LDA | Lisbon | 100.00% | 5 | (20.769) | (3,089) | (23,853) |
| Bazigual, SGPS,LDA | Lisbon | 100.00% | 5 | (82) | (7) | (84) |
| Inverjenos S.A.S. (1) | Bogota | 100.00% | 499 | 2,960 | (890) | 2,569 |
| Telepizza Uruguay S.A. | Montevideo | 100.00% | 10 | | 496 | 506 |
| Telepizza Shanghai S.A. | Shanghai | 100.00% | 100 | 1 | 12 | 113 |
| Telepizza Andina (3) | Lima | 100.00% | 4.383 | (977) | (737) | 2,669 |

*(1) Audited*
*(2) The main companies of the subgroup have been audited*
*(3) Unaudited*
*(4) Dormant companies*

This appendix forms an integral part of note 1 to the consolidated annual accounts for 2013, in conjunction with which it should be read.

FOODCO PASTRIES SPAIN, S.L.U.
AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

31 December 2013
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

## (1) Nature, Activities and Composition of the Group

Foodco Pastries Spain, S.L. (the Company) 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 the current one. The Company's registered offices are located at Calle Isla Graciosa, 7, San Sebastián de los Reyes, Madrid.

The Company's statutory activity consists of the incorporation and the direct or indirect management and control of other companies; the acquisition, disposal, holding and operation of properties, vehicles of all types and eras, ceramic objects for all manner of applications and uses, minerals of all types and values, all kinds of intellectual works, such as literary, scientific, audiovisual, musical, translations, computer programs and photographs; securities in general, excluding activities attributed exclusively to other entities by special legislation and, particularly, the Securities Market Law; the negotiation and operation of patents, trademarks, licences, know-how and copyrights; brokerage in commercial, business and real estate operations not restricted by law to certain entities or professionals; and the rendering of all related services. The Company may carry out all or part of these activities indirectly through ownership of shares or interests in companies with a similar or identical statutory activity. All activities with special legal requirements which cannot be met by the Company are excluded from this activity.

The principal activity of Foodco Pastries Spain, S.L.U. is the holding of the interest in Tele Pizza, S.A., the indirect holding of other investees thereof and the rendering of corporate and strategic management-related services on behalf of Tele Pizza, S.A.

The principal activity of Tele Pizza, S.A. and its subsidiaries (the tele Pizza Group) consists of the management and operation of fast-food sales outlets and restaurants under the brand names Telepizza and Pizza World for consumption at home and on the premises. At 31 December 2013, this activity is carried out through premises owned by the Company and franchises located mainly in Spain, Portugal, Poland, Chile, Guatemala, Colombia and Peru. Other activities include the production of dairy products derived from cheese and holding shares. Through its factory in Daganzo (Madrid), Tele Pizza, S.A. supplies all the outlets in Spain that are directly operated by the Telepizza Group or through its franchises.

The franchise activity consists mainly of advising on the management of outlets owned by third parties that operate under the Telepizza and Pizza World brand names. The Telepizza Group receives a percentage of its franchisees' sales (royalties) for these services. The Group focuses its activity on promotional and advertising activities for all the outlets operating under the aforementioned brand names in Spain.

The subsidiaries and sub-groups comprising the Foodco Group (the Group), and the percentage ownership and details of the respective shareholders' equities at 31 December 2013, are included in Appendix I attached hereto, which forms an integral part of this note. At 31 December 2013 and 2012 none of the Group companies are listed on the stock exchange. The Group does not hold interests in other entities or in jointly controlled entities, assets or operations.

The Company is a solely-owned subsidiary of Telefood, S.à.r.l. (see note 14). Consequently, the Company is a solely-owned company, as defined by relevant legislation, and has been filed as such at the Mercantile Registry. Contracts entered into by the Company and its sole shareholder relate to two loans, a participating loan and a subordinated loan (see note 28).

## (2) Basis of Presentation

The accompanying consolidated annual accounts have been prepared on the basis of the accounting records of Foodco Pastries Spain, S.L. and of the consolidated companies. The consolidated annual accounts for 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other applicable provisions in the financial reporting framework, to present fairly the consolidated equity and consolidated financial position of Foodco Pastries Spain, S.L. and subsidiaries at 31 December 2013 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 accompanying consolidated annual accounts, authorised for issue on 5 March 2014, will be approved with no changes by the sole shareholder.

### (a) Basis of preparation of the annual accounts

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

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

### (a) Judgements and accounting estimates used

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, are as follows:

- The Group determines the useful life of certain intangible assets acquired in a business combination based on assumptions relating to brand positioning, estimated future market share, investments in the brand and the projected cash flows to be generated by these assets. Some of these assumptions changed at the start of 2009 and the Group has therefore re-estimated the useful lives of certain intangible assets, with the aid of a report drawn up by independent experts (see note 4 (e)).

- The Group tests goodwill and the brand for impairment on an annual basis. Calculation of the recoverable amount requires the use of estimates by management. The recoverable amount is the higher of fair value less costs to sell and value in use. The Group generally uses cash flow discounting methods to calculate these values. Cash flow discounting calculations are based on the 5-year projections of the budgets approved by management. The flows take into consideration past experience and represent management's best estimate of future market performance. Cash flows subsequent to the fifth year are extrapolated using individual growth rates. The key assumptions employed when determining fair value less costs to sell and value in use include growth rates, the weighted average cost of capital, and tax rates. The estimates, including the methodology used, could have a significant impact on values and impairment.

- Valuation allowances for bad debts require a high degree of judgement by management and a review of individual balances based on customers' credit ratings, current market trends and historical analysis of bad debts at an aggregated level. Any decrease in the volume of outstanding balances entails a reduction in impairment resulting from an aggregate analysis of historical bad debts, and vice versa.

- The Group capitalises the tax credits it considers likely to be offset in the foreseeable future based on business plans for each tax jurisdiction in which it operates.

- Although estimates are calculated by the Company's directors based on the best information available at 31 December 2013, future events may require changes to these estimates in subsequent years. Any effect on the consolidated annual accounts of adjustments to be made in subsequent years would be recognised prospectively.

(c) Consolidated group

Proyburgos was sold in 2013.

During 2012 Telepizza Ecuador and Telepizza Shanghai were incorporated and have been included in the consolidated Group.

(d) New standards and interpretations

*Standards and interpretations effective since 2013*

The Group's accounting policies have not been modified as a result of any amendments to standards and interpretations or new standards introduced since 1 January 2013 as these changes deal with types of transaction not carried out by the Group.

*Standards and interpretations issued and not applied*

At the date of publication of these consolidated annual accounts, the following IFRS, amendments and IFRIC interpretations have been issued, although their application is not compulsory:

- IFRS 10 Consolidated Financial Statements. Effective for annual periods beginning on or after 1 January 2014.
- IFRS 11 Joint Arrangements. Effective for annual periods beginning on or after 1 January 2014.
- IFRS 12 Disclosure of Interests in Other Entities. Effective for annual periods beginning on or after 1 January 2014.
- IAS 28 Investments in Associates and Joint Ventures. Effective for annual periods beginning on or after 1 January 2014.
- IAS 32 Financial instruments: Presentation: Amendment to disclosures regarding the settlement of financial assets and financial liabilities. The standard applies to years starting on or after 1 January 2014.
- Amendment to IAS 39: Novation of derivatives and continuation of hedge accounting. Effective for annual periods beginning on or after 1 January 2014.

The Group has not early adopted any of these standards and is currently analysing the impact of applying these standards, rectifications and interpretations. Based on its analyses to date, the Group estimates that first-time application will not have a significant impact on the consolidated annual accounts.

The Group has opted not to apply prospectively any of the IFRS already issued which have not yet come into effect.

(e) Comparative information

The consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes thereto for 2013 include comparative figures for 2012, which formed part of the annual accounts approved by the sole shareholder on 28 June 2013.

The balances in the consolidated income statement for 2012 have been restated in order to making them comparable with the figures for 2013 as the Group classified certain operations as discontinued operations in the consolidated income statement for 2012, as described in note 5.

(f) Functional and presentation currency

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

## (3) Application of Parent's Losses

The board of directors of the Parent will propose to the sole shareholder at the annual general meeting that the Euros 44,256,690 loss for the year ended 31 December 2013 be carried forward as accumulated losses.

## (4) Significant Accounting Principles

(a) Subsidiaries

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

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

Information on subsidiaries forming the consolidated Group is included in Appendix I of note 1.

Transactions and balances with group companies and significant unrealised gains or losses have been eliminated upon 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 other events in similar circumstances.

The reporting date and period of the financial statement of the subsidiaries used in the consolidation process coincide with the financial statements of the Parent.

(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 as of 1 January 2010.

The Group applies the purchase 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 business acquired.

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.

Assets and liabilities assumed are classified and designated for subsequent measurement in accordance with the contractual terms, economic conditions, operating or accounting policies and other factors that exist at the acquisition date, except for leases and insurance contracts.

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

The initial measurement is only adjusted when correcting errors.

The potential benefit of the acquiree's income tax loss carryforwards and other deferred tax assets, that 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 a measurement period adjustment.

(c) Foreign currency transactions and balances

Functional and presentation currency

The figures disclosed in the consolidated annual accounts are expressed in Euros, the parent's functional and presentation currency, rounded off to the nearest thousand.

Foreign currency transactions, balances and cash flows

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

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

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

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

Exchange gains or losses on monetary financial assets or financial liabilities denominated in foreign currencies are also recognised in profit or loss.

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.

Translation of foreign operations

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

- Assets and liabilities, including goodwill and net asset adjustments derived from the acquisition of the operations, including comparative amounts, are translated at the closing rate at the reporting date.

- Income and expenses, including comparative amounts, are translated at the exchange rates that approximate those prevailing at each transaction date.

