

Telepizza Group, S.A. and its subsidiaries

Consolidated annual account

31 December 2016

Consolidated Directors' Report

2016

(With Independent Auditor's Report Thereon)



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

Independent Auditor's Report on the Consolidated Annual Accounts

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

To the Shareholders of
Telepizza Group, S.A.

Report on the consolidated annual accounts

We have audited the accompanying consolidated annual accounts of Telepizza Group, S.A. (formerly named Foodco Pastries Spain, S.A.U.) (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position at 31 December 2016 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes.

Directors' responsibility for the consolidated annual accounts

The Directors are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they present fairly the consolidated equity, consolidated financial position and consolidated financial performance of Telepizza Group, S.A. in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other provisions of the financial reporting framework applicable to the Group in Spain and for such internal control that they determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated annual accounts taken as a whole.

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

Opinion

In our opinion, the accompanying consolidated annual accounts for 2016 present fairly, in all material respects, the consolidated equity and consolidated financial position of Telepizza Group, S.A. and subsidiaries at 31 December 2016 and their financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and other applicable provisions of the financial reporting framework in Spain.

Report on other legal and regulatory requirements

The accompanying consolidated directors' report for 2016 contains such explanations as the Directors of Telepizza Group, S.A. consider relevant to the situation of the Group, its business performance 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 2016. 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 Telepizza Group, S.A. and subsidiaries.

KPMG Auditores, S.L.

(Signed on the original in Spanish)

Carlos Peregrina García

27 February 2017

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statements of Financial Position
31 December 2016 and 2015

(Expressed in thousands of Euros)

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

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Property, plant and equipment (note 8)	46,042	40,158
Goodwill (note 9)	387,322	382,694
Other intangible assets (note 9)	330,223	333,982
Deferred tax assets (note 14)	32,165	11,859
Non-current financial assets (note 10)	<u>30,627</u>	<u>23,711</u>
 Total non-current assets	 <u>826,379</u>	 <u>792,404</u>
 Inventories (note 11)	 11,623	 11,392
Trade and other receivables (note 12)	38,445	34,430
Other current financial assets	1,789	4,516
Other current assets	3,808	3,672
Cash and cash equivalents (note 13)	<u>63,972</u>	<u>39,946</u>
 Subtotal current assets	 <u>119,637</u>	 <u>93,956</u>
 Non-current assets held for sale (note 6)	 <u>305</u>	 <u>130</u>
 Total current assets	 <u>119,942</u>	 <u>94,086</u>
 Total assets	 <u><u>946,321</u></u>	 <u><u>886,490</u></u>

The accompanying notes form an integral part of the consolidated annual accounts for 2016.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statements of Financial Position
31 December 2016 and 2015

(Expressed in thousands of Euros)

<u>Equity and Liabilities</u>	<u>2016</u>	<u>2015</u>
Share capital (note 15)	25,180	18,000
Share premium	533,695	321,388
Retained earnings	51,294	23,054
Translation differences	<u>(3,110)</u>	<u>(8,100)</u>
Equity attributable to equity holders of the Parent and total equity (note 15)	<u>607,059</u>	<u>354,342</u>
Loans and borrowings (note 18 (a))	195,611	286,176
Financial liabilities at fair value (note 17)	-	215
Other financial liabilities (note 29)	-	96,489
Deferred tax liabilities (note 14)	82,866	84,747
Provisions	87	87
Other non-