- All resulting exchange differences are recognised as translation differences in other comprehensive income.

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

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

(d) Property, plant and equipment

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

Replacements of property, plant and equipment that qualify for capitalisation are recognised as a reduction in the carrying amount of the items replaced. Where the cost of the replaced items has not been depreciated independently and it is not possible to determine the respective carrying amount, the replacement cost is used as indicative of the cost of items at the time of acquisition or construction.

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 acquisition cost less the residual value on a straight-line basis over their estimated useful lives, as follows:

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

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

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

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

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

(e) Intangible assets

Goodwill

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

Goodwill is not amortised but is tested for impairment annually or more frequently where events or circumstances indicate that an asset may be impaired. Goodwill on business combinations is allocated to the cash-generating units (CGUs) or groups of CGUs which are expected to benefit from the synergies of the business combination. The Telepizza Group has defined each of the stores 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.

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.

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

Other intangible assets

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

- *Concessions, patents and licences*

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

- *Computer software*

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

Computer software maintenance costs are expensed as incurred.

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.

In 2009 the Group re-estimated the useful life of the Telepizza brand and of other intangible assets arising from contractual rights obtained in the merger with Medimosal, S.L.

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

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

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

| | |
|---|---|
| Contractual rights | 30 |
| Customer databases | 11 |
| Patents and licences | 4 |
| Leaseholds | 10 |
| Computer software | 4 |
| Administrative concessions | Operating term |

The depreciable amount of intangible assets is measured as the cost of the asset, less any residual value. The Group reviews the residual value, useful life and amortisation method for intangible assets at each financial year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

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

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

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

Non-current assets or disposal groups for which the carrying amount will be recovered principally through a sale transaction rather than through continuing use are classified as held for sale, provided that these 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 costs to sell or disposal costs and are not depreciated. 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.

A gain on increases in the fair value less costs to sell or disposal costs (either due to remeasurement of fair value less costs to sell or disposal costs or to impairment losses that occurred before classification of the asset as held for sale) is recognised in the income statement to the extent that it reverses any impairment of the asset.

A non-current asset or disposal group, including subsidiaries, and all or part of the investment 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 twelve 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 to sell or disposal costs.

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.

(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 costs to sell or distribute or disposal costs or on the disposal of the assets or disposal group(s) constituting the discontinued operation on the face of the consolidated income statement (consolidated statement of comprehensive income). The consolidated income statement for the prior year has been restated to facilitate comparison with the accompanying consolidated annual accounts (see note 5).

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.

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

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

The Group tests goodwill and the brand, with 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.

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

Impairment losses for cash-generating units 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.

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.

After an impairment loss or reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods based on its new carrying amount.

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

(h) Leases

(i) Lessor accounting records

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

Leases which do not transfer to third parties substantially all the risks and rewards incidental to ownership of the assets are classified as operating leases.

The Group assesses the economic substance of contracts to identify any implicit leases. A contract is or contains a lease if compliance with the agreement depends on the use of a specific asset or assets. In these cases, at the inception of the lease the Group separates the payments receivable and considerations relating to the lease from those for the rest of the items included in the agreement, based on their fair values. Lease payments are recognised by applying the criteria set out in this note.

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

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

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

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

(ii) Lessee accounting records

The Group also has rights to use certain properties through lease contracts.

Leases in which the Group assumes substantially all the risks and rewards incidental to ownership are classified as finance leases, otherwise they are classified as operating leases.

- *Finance leases*

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

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

- *Operating leases*

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

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

(i) Financial assets

The Group classifies its investments in the following categories: financial assets at fair value through profit and loss and loans and other receivables. Investments are classified based on the purpose for which they were acquired and the characteristics of the instruments.

Acquisitions and sales of financial assets are accounted for at the trading date, when the Group undertakes to purchase or sell the asset.

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

The Group has classified in this category derivative financial instruments held for trading which are not designated as hedging instruments as they do not meet the conditions to be considered effective.

Financial assets are recognised at fair value. Transaction costs directly attributable to the acquisition are recorded as an expense in the consolidated income statement.

Unrealised and realised gains and losses arising from changes in fair value are recognised in the consolidated income statement in the year in which they arise.

Loans and receivables

Loans and receivables comprise trade and non-trade receivables with fixed or determinable payments that are not quoted in an active market. These assets are recognised initially at fair value, including transaction costs, and are subsequently measured at amortised cost using the effective interest method.

Nevertheless, financial assets which have no established interest rate, which mature or are expected to be received in the short term, and for which the effect of not discounting is immaterial, are measured at their nominal amount.

Impairment

At each reporting date the Group assesses whether objective evidence exists of the impairment of a financial asset or group of financial assets, as a result of one or more events occurring subsequent to the initial recognition of the asset with an impact on the estimated future cash flows associated with the financial asset or group of financial assets, if this can be reliably estimated.

The Group recognises impairment of loans and receivables when estimated future cash flows are reduced or delayed due to debtor insolvency. When impairment and uncollectibility are considered irreversible, their carrying amount is eliminated against the provision. Reversals of impairment are also recognised against the provision.

In the case of financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit and loss and can be reversed in subsequent years if the decrease in the impairment loss can be related objectively to an event occurring after the impairment was recognised. However, the loss can only be reversed to the limit of the amortised cost of the assets had the impairment loss not been recorded.

Derecognition of financial assets

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

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

(j) Inventories

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

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

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

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

Sales returns are recognised at purchase price, except where the net realisable value is lower, in which case they are recognised at that amount.

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.

Income from grants on assets for production is not recognised as a reduction in the production cost of inventories.

The methods applied by the Group to determine inventory costs are as follows:

- Raw materials and other supplies: weighted average cost.

- Finished goods and work in progress: the weighted average cost of raw materials and other supplies, including the 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.

- Goods for resale: weighted average acquisition cost.

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 products: estimated selling price less costs to sell.

- Work in progress: the estimated selling price of related finished goods, less the estimated costs of completion and the estimated costs necessary to make the sale.

The previously recognised write-down is reversed against profit and loss when the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances. The reversal of the write-down is limited to the lower of the cost and the revised net realisable value of the inventories.

(k) Cash and cash equivalents

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

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

(l) Financial liabilities

Financial liabilities, including trade and other payables, which are not classified as held for trading or financial liabilities at fair value through profit or loss, are initially recognised at fair value less any transaction costs. After initial recognition, liabilities classified under this category and external financing are measured at amortised cost using the effective interest method

Nevertheless, financial liabilities which have no established interest rate, which mature or are expected to be settled in the short term, and for which the effect of discounting is immaterial, are measured at their nominal amount.

A financial liability, or part of a financial liability, is derecognised when the Group has settled the obligations stipulated in the contract, or when these have been extinguished or have expired.

Reverse factoring

The Group has contracted reverse factoring facilities with various financial institutions to manage payments to suppliers. Trade payables settled under the management of financial institutions are recognised in the consolidated statement of financial position as trade payables factored by financial institutions in trade and other payables until they have been settled, extinguished or have expired.

The consideration given by the financial institutions in exchange for trade notes and invoices supporting Group payables is recorded in other income in the consolidated statement of comprehensive income.

(m) Interest rate swaps

Derivative financial instruments which qualify for hedge accounting are initially measured at fair value, plus any transaction costs that are directly attributable to the acquisition, or less any transaction costs directly attributable to the issue of the financial instruments.

Hedge accounting has not been applied to these financial instruments as they do not meet the conditions to be considered effective. Changes in the fair value of these derivatives are therefore recognised in profit and loss as finance expenses under change in fair value of financial instruments.

(n) Government grants

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

- Capital grants: non-refundable government grants awarded as monetary assets are initially recorded under liabilities at the original amount received or at fair value. Income from capital grants is recognised under other income on a straight-line basis over the useful life of the items of property, plant and equipment for which the grants have been received.

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

(o) Employee benefits

Termination benefits

Termination benefits are recognised at the earlier of either the date when the Group may no longer withdraw the offer or when the costs of a restructuring entailing the payment of termination benefits are recognised.

With regard to termination benefits resulting from the decision of an employee to accept an offer, it is considered that the Group may no longer withdraw the offer either when the employee accepts the offer or when a restriction arises on the Group's ability to withdraw the offer, whichever occurs sooner.

With regard to termination benefits for involuntary redundancies, it is considered that the Group may no longer withdraw the offer when it has informed the affected employees or the trade union representatives of the plan and when the actions required to implement the redundancy would not suggest any significant deviations from the plan, which stipulates the number of employees to be terminated, their professional category or functions, place of employment, expected termination date and termination benefits that they will receive in sufficient detail for them to determine the type and amount of the remuneration they will receive when they are dismissed.

If the Group expects to settle the termination benefits in full within twelve months of the reporting date, the liability is discounted using the market yield on high quality corporate bonds.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) which are expected to be settled within twelve months after the end of the period in which the employees render the service for which this right was accrued.

Short-term employee benefits are reclassified to long-term if the characteristics of the remuneration are changed or if there is a definitive change in the expected settlement date.

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.

(p) Provisions

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

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

The tax effect and gains on the expected disposals 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, and any surplus is accounted for in other income.

(q) Revenue recognition

Revenue from the sale of goods or provision of services is measured at the fair value of the consideration received or receivable. Revenue is presented net of value added tax and any other taxes. When sales discounts are considered likely to be disbursed at the revenue recognition date, they are accounted for as a decrease in revenue.

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

Discounts granted to customers are recognised as a reduction in sales revenue when it is probable that the discount conditions will be met.

The Group does not have significant volumes of product returns.

(r) Income tax

The income tax expense or tax income for the year comprises current tax and deferred tax. 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, and that transaction or event will have no impact on profit or loss or on any equity accounts.

Current tax is the estimated amount of income tax payable or recoverable in respect of the consolidated taxable income or consolidated tax loss for the year. Current tax assets or liabilities are measured using enacted tax rates and tax laws.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences, whereas 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.

Since 1 January 2007 Foodco Pastries Spain, S.L. has been the parent of a tax group, as defined by the consolidated tax regime, which comprises Tele Pizza, S.A., Circol, S.A., Mixor, S.A. and Luxtor, S.A. at 31 December 2011.

In addition to the factors to be considered for individual taxation, set out previously, the following factors are taken into account when determining the accrued income tax expense for the companies forming the consolidated tax group:

- Temporary and permanent differences arising from the elimination of profits and losses on transactions between Group companies, derived from the process of determining consolidated taxable income.

- Deductions and credits corresponding to each company forming the consolidated tax group. For these purposes, deductions and credits are allocated to the company that carried out the activity or obtained the profit necessary to obtain the right to the deduction or tax credit.

A reciprocal credit and debit arises between the companies that contribute tax losses to the consolidated Group and the rest of the companies that offset those losses. Where a tax loss cannot be offset by the other consolidated Group companies, these tax credits for loss carryforwards are recognised as deferred tax assets using the applicable recognition criteria, considering the tax group as a taxable entity.

(i) Taxable temporary differences

Taxable temporary differences are recognised 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.

(ii) Deductible temporary differences

Deductible temporary differences are recognised provided that it is probable that sufficient taxable income will be available against which the deductible temporary difference can be utilised, unless the differences arise from the initial recognition of 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.

(iii) Measurement

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the years when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially 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 carrying amounts of deferred tax assets are reviewed by the Group at each reporting date to reduce these amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of the deferred tax assets to be utilised.

Deferred tax assets that do not meet these conditions are not recognised in the consolidated statement of financial position. At the end of each reporting period, the Group reassesses unrecognised deferred tax assets.

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.

(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 asset and settle the liability simultaneously.

The Group only offsets deferred tax assets and liabilities if it has a legally enforceable right, when they relate to income taxes levied by the same taxation authority and on the same taxable entity and when the taxation authority permits the Group to make or receive a single net payment, or to recover the assets and settle the liabilities simultaneously in each future year in which significant amounts of deferred tax assets or liabilities 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.

(s) 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.

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

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

- Assets are classified as current when they are expected to be realised or are intended for sale or consumption in the Group's normal operating cycle, they are held primarily for the purpose of trading, they are expected to be realised within twelve months after the reporting date or are cash or a cash equivalent, unless the assets may not be exchanged or used to settle a liability for at least twelve months after the reporting date.

- Liabilities are classified as current when they are expected to be settled in the Group's normal operating cycle, they are held primarily for the purpose of trading, they are due to be settled within twelve months after the reporting date or the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

- Financial liabilities are classified as current when they are due to be settled within twelve months after the reporting date, even if the original term was for a period longer than twelve months, and an agreement to refinance or to reschedule payments on a long-term basis is completed after the reporting date and before the annual accounts are authorised for issue.

(u) Environmental issues

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

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

Property, plant and equipment acquired by the Group for permanent use 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).

(5) Discontinued Operations

The Group has classified certain assets and liabilities as held for sale as they are expected to be sold in 2014. These assets are mainly outlets located in Spain, Chile and Colombia.

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

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| *Assets held for sale:* | | |
| Technical installations and machinery | 1,629 | 490 |
| Other property, plant and equipment | 166 | 46 |
| Other intangible assets | 125 | 120 |
| Inventories | 33 | - |
| Total assets | 1,953 | 656 |
| *Liabilities directly associated with non-current assets held for sale:* | | |
| Other current liabilities | 83 | 83 |
| Total liabilities | 83 | 83 |

Details of the post-tax loss of discontinued operations disclosed in the consolidated statement of comprehensive income are as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Revenues | 4,193 | 5,064 |
| Expenses | (5,399) | (5,934) |
| Pre-tax loss of discontinued operations | (1,206) | (869) |

## (6) Business Combinations

During 2013 the Group acquired one outlet in Spain, three in Portugal and two in Chile, while in 2012 it acquired two outlets in Portugal.

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

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Cost of the combination, cash paid | 1,612 | 562 |
| Less, fair value of net assets acquired | (237) | (57) |
| Goodwill (note 8) | 1,375 | 505 |

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Notes to the Consolidated Annual Accounts

## (7) Property, Plant and Equipment

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

| | Thousands of Euros | | | | | |
|---|---|---|---|---|---|---|
| Data | 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 31/12/2011 | 12,666 | 141,393 | 15,796 | 473 | 19,326 | 189,654 |
| Additions | 1,421 | 7,686 | 842 | 236 | 1,851 | 12,036 |
| Disposals | (1,481) | (10,805) | (1,141) | (34) | (1,994) | (15,455) |
| Other transfers | (31) | 297 | 40 | (215) | 25 | 116 |
| Exchange gains | 512 | 1,607 | 361 | 25 | 313 | 2,818 |
| Balances at 31/12/2012 | 13,087 | 140,178 | 15,898 | 485 | 19,521 | 189,169 |
| Additions | 354 | 8,106 | 2,067 | 195 | 1,759 | 12,481 |
| Disposals | (2,303) | (20,149) | (1,686) | (42) | (5,029) | (29,209) |
| Transfers to assets held for sale | - | (2,393) | (225) | - | (29) | (2,647) |
| Other transfers | (732) | 744 | (155) | (57) | 200 | - |
| Exchange losses | (756) | (1,945) | (511) | (7) | (485) | (3,704) |
| Balances at 31/12/2013 | 9,650 | 124,541 | 15,388 | 574 | 15,937 | 166,090 |
| Depreciation or impairment | | | | | | |
| Depreciation at 31/12/2011 | (6,304) | (100,012) | (10,507) | (6) | (15,390) | (132,219) |
| Impairment at 31/12/2011 | - | (1,376) | - | - | - | (1,376) |
| Depreciation for the year | (639) | (8,894) | (1,507) | - | (1,950) | (12,990) |
| Disposals | 701 | 8,412 | 950 | - | 1,727 | 11,790 |
| Other transfers | 29 | (29) | 146 | 2 | (148) | - |
| Exchange losses | (240) | (958) | (159) | (2) | (188) | (1,547) |
| Impairment | - | (4,934) | (12) | - | (93) | (5,039) |
| Depreciation at 31/12/2012 | (6,453) | (101,481) | (11,077) | (6) | (15,949) | (134,966) |
| Impairment at 31/12/2012 | - | (6,310) | (12) | - | (93) | (6,415) |
| Depreciation for the year | (508) | (6,263) | (1,100) | - | (1,303) | (9,174) |
| Disposals | 2,024 | 15,079 | 1,227 | 5 | 4,592 | 22,927 |
| Transfers to assets held for sale | - | 846 | 68 | - | 16 | 930 |
| Exchange gains | 465 | 967 | 431 | 1 | 167 | 2,031 |
| Impairment | (217) | (1,989) | - | - | 93 | (2,112) |
| Depreciation at 31/12/2013 | (4,472) | (90,852) | (10,451) | - | (12,477) | (118,252) |
| Impairment at 31/12/2013 | (217) | (8,299) | (11) | - | - | (8,527) |
| Carrying amount | | | | | | |
| At 31/12/2011 | 6,362 | 40,005 | 5,289 | 467 | 3,936 | 56,059 |
| At 31/12/2012 | 6,634 | 32,387 | 4,809 | 479 | 3,479 | 47,788 |
| At 31/12/2013 | 4,961 | 25,390 | 4,926 | 574 | 3,460 | 39,311 |

During 2013 there have been additions to installations and machinery that mainly consist of investments resulting from the opening of new outlets and relocation of existing outlets. There have also been additions to machinery and other property, plant and equipment mainly due to the investment in computer equipment, replacement of lighting systems as well as machinery and other property, plant and equipment in the Daganzo factory and in the subsidiary Luxtor.

During 2012 there have been additions to installations and machinery that mainly consist of investments resulting from the opening of new outlets. There have also been additions to machinery and other property, plant and equipment mainly due to the investment in computer equipment, as well as machinery and other property, plant and equipment in the Daganzo factory.

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

Disposals 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.

The Group receives government grants to finance items of property, plant and equipment (see note 20).

At 31 December 2013 and 2012 the Group has no significant commitments to acquire items of property, plant and equipment and no assets have been pledged as security.

During 2013 and 2012 the Group has recognised impairment losses of Euros 5,039 thousand and Euros 2,111 thousand, respectively. This loss is basically due to the impairment of assets used in operations in the Group's outlets. Impairment losses have been determined based on value in use. Value in use is calculated based on future cash flows, projected up to the expiry date of the lease contract for each store. The main assumptions employed to project cash flows are detailed in note 8.

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 2013 are as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Technical installations and machinery | 55,919 | 58,086 |
| Other | 15,255 | 18,040 |
| | 71,174 | 76,126 |

Property, plant and equipment held under finance leases at 31 December 2013 and 2012 are as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Cost of items held under finance leases | 4,372 | 2,792 |
| Accumulated depreciation and impairment losses | (1,274) | (1,169) |
| Carrying amount | 3,098 | 1,623 |

Details of the main terms of finance leases in force at 31 December 2013 are as follows:

| | | | Thousands of Euros | | |
|---|---|---|---|---|---|
| Asset | Contract date | Number of monthly payments | Cash value | Amount of each instalment | Purchase option |
| Commercial premises | 03/92-12/03 | 120-180 | 1.623 | 26 | 125 |
| Less, accumulated depreciation | | | (1.274) | | |
| Total | | | 349 | | |
| Machinery and other | 12/13 | 41-56 | 2.749 | 95 | 26 |
| Less, accumulated depreciation | | | - | | |
| Total | | | 2,749 | | |

A summary of the liabilities resulting from these operations at 31 December 2013 and 2012 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Total liability under the contracts | 6,254 | 3,505 |
| Payments made | | |
| In prior years | (3,426) | (3.235) |
| During the year | (79) | (191) |
| Finance lease payables (note 17 (a) and (b)) | 2,749 | 79 |

Details of assets leased out to third parties under operating leases at 31 December 2013 and 2012 are as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Cost | 6,352 | 6,591 |
| Accumulated depreciation at 1 January | (5,448) | (4,641) |
| Depreciation charge for the year | (196) | (1,034) |
| Carrying amount | 708 | 916 |

The Group does not have any significant unused property, plant and equipment.

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

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Less than one year | 812 | 386 |
| One to five years | 6,959 | 1,152 |
| Over five years | 15,081 | 734 |
| | 22,852 | 2,272 |

(8) Intangible Assets

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

| | Thousands of Euros |
|---|---|
| Cost | |
| Balance at 31/12/2011 | 430,272 |
| Goodwill on business combinations for the year (note 6) | 505 |
| Exchange gains | 92 |
| Disposals | (1,875) |
| Impairment losses for the year (note 25) | (13,598) |
| Balance at 31/12/2012 | 415,396 |
| Goodwill on business combinations for the year (note 6) | 1,375 |
| Exchange losses | (209) |
| Disposals | (1,621) |
| Impairment losses for the year (note 25) | (38,901) |
| Balance at 31/12/2013 | 376,040 |

Details of goodwill by country at 31 December 2013 and 2012 are as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Spain | 264,516 | 283,853 |
| Portugal | 61,858 | 81,357 |
| Poland | 4,620 | 4,620 |
| Chile | 36,633 | 37,142 |
| Colombia | 8,144 | 8,144 |
| Other | 269 | 280 |
| | 376,040 | 415,396 |

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

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

| | Spain | Portugal | Chile | Poland | Colombia |
|---|---|---|---|---|---|
| Discount rate | 9.25% | 11.40% | 9.50% | 9.50% | 9.50% |
| Rate of growth of income in perpetuity | 1.8% | 1.5% | 2.05% | 1.60% | 1.88% |

To calculate the value in use of the different CGUs over the five-year budget period, the directors used net revenue growth rates of between 0% and 5%, without considering any outlet openings or acquisitions and depending on the features of each market.

These assumptions have been used to analyse each CGU within the business segment.

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.

Details of other intangible assets and movement are as follows:

| | Thousands of Euros | | | | | |
|---|---|---|---|---|---|---|
| | Concessions, patents and licences | Trademarks | Contractual and other rights | Other intangible assets | Computer software | Total |
| Cost | | | | | | |
| Balances at 31/12/2011 | 1,265 | 253,502 | 151,359 | 709 | 17,678 | 424,513 |
| Additions | 60 | - | - | 41 | 2,211 | 2,312 |
| Disposals | (5) | - | - | (36) | (79) | (120) |
| Other transfers | (116) | - | - | 4 | (4) | (116) |
| Exchange gains | 5 | - | - | 3 | 165 | 173 |
| Balances at 31/12/2012 | 1,209 | 253,502 | 151,359 | 721 | 19,971 | 426,762 |
| Additions through business combinations | 70 | - | - | - | 1,195 | 1,265 |
| Disposals | (6) | - | - | (57) | (140) | (203) |
| Other transfers | - | - | - | (19) | 19 | - |
| Transfers to assets held for sale | - | - | - | - | (13) | (13) |
| Exchange losses | (3) | - | - | (13) | (247) | (263) |
| Balances at 31/12/2013 | 1,270 | 253,502 | 151,359 | 632 | 20,785 | 427,548 |
| Amortisation or impairment | | | | | | |
| Amortisation at 31/12/2011 | (755) | (18,526) | (33,025) | (655) | (12,700) | (65,662) |
| Impairment at 31/12/2011 | (8) | - | - | - | - | (8) |
| Amortisation for the year | (132) | | (5,818) | (5) | (2,322) | (8,277) |
| Disposals | - | - | - | 52 | 79 | 131 |
| Exchange losses | - | - | - | (1) | (108) | (109) |
| Amortisation at 31/12/2012 | (885) | (18,526) | (38,844) | (609) | (15,051) | (73,917) |
| Impairment at 31/12/2012 | (8) | - | - | - | - | (8) |
| Amortisation for the year | - | - | (5,960) | (5) | (2,317) | (8,282) |
| Disposals | 6 | - | | 57 | 140 | 203 |
| Transfers to assets held for sale | - | - | | | 3 | 3 |
| Exchange gains | - | - | 6 | 2 | 157 | 165 |
| Amortisation at 31/12/2013 | (879) | (18,526) | (44,798) | (555) | (17,068) | (81,826) |
| Impairment at 31/12/2013 | (8) | - | - | - | - | (8) |
| Carrying amount | | | | | | |
| At 31/12/2011 | 502 | 234,976 | 118,333 | 54 | 4,978 | 358,843 |
| At 31/12/2012 | 314 | 234,976 | 112,515 | 85 | 4,920 | 352,837 |
| At 31/12/2013 | 383 | 234,976 | 106,561 | 77 | 3,717 | 345,714 |

The Company has recognised an intangible asset with an indefinite useful life under patents, licences and trademarks in relation to the Telepizza brand. The original value of this asset is Euros 247,028 thousand and its carrying amount is Euros 228,502 thousand at 31 December 2013 and 2012.

Based on the estimates and projections available to the Parent's directors, the expected future economic benefits of these CGUs fully justify the net value of the goodwill recognised.

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

| | Euros | | | |
|---|---|---|---|---|
| Description of the asset | Remaining useful life | Amortisation for the year | Accumulated amortisation | Carrying amount |
| 2013 | | | | |
| Telepizza brand | Indefinite | - | 18,526 | 228,502 |
| Contractual rights | 23 | 4,296 | 37,698 | 98,817 |
| | | 4,296 | 56,224 | 327,319 |
| 2012 | | | | |
| Telepizza brand | Indefinite | - | 18,526 | 228,502 |
| Contractual rights | 24 | 4,296 | 33,402 | 103,113 |
| | | 4,296 | 51,928 | 331,615 |

At 31 December 2013 and 2012 the Group has no commitments to purchase intangible assets.

Details of the cost of fully amortised intangible assets at 31 December 2013 and 2012 are as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Computer software | 11,104 | 9,628 |
| Other | 1,085 | 1,066 |
| | 12,189 | 10,694 |

## (9) Total non-current financial assets

Details of non-current financial assets at 31 December 2013 and 2012 are as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Deposits and guarantees | 6,102 | 5,846 |
| Non-current trade receivables | 16,385 | 6,601 |
| Other loans and receivables | 1,401 | 1,670 |
| Other financial assets | - | 110 |
| | 23,888 | 14,227 |

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

## (10) Inventories

Details at 31 December 2013 and 2012 are as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Merchandise | 9,307 | 8,679 |
| Raw materials | 2,365 | 3,019 |
| Finished goods | 1,782 | 1,485 |
| Total inventories | 13,454 | 13,183 |

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

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Net purchases | 74,580 | 81,742 |
| Change in inventories | (304) | 656 |
| | 74,276 | 82,398 |

At 31 December 2013 and 2012 the Group had 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.

## (11) Trade and Other Receivables

Details are as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Trade receivables | 33,765 | 33,719 |
| Other receivables | 4,408 | 5,648 |
| Public entities | 5,896 | 5,400 |
| Impairment | (6,239) | (5,518) |
| Trade and other receivables | 37,830 | 39,249 |

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

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

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| *Current* | | |
| Balance at 1 January | (5,518) | (5,414) |
| Charge | (721) | (549) |
| Application/reversal | - | 445 |
| Balance at 31 December | (6,239) | (5,518) |

## (12) Cash and Cash Equivalents

Details at 31 December 2013 and 2012 are as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Cash in hand and at banks | 8,798 | 16,932 |
| Current bank deposits | - | 7,900 |
| Cash and cash equivalents | 8,798 | 24,832 |

Cash surpluses have been invested in daily and weekly deposits in monetary assets (REPOS, Eurodeposits and promissory notes) at average market rates.

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.

## (13) Deferred Taxes

Details of deferred tax assets are as follows:

| Deferred tax assets | Thousands of Euros | | | |
|---|---|---|---|---|
| | Non-deductible provisions | Tax credits and deductions | Other | Total |
| Balances at 31/12/2011 | 2.192 | 3.356 | 1.128 | 6.676 |
| Taken to the income statement (note 26) | 129 | 25.704 | (373) | 25.460 |
| Balances at 31/12/2012 | 2,321 | 29,060 | 755 | 32.136 |
| Taken to the income statement (note 26) | (1,952) | (20,212) | (207) | (22.371) |
| Balances at 31/12/2013 | 369 | 8,848 | 548 | 9.765 |

The deferred tax assets recognised in the consolidated statement of financial position mainly reflect tax loss carryforwards incurred by the Parent and the subsidiaries Tele Pizza, S.A. and A Tu Hora, S.A.

At 31 December 2013 the Group has not recognised deferred tax assets in respect of non-deductible interest for the following amounts with the following deadlines:

| Year | Thousands of Euros | |
|---|---|---|
| | Amount | Final year |
| 2013 | 52,643 | 2030 |
| 2012 | 38,044 | 2031 |
| | 90,676 | |

In 2012 all tax credits for tax loss carryforwards were recognised and in 2013 they have been partially offset.

Details of deferred tax liabilities are as follows:

| Deferred tax liabilities | Thousands of Euros | | | |
|---|---|---|---|---|
| | Accelerated depreciation | Intangible assets | Other | Total |
| Balances at 31/12/2011 | 2,167 | 106,347 | 199 | 108.713 |
| Taken to the income statement (note 26) | 566 | (1,440) | (105) | (979) |
| Balances at 31/12/2012 | 2.733 | 104.907 | 94 | 107.734 |
| Taken to the income statement (note 26) | (1.237) | (1.144) | 604 | (1.777) |
| Balances at 31/12/2013 | 1.496 | 103.763 | 698 | 105.957 |

## (14) Equity

In 2013 the Company increased its share capital by Euros 2,800,000, with a share premium of Euros 53,200,000, by creating 56,000 new shares of Euros 50 par value each with a share premium of Euros 950 each, in accordance with the sole shareholder's decision of 2 August 2013. The shares were subscribed and fully paid by the sole shareholder, by partially capitalising the Euros 56,000,000 participating loan extended by the latter (see note 28).

### (a) Capital

Share capital is comprised of 355,589 shares (299,589 at 31 December 2012) of Euros 50 par value each, fully subscribed by Telefood, S.à.r.l., with registered offices in Luxembourg (see note 1).

Share capital was Euros 17,779,450 at 31 December 2013 and Euros 14,979,450 at 31 December 2012.

Like other groups in the sector, Foodco controls its capital structure on a leverage ratio basis. This ratio is calculated as net debt divided by total capital. Net debt is the sum of financial debt less cash and cash equivalents. EBITDA is calculated as operating profit plus depreciation and amortisation. Ratios in 2013 and 2012 are calculated as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Total debt | 618,328 | 610,933 |
| Less: Cash and cash equivalents | (8,798) | (24,832) |
| Net debt | 609,530 | 586,101 |
| EBITDA | 58,638 | 57,718 |
| Debt ratio | 10.39 | 10.15 |

The financing contract entered into by the Group with financial institutions described in note 17 (a) requires the Company to comply with certain covenants. Details are as follows:

- Cash flow hedge: calculated by dividing the Group's consolidated cash flow by net debt service for a certain period, the latter referring to interest paid by the Group less interest received during the year.

- Debt coverage: obtained by dividing net debt by consolidated EBITDA (excluding exceptional and/or non-recurrent income and expenses).

- Interest coverage: EBITDA (excluding exceptional and/or non-recurrent income and expenses) divided by consolidated net interest expense.

The Company complies with all these ratios at 31 December 2013 and 2012.

(b) Share premium

At 31 December 2013 and 2012 this premium is freely distributable, provided that its distribution would not reduce the Parent's equity to an amount lower than share capital.

(c) Other reserves

Legal reserve

The Company is obliged to transfer 10% of each year's profits to a legal reserve until this reserve reaches an amount equal to 20% of share capital. This reserve is not distributable to shareholders and may only be used to offset losses if no other reserves are available. Under certain conditions it may be used to increase share capital provided that the balance left on the reserve is at least equal to 10% of total share capital after the increase. At 31 December 2013 and 2012 the Parent has not appropriated any amount to this legal reserve.

Translation differences

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

## (15) Loss per Share

(a) Basic

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

| | Euros | |
|---|---|---|
| | 2013 | 2012 |
| Loss for the year attributable to equity holders of the Parent (in Euros) | (84,753,784) | (32,761,973) |
| Weighted average number of ordinary shares outstanding (in number of securities) | 323,063 | 299,589 |
| Basic loss per share (in Euros) | (262.34) | (109.35) |

(b) Diluted

At 31 December 2013 and 2012 the diluted loss per share is the same as the basic loss per share.

## (16) Current and Non-Current Financial Liabilities

Details of derivative financial instruments measured at fair value at 31 December 2013 and 2012 are as follows:

| 2013 | | Thousands of Euros | |
|---|---|---|---|
| | | Fair values | |
| | | Liabilities | |
| | Notional amount | Non-current | Current |
| *Interest rate derivatives* | | | |
| Interest rate swaps | (325,000) | (2,329) | (14) |
| Total derivatives at fair value through profit or loss | (325,000) | (2,329) | (14) |

| 2012 | | Thousands of Euros | |
|---|---|---|---|
| | | Fair values | |
| | | Liabilities | |
| | Notional amount | Non-current | Current |
| *Interest rate derivatives* | | | |
| Interest rate swaps | (350,000) | (2,467) | (4,572) |
| Total derivatives at fair value through profit or loss | (350,000) | (2,467) | (4,572) |

On 14 September 2012 the Group arranged a new interest rate swap which expires on 22 December 2015 for an initial notional amount of Euros 125,000,000, which will be increased to Euros 325,000,000 on 23 December 2013. The average interest rate up to 23 December 2013 is 0.32%, increasing thereafter to 0.735% until maturity. At 31 December 2013 it has a negative fair value of Euros 2,328,596 (Euros 2,467,122 at 31 December 2012).

In 2010 the Company entered into new interest rate swap contracts for a three-year period commencing on 21 December 2011 and expiring on 23 December 2013, for a notional amount of Euros 225,000,000. The swap accrues interest at an average rate of 2.18% and has a negative fair value of Euros 4,571,897 at 31 December 2012.

The Group accured income/(expenses) of Euros 4,565,049 in 2013 and Euros (3,421,699) in 2012 in relation to swap contracts.

## (17) Interest-bearing Loans, Borrowings and Bonds

### (a) Non-current loans and borrowings

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

On 22 June 2012, Tele Pizza, S.A. arranged the refinancing of the syndicated loan with ING Bank. As a result of this transaction the refinanced debt has been deferred for two years as indicated in the details of the financing facilities. The refinancing comprises all the Senior Facility lines: Tranche A, tranche B, tranche C, the Second Lien, the CAPEX facility and Revolving A facility. The mezzanine facility is not included in the agreement; its maturity remains unchanged. The extended debt bears an additional 2% interest which will be settled together with the other interest accrued on these loans.

On 22 June 2012 the related party, Foodco Debt, S.a.r.l. acquired Euros 40,697,674 of the senior debt of the syndicated loan, specifically: Tranche A, tranche B, tranche C, the CAPEX facility and the Revolving A line. This company expressly waived any rights and guarantees relating to the syndicated loan in an agreement signed on 22 December 2012. This debt will accrue interest at the same rate and applying the same periods as the remaining portion of the syndicated loan; however, the interest will not be paid until 2016. The repayments of the principal will also be deferred until maturity of the loan in 2016.

Consequently, at 31 December 2013 and 2012 non-current borrowings comprise mainly the syndicated and subordinated loans arranged in 2006. Details of payments and the present value of borrowings by maturity are as follows:

| | Thousands of Euros | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Principal | Interest | Principal | Interest |
| Less than one year (note 17 (b)) | 13,682 | 729 | 23,178 | 949 |
| Between two and five years | 504,229 | - | 501,577 | - |
| | 517,911 | 729 | 524,755 | 949 |

Details of non-current loans and borrowings at 31 December 2013 and 2012 are as follows:

| Type | Final maturity date | Thousands of Euros | | | Margin as % of Euribor |
|---|---|---|---|---|---|
| | | Limit | Balance at 31/12/2013 | Balance at 31/12/2012 | |
| **Senior** | | | | | |
| Tranche A | 2014/2016 | 60,000 | 9,383 | 16,716 | EURIBOR+4.125 |
| Tranche B | 2014/2016 | 135,000 | 133,789 | 133,789 | EURIBOR+4.500 |
| Tranche C | 2015/2016 | 135,000 | 133,789 | 133,789 | EURIBOR+4.500 |
| CAPEX facility | 2014/2015 | 25,000 | 5,778 | 10,054 | EURIBOR+4.125 |
| Revolving A facility | 2015 | 20,000 | 18,440 | 22,000 | EURIBOR+3.750 |
| Second Lien | 2016 | 65,000 | 65,000 | 65,000 | EURIBOR+6.000 |
| | | 440,000 | 366,179 | 381,348 | |
| **Mezanine** | 21/09/2016 | 100,000 | 151,715 | 143,168 | 3.500 |
| Finance lease payables (note 7) | | | 2,057 | 79 | - |
| Less, loan arrangement costs | | - | (3,419) | (6,272) | |
| Less, current portion (note 17 (b)) | | - | (12,303) | (22,941) | |
| Balance at 31 December | | 540,000 | 504,229 | 495,382 | |

Although the interest rates are as listed above, the Group has contracted various variable-to-fixed interest rate swaps, which are described in note 16.

The Group has pledged all Telepizza Group assets as collateral to secure the loan obtained to acquire the Tele Pizza, S.A. shares and bonds. The Parent is also required to comply with certain covenants (see note 14 (a)).

Finance lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

(b) Loans and borrowings

Details of loans and borrowings at 31 December 2013 and 2012 are as follows:

| | Thousands of Euros | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Limit | Drawn down | Limit | Drawn down |
| Credit facilities | 878 | 687 | 878 | 237 |
| Finance lease payables (note 7) | | 692 | | - |
| Accrued interest (note 17 (a)) | | 729 | | 949 |
| RCFA facility | | - | | 11,330 |
| Senior Facility Tranche B (note 17 (a)) | | 9,386 | | - |
| CAPEX facility (note 17 (a)) | | 788 | | 4,278 |
| Senior Facility Tranche A (note 17 (a)) | | 2,129 | | 7,333 |
| | | 14,411 | | 24,127 |

## (18) Employee Benefits

### Termination benefits

During the year ended 31 December 2013, the directors of the Parent and certain subsidiaries approved termination benefits for various employees to be paid in 2014 and recognised a provision of Euros 846 thousand in this respect. In 2012 this provision amounted to Euros 904 thousand.

The total expense recognised in 2013 for termination benefits is Euros 2,451 thousand (see note 23).

## (19) Contingencies

The Group has contingent liabilities for bank and other guarantees related with its normal business operations amounting to Euros 4,088 thousand at 31 December 2013 (Euros 3,661 thousand at 31 December 2012). The Group does not expect any significant liabilities to arise from these guarantees.

## (20) Government Grants

Movement in non-refundable government grants is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Original grants at the beginning of the year | 7,635 | 7,635 |
| In prior years | (5,943) | (5,474) |
| During the year | (529) | (469) |
| Balance at 31 December | 1,163 | 1,692 |

As mentioned in note 7, the Group receives government grants to finance acquisitions of property, plant and equipment, including a grant from the Madrid regional government in 2002 to finance improvement of the preparation and commercialisation of dough and other pizza-related products manufactured in the Daganzo factory (Madrid).

The Group estimates that the conditions initially established for the grants will remain unchanged.

## (21) Trade and Other Payables

Details are as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Trade payables | 40,181 | 46,128 |
| Public entities | 4,924 | 6,253 |
| Other payables | 171 | 794 |
| Salaries payable | 2,343 | 1,816 |
| Current guarantees and deposits received | 81 | 97 |
| | 47,700 | 55,088 |

At 31 December 2013 trade payables include Euros 5,817 thousand payable to financial institutions for reverse factoring transactions (Euros 9,686 thousand at 31 December 2012).

Late Payments to Suppliers. "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:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Thousands of Euros | % | Thousands of Euros | % |
| Within maximum legal period | 67,913 | 37% | 67,796 | 47% |
| Other | 115,912 | 63% | 77,887 | 53% |
| Total payments for the year | 183,825 | 100% | 145,683 | 100% |
| Weighted average late payment days (*) | 58 | - | 46 | |
| Late payments exceeding the maximum legal period at the reporting date | 15,160 | - | 7,467 | |

(*) Weighted average late payment days

(22) Operating Income

(a) Revenues

Details are as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Outlet sales to customers | 229,282 | 253,746 |
| Wholesale factory sales to franchisees and other sales | 73,750 | 73,949 |
| Other services | 23,194 | 18,129 |
| | 326,226 | 345,824 |

(b) Other operating expenses

In 2013 and 2012 other operating income mainly includes revenues from advertising and other services provided to franchisees, as well as other income (see note 1).

## (23) Personnel Expenses

Details of personnel expenses in 2013 and 2012 are as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Salaries and wages | 81,468 | 87,374 |
| Social Security | 17,892 | 18,862 |
| Termination benefits (note 18) | 2,451 | 2,043 |
| Other employee benefits expenses | 3,050 | 2,463 |
| Total personnel expenses | 104,861 | 110,742 |

The average number of full-time equivalent employees in the Group during 2013 and 2012, distributed by category, is as follows:

| | Number | |
|---|---|---|
| | 2013 | 2012 |
| Management | 38 | 40 |
| Outlet managers | 487 | 526 |
| Other personnel | 5,287 | 5,983 |
| | 5,812 | 6,549 |

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

| | Number | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Male | Female | Male | Female |
| Board members | 3 | 1 | 3 | 1 |
| Senior management | 8 | 30 | 8 | 32 |
| Other personnel | 2,422 | 3,352 | 2,668 | 3,841 |
| | 2,433 | 3,383 | 2,679 | 3,874 |

## (24) Other Expenses

Details of other expenses are as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Operating leases | 30,229 | 31,138 |
| Transportation | 13,116 | 13,956 |
| Advertising and publicity | 15,856 | 18,088 |
| Utilities | 16,027 | 16,949 |
| Other expenses | 23,805 | 27,043 |
| | 99,034 | 107,174 |

The Group leases certain storage installations and establishment premises from third parties under operating leases.

Future minimum payments under non-cancellable operating leases at 31 December 2013 and 2012 are as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Less than one year | 12,683 | 17,819 |
| One to five years | 40,061 | 52,576 |
| Over five years | 20,964 | 30,546 |
| | 73,708 | 100,941 |

## (25) Other Losses

Details at 31 December 2013 and 2012 are as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Losses on sale of property, plant and equipment | (3,363) | (3,766) |
| Goodwill (note 8) | (38,901) | (13,598) |
| Impairment losses/(reversals of impairment) on property, plant and equipment (note 7) | (2,112) | (5,039) |
| Other losses | - | (33) |
| | (44,376) | (22,436) |

## (26) Income tax

A reconciliation of income tax, resulting from applying the standard tax rate in Spain to the pre-tax loss, with the income tax expense recognised in the consolidated income statement for 2013 and 2012 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Loss for the year before tax from continuing operations | (59,664) | (57,232) |
| Tax losses not recognised as tax credits | - | - |
| | (59,664) | (57,232) |
| Expected Parent tax income at the standard tax rate (30%) | (17,899) | (17,170) |
| Non-deductible expenses at the standard tax rate | | |
| Finance costs | 11,413 | 15,793 |
| Impairment of goodwill on consolidation | 9,953 | - |
| Reduction of tax losses | 19,013 | (24,446) |
| Expense due to different tax rates | 180 | 990 |
| Tax expense in foreign subsidiaries | 1,224 | 346 |
| Effective tax rate / Income tax expense/(income) | 23,884 | (24,487) |

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Income tax payable/(recoverable) for 2013 and 2012 is calculated as follows: | | |
| Income tax expense/(income) | 23,884 | (24,487) |
| Deductible temporary differences (note 13) | (2,159) | (244) |
| Taxable temporary differences (note 13) | 633 | (461) |
| Recognition (offset) of tax credits (note 13) | (20,212) | 25,704 |
| Reversal of deferred tax liabilities arising on business combinations (note 13) | 1,144 | 1,440 |
| Payments on account | (2,320) | (704) |
| Income tax payable | 970 | 1,248 |

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 within the periods established by applicable legislation, without prejudice to the taxation authorities' power of inspection.

At 31 December 2013 and 2012 the amounts and reversal periods for unused deferred tax assets, in accordance with Royal Decree-Law 9/2011 of 19 August 2011 on measures to improve the quality and cohesion of the national health system, contributions to fiscal consolidation and provisions to increase the maximum amount of State guarantees for 2011, are as follows:

| | Thousands of Euros | | |
|---|---|---|---|
| Year | 2013 | 2012 | Final year |
| 2003 | 204 | 204 | 2021 |
| 2005 | 2 | 2 | 2023 |
| 2006 | 5 | 15,771 | 2024 |
| 2008 | 11,786 | 31,676 | 2026 |
| 2009 | 7,371 | 19,905 | 2027 |
| 2010 | - | 14,547 | 2028 |
| 2011 | 10,241 | 21,644 | 2029 |
| | 29,609 | 103,543 | |

Based on the tax declarations filed by the Group companies in prior years, and those to be filed for 2013, the Group has tax credits pending application, details of which, by date of origin and amount, are as follows:

| | Thousands of Euros | Available until |
|---|---|---|
| Credits for Reinvestment of Extraordinary Proceeds | 212 | 2014 |
| For R&D&i | 59 | 2014 |
| | 271 | |

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 31 December 2013 the Company has open to inspection by the taxation authorities all the main applicable taxes since 1 January 2012 except for income tax, which is also open to inspection for 2011, as the prior periods were inspected by the taxation authorities in 2012 and 2013.

On 21 June 2013 the Company received the definitive assessments from the tax inspection, which were signed on an uncontested basis, giving rise to the adjustment of the tax credit for tax losses and the related effect on the deferred tax asset recognised.

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

## (27) Commitments

As stated in notes 7 and 8, at 31 December 2013 and 2012 the Group has no commitments relating to investing activities.

## (28) Related Party Balances and Transactions

The Parent has obtained two loans from its sole shareholder, Telefood, S.à.r.l., details of which are as follows:

| | Thousands of Euros 31/12/2013 Non-current | Thousands of Euros 31/12/2013 Current | Interest rate (%) |
|---|---|---|---|
| Participating loan | 97,202 | 2,486 | 9.3% + variable |
| Subordinated loan | 96,002 | 267 | Euribor + 12.125% |
| | 193,204 | 2,753 | |
| Loan arrangement costs | (280) | | |
| | 192,924 | | |

| | Thousands of Euros 31/12/2012 Non-current | Thousands of Euros 31/12/2012 Current | Interest rate (%) |
|---|---|---|---|
| Participating loan | 138,414 | 6,029 | 16% + variable |
| Subordinated loan | 84,862 | 290 | Euribor + 12.125% |
| | 223,276 | 6,319 | |
| Loan arrangement costs | (385) | | |
| | 222,891 | | |

On 17 July 2006 the Parent obtained a participating loan from its sole shareholder for an initial amount of Euros 150,680 thousand, which bears fixed interest at a rate of 16% with a variable tranche based on the Company's profits. The loan is repayable on maturity in 2036. On 21 July 2008 part of this participating loan, totalling Euros 85,700 thousand, was used for the share capital increase with share premium. Subsequently Euros 3,000 thousand was capitalised in 2010 and Euros 39,000 thousand in 2011 for the share capital increase approved on 4 March 2011. At 31 December 2013 accrued interest payable on this participating loan amounts to Euros 2,486 thousand.

On 17 July 2006 the sole shareholder agreed to grant the Parent a loan for an initial amount of Euros 35,000 thousand, which was increased in subsequent years to include accrued interest capitalised, amounting to Euros 10,222 thousand in 2012 (Euros 9,360 thousand in 2011). This loan reflects the subordinated loan obtained by the sole shareholder from third parties. At 31 December 2013 accrued interest payable on this loan amounts to Euros 267 thousand.

Both loans were obtained to partially finance the acquisition of Tele Pizza, S.A. shares.

On 1 January 2013, the interest rate on the participating loan was reduced from 16% to 9.3% by way of an agreement entered into between the two companies.

On 2 August 2013 the shareholders at their annual general meeting resolved to increase share capital through the creation of 56,000 new shares, with a share premium, by partially capitalising a Euros 56,000,000 thousand participating loan receivable from the Group (see note 14).

The Group has not entered into any other contracts with the sole shareholder of the Parent.

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

The directors of the Company and senior management personnel received remuneration from the Group totalling Euros 1,628 thousand in 2013 (Euros 2,000 thousand in 2012). The Company has not granted any loans or advances to the directors and senior management personnel, or extended any guarantees on their behalf. The Company has no pension or life insurance obligations with its former or current directors or senior management personnel.

The members of the board of directors of the Parent have accrued no remuneration in any respect during the year ended 31 December 2013 and 2012. Furthermore, the Parent has not extended any loans or advances to members of the board and has no pension commitments with these parties at 31 December 2013 and 2012.

During 2013 and 2012 the members of the board of directors have not carried out operations with the Company or Group companies other than ordinary operations under market conditions.

## (30) Investments and Positions Held by the Directors of the Parent and their Related Parties in Other Companies

The directors of the Parent or any of their related parties do not hold any interests or positions or carry out any functions in companies with identical, similar or complementary statutory activities to those of the group companies.

## (31) Environmental Information

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

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

The Group considers that the environmental risks deriving from its activity are minimal and adequately covered and that no additional liabilities will arise therefrom. The Group has not incurred any expenses, made investments or received significant grants related with these risks during the year ended 31 December 2013 and 2012.

## (32) Audit Fees

KPMG Auditores, S.L., the auditors of the Group's annual accounts, invoiced the Group the following fees and expenses for professional services during the years ended 31 December 2013 and 2012:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Audit services | 137 | 134 |
| Other assurance services | 6 | 6 |
| | 143 | 140 |

The amounts detailed in the above table include the total fees for services rendered in 2013 and 2012, irrespective of the date of invoice.

Other affiliates of KPMG International have invoiced the Group the following fees and expenses for professional services during the years ended 31 December 2013 and 2012:

| | Thousands of Euros | |
|---|---|---|
| | 2013 | 2012 |
| Audit services | 73 | 70 |
| | 73 | 70 |

(33) 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 2013 and 2012, the Group comprises the following operating segments:

- Spain
- Portugal
- Poland
- Chile
- Colombia
- Peru
- Rest of the world

Segment performance is measured based on the pre-tax 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 that operate in these businesses.

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

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Notes to the Consolidated Annual Accounts

| | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Thousands of Euros | | | | | | | |
| | Spain | Portugal | Poland | Chile | Colombia | Rest of the world | Eliminations | Total |
| Operating income | | | | | | | | |
| From third parties | 225.867 | 30.080 | 15.571 | 36.795 | 23.488 | 5.007 | - | 336.808 |
| From other segments | 11.991 | - | - | - | - | | (11.991) | - |
| Total operating income | 237.858 | 30.080 | 15.571 | 36.795 | 23.488 | 5.007 | (11.991) | 336.808 |
| Profit/(loss) | | | | | | | | |
| Segment operating profit/(loss) | 27.003 | 4,682 | (40) | 8.698 | 771 | 68 | - | 41.181 |
| Net finance expense/income | (56,792) | (262) | (242) | 1.425 | (500) | (99) | - | (56.469) |
| Other gains | 1,821 | 1.296 | - | - | - | - | - | 3.117 |
| Other losses | (44,925) | (1,210) | (342) | (800) | (215) | - | - | (47.493) |
| Income tax | (22,659) | (8) | - | (1,057) | (138) | (21) | - | (23.884) |
| Profit/(loss) from continuing operations | (95,552) | 4,498 | (624) | 8,266 | (82) | (52) | | (83.548) |
| Post-tax loss of discontinued operations | (12) | - | - | (618) | (575) | - | - | (1.206) |
| Attributable to the Parent | (95,564) | 4,498 | (624) | 7.648 | (657) | (52) | - | (84.754) |
| Segment assets | 729,008 | 26,954 | 8,107 | 60,649 | 10.923 | 12.965 | - | 848.606 |
| Assets held for sale or from discontinued operations | 544 | - | - | 780 | 480 | 116 | - | 1.920 |
| Group assets | 729,552 | 26,954 | 8,107 | 61,429 | 11.403 | 13.081 | (511) | 850.526 |
| Segment liabilities | 51,638 | 4,434 | 2.491 | 2.558 | 4,865 | 472 | - | 66.458 |
| Liabilities held for sale or from discontinued operations | - | - | - | - | | - | - | |
| Unassigned liabilities | - | - | - | - | - | - | - | 784.068 |
| Group liabilities | 51,638 | 4,434 | 2,491 | 2,558 | 4.865 | 472 | - | 850.526 |
| Investments in property, plant and equipment and intangible assets | 6,685 | 1,320 | 393 | 1.873 | 4.204 | 610 | - | 15.085 |

| | 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Thousands of Euros | | | | | | | |
| | Spain | Portugal | Poland | Chile | Colombia | Rest of the world | Eliminations | Total |
| Operating income | | | | | | | | |
| From third parties | 245,439 | 30,890 | 17,223 | 42,750 | 24,900 | 2,413 | - | 363,614 |
| From other segments | 12,064 | - | - | - | - | | (12,064) | - |
| Total operating income | 257,503 | 30,890 | 17,223 | 42,750 | 24,900 | 2,413 | (12,064) | 363,614 |
| Profit/(loss) | | | | | | | | |
| Segment operating profit/(loss) | 22,919 | 5,291 | (715) | 8,490 | 962 | (498) | - | 36,449 |
| Net finance expense/income | (71,535) | (273) | (244) | 640 | (273) | (47) | - | (71,245) |
| Other gains | 37 | 2 | - | - | - | - | - | 39 |
| Other losses | (21,989) | (23) | (11) | (359) | (92) | - | - | (22,475) |
| Income tax | 26,239 | - | (267) | (1,161) | (307) | (18) | - | 24,487 |
| Profit/(loss) from continuing operations | (44,329) | 4,997 | (750) | 7,610 | 290 | (563) | - | (32,745) |
| Post-tax loss of discontinued operations | (16) | - | - | - | - | - | - | (16) |
| Profit/(loss) attributable to the Parent | (44,346) | 4,997 | (750) | 7,610 | 290 | (563) | - | (32,761) |
| Segment assets | 794,502 | 25,739 | 9,494 | 60,950 | 9,491 | 12,965 | - | 913,142 |
| Investments in associates | 511 | - | - | - | - | | (511) | - |
| Assets held for sale or from discontinued operations | 537 | - | - | - | - | 119 | - | 656 |
| Unassigned assets | - | - | - | - | - | - | - | - |
| Group assets | 795,550 | 25,739 | 9,494 | 60,950 | 9,491 | 13,084 | (511) | 913,799 |
| Segment liabilities | 59,124 | 5,025 | 2,008 | 4,739 | 3,984 | 334 | - | 75,215 |
| Liabilities held for sale or from discontinued operations | - | - | - | - | - | 83 | - | 83 |
| Unassigned liabilities | - | - | - | - | - | - | - | 838,500 |
| Group liabilities | 59,124 | 5,025 | 2,008 | 4,739 | 3,984 | 417 | - | 913,799 |
| Investments in property, plant and equipment and intangible assets | 7,615 | 844 | 429 | 1,753 | 2,037 | 2,087 | - | 14,765 |

## (34) Risk Management Policy

### Financial risk factors

The Group's activities are exposed to various financial risks: market risk (including exchange rate risk, fair value interest rate risk and price risk), credit risk, liquidity risk, and interest rate risk in cash flows. The Group's global risk management programme focuses on the uncertainty of financial markets and aims to minimise the 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 company. 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 derivatives and non-derivative instruments, and investments of cash surpluses.

### Interest rate risk

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

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

The structure of financial risk at 31 December 2013 and 2012 is as follows:

| Type of financing | Interest rate | Benchmark | Thousands of Euros | |
|---|---|---|---|---|
| | | | 2013 | 2012 |
| Syndicated loan | Floating | Euribor | 514,475 | 524,439 |
| Credit facilities | Floating | Euribor | 688 | 237 |
| Finance leases | Floating | Euribor | 2,748 | 79 |
| Total | | | 517,911 | 524,755 |

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

Based on the analysis performed by the Group, and considering the variable to fixed interest rate swap, the impact of each 0.1% of Euribor would be Euros 291 thousand on cash flows and Euros 139 thousand on interest to be capitalised in the coming year.

The Group has contracted a variable-to-fixed interest rate swap facility for a five-year period for the Senior Facility tranche A, tranche B, tranche C and Second Lien facilities, and the entire Mezzanine Facility, plus capitalised interest (see note 17 (a)).

Currency risk

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

Currency risk mainly arises from three types of transactions:

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

The Group does not consider that possible fluctuations in the exchange rates of the Chilean Peso and the Polish Zloty could have a significant impact on its consolidated equity.

Liquidity risk

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

Credit risk

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

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

FOODCO PASTRIES SPAIN, S.L.
AND SUBSIDIARIES

Directors' Report

2013

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

## 1. The Group's Position and Business Performance

In 2013 the economic policy of our main market, Spain, was characterised by the continuation of the measures initiated in 2012 aimed at meeting public deficit targets.

GDP decreased by less than last year, having decreased by an estimated 1.2% compared to a decrease of 1.4% in 2012. The trend for the year has been one of improvement, with GDP having declined by 0.1% in the last quarter. Household spending is estimated to have dropped by 2.9%.

The unemployment rate remained at the similar levels in 2013, increasing from 26.02% in 2012 to 26.03% in 2013. However, signs of recovery are beginning to show in the consumer confidence index, which in December 2013 was up 26.7 points compared with the prior year end.

Inflation stood at 0.3% at the end of 2013.

The Euribor (the principal benchmark rate for mortgage loans) remained at consistently low levels throughout 2013, standing at 0.54% at year end, compared to 0.55% at the end of 2012.

The **Portuguese** economy has seen a slowdown in recent years and suffered the effects of various measures aimed at reducing the public deficit which had a negative effect on consumer confidence and total expenses, although signs of mild improvement were apparent in 2013. Portugal's GDP is expected to decline by 1.7% in 2013 compared to 3.2% in 2012. Household spending is expected to drop by 3% in 2013, compared to the 5.6% fall in 2012. The unemployment rate saw a slight improvement, having declined from 15.6% to 15.3% year-on-year. Lastly, price increases have been brought under control, with inflation reaching 0.2%, compared to 2.8% in 2012.

The **Polish** economy continued to grow in 2013, although at a slower rate than in 2012, with GDP having risen by 1.6%. The prior year's unemployment rate of 13.3% was maintained. Lastly, the CPI declined from 2.4% in 2012 to 0.7% in 2013. Household spending is expected to continuing growing at 1%.

The Chilean **GDP** continued to grow in 2013 and GDP growth is estimated at 4.2% for 2013. Household spending continued to rise by 5.2%. The unemployment rate at year end was 5.7%, which is lower than the 6.1% for 2012. Inflation for 2013 stood at 2.8%, compared to 1.5% in 2012.

GDP in **Colombia has** continued to rise, and is expected to grow at the same 4% rate as in 2012. Unemployment remained at 9.6%. The growth in household consumption is estimated at 4%, which is similar to the 4.3% recorded in 2012. Inflation for the year was 1.93%, which represents a decline on the 2.44% recorded in 2012.

**Peru**, where the Group began operating in 2011, also presents a trend of macroeconomic growth. GDP grew by 5.4% in 2013. Household consumption is estimated at 5.3%. Inflation grew by 3% compared to 2.6% in 2012.

**Ecuador**, where the Group began operating in November 2012, also presents a scenario of macroeconomic growth. GDP for 2013 is estimated at 4.2% and household spending increased by 4.3%.

**Activity of the Group**

Foodco Pastries Spain, S.L. is the Parent of the Foodco Group, which holds a 100% interest in the Telepizza Group.

The Group primarily carries out its activity in the prepared food home delivery sector, mainly pizza delivery, through its main brand Telepizza and also the Pizza World brand.

The principal activity of its subsidiaries consists of the management and operation of fast food sales outlets and restaurants under the brand names Telepizza and Pizza World for consumption at home and on the premises. At 31 December 2013, this activity is carried out through premises owned by the Company and franchises located mainly in Spain, Portugal, Poland, Chile, Guatemala, El Salvador, Colombia, Peru, Ecuador and, since late 2013, Panama and Bolivia through master franchises. Other activities include the manufacture of cheese products. Through its factory in Daganzo (Madrid), Tele Pizza, S.A. supplies all the outlets in Spain that are directly operated by the Telepizza Group or through its franchises.

The Group operated 1,255 outlets.

**Activity in the domestic market**

The Group carries out its activity through the Telepizza and Pizza World brands, and holds a leading position in the sector.

The Group's main market is Spain, where 67.0% of the chain's sales are generated. In addition to the Telepizza brand, the Group operates the Pizza World brand in Spain.

Activity in Spain in 2013 suffered the effects of the macroeconomic environment and the crisis, which commenced in 2008, and continues to have a negative impact on private consumption and employment.

Telepizza is the leader in the pizza delivery segment in Spain, positioned far ahead of its nearest competitor in terms of both size and sales (source: TNS).

During 2013 Telepizza continued with efforts to improve efficiency and cut costs, in order to adapt its products in a competitive environment marked by the household spending crisis.

The Company has been very active in adapting its marketing initiatives to the macroeconomic environment and the country's decline in consumer spending.

Nine new pizzas were launched this year, thereby improving the perceived variety of the brand.

The Group has continued its policy of theming products to both national holidays and days of the week, with such initiatives as Martes Locos (Crazy Tuesdays) and Benditos Domingos (Sacred Sundays), which serve to strengthen the emotional bond with customers.

Agreements have been reached with cable TV companies, primarily regarding sporting events.

The brand also strengthened its leading position in the online sales segment. This purchase method is currently available at virtually all of the Group's outlets in Spain.

Another strategy that has continued to have positive effects in 2013 has been to open outlets in smaller towns based on a specifically designed outlet model. This new format requires significantly lower levels of investment than the traditional format, thereby adding flexibility to the expansion strategy.

Telepizza's industrial division boasts state-of-the-art technology for manufacturing dough and cheese for pizza, which has allowed the Group to make significant improvements in productivity and stock management flexibility, guaranteeing a uniform, high-quality product. Within this area, the logistics platform is of particular importance as it supplies Telepizza outlets with products, making at least two or three deliveries per week.

Lastly, the success of the brand is based on two key factors: the quality of the product, freshly made and to meet customers' tastes, and of the service, which covers most of Spain.

Activity in the international market

Activity in international markets has seen an overall positive performance.

In 2013 the Group began operating in Panama and Bolivia through the master franchise format.

International sales represent 33.0% of the Group's chain sales.

Telepizza operates directly in Portugal, Poland, Chile, Colombia, Peru and Equador, as well as through master franchise agreements in Central America and the United Arab Emirates and, since late 2013, in Panama and Bolivia.

The strategy in these countries is based on adapting to local preferences and characteristics, as well as exporting improvements and successful strategies implemented in the domestic market.

**Group financial information**

Operating income totalled Euros 361.82 million, down 6.6% on 2012, as a result of lower sales on the Spanish market.

The gross operating margin was Euros 262.53 million, 80.5% of net sales and 6% lower than in 2012.

Operating profit amounted to Euros 41.18 million, representing a margin of 12.6%, up 13% compared to 2012 (operating profit of Euros 36.45 million).

The net finance expense totalled Euros 56.47 million, mainly due to interest on bank loans.

The consolidated loss reported by the Group is Euros 84.75 million, Euros 51.99 million lower than the loss incurred in 2012, primarily due to an accounting adjustment derived from an inspection of 2007 to 2010 by the taxation authorities and also due to impairment of goodwill.

This tax inspection had a very limited impact of Euros 0.5 million on cash flows.

**2. Outlook**

During 2013 the Group had to adapt its offering to a very competitive environment which had been affected by adverse macroeconomic conditions, particularly in Spain and Portugal. The marketing policy has limited the impact of the fall in consumption.

However operations in Latin America have benefited from a more favourable macroeconomic environment.

In 2013 master franchise agreements were introduced in Bolivia and Panama.

The measures taken to improve efficiency both in 2013 and in prior years have led to a partial offset of the impact of the household spending crisis on profits and sales, and will help the Company to achieve its targets for 2014.

In 2014 the Group aims to continue to expand its activity within the macroeconomic growth scenarios expected for all the countries in which it operates.

**SPAIN**

The Spanish economy shows signs of slight recovery in 2014. Current forecasts point to GDP growth of 1% and a rise of 0.1% in household spending.

Although the backdrop does not show major signs of improvement, Telepizza will benefit from the experience of recent years, when changes were made to its strategy to adapt to market conditions, and from the improvements in efficiency introduced.

In 2014 Telepizza will continue to apply a sales policy based on adapting its offer to the circumstances, as well as increasing coverage through the outlet model for smaller towns and making the most of consolidated tools such as online sales and launching new products.

**INTERNATIONAL**

In 2014, Telepizza will continue to work to strengthen its position in the international markets in which it operates, calling on its experience of managing these markets and developing the master franchise formula.

All these activities will be carried out following the basic principle of profitability.

The Portuguese economy is expected to improve in 2014, although the market will continue to be unfavourable as a result of the impact of the austerity measures introduced by the Government. Nevertheless, growth of 0.8% in GDP is expected.

Continued growth in GDP and household spending is forecast in Poland. GDP and consumer spending are forecast to rise by 2.5% and 2.6%, respectively compared to 2013. Telepizza has changed the strategy for the country and has improved sales trends during the year, especially in the last quarter.

The Chilean economy is expected to continue to report growth at similar rates to 2013. GDP and consumer spending are forecast to rise by 4.5% and 4.6%, respectively. Telepizza will continue its strategy to strengthen the trade mark having repositioned it in 2013 to take advantage of the favourable macroeconomic environment. .

Favourable macroeconomic development is also foreseen in Colombia, with forecasts pointing to growth of around 4.6% in the GDP and household spending. After several years expansion in the Colombia, Telepizza expects to consolidate its position an improve efficiency . In 2013 franchises were introduced and in 2014 the expansion and renewal strategy is expected to continue.

Forecasts for the macroeconomic situation in Peru are also promising, with expected growth of 5.8% in the GDP and 4.9% in consumer spending. Since 2011 when operations commenced 21 outlets have been opened and the expansion strategy undertaken in 2013 will continue through franchises.

Finally, the macroeconomic outlook for Ecuador, where the company started operating at the end of 2012 is also favourable with expected growth in GDP and consumer spending of around 4.3% Growth is expected to continue in 2014 reflecting the efforts made in respect of trademark and product in 2013.

## 3. R&D&i

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

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

In 2013 Telepizza launched nine new types of pizza in Spain.

The common aim of these product launches was to reinforce the idea of variety, offering something new to consumers.

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.

## 4. Own shares

At 31 December 2013 no Foodco Pastries Spain, S.L.U. shares or rights over shares were held by any Foodco Group company and, consequently, the Group has no voting or profit-sharing rights relating to own shares.

## 5. Significant events after 31 December 2013

No significant events have occurred subsequent to the 2013 year end that are worthy of mention at the date of this directors' report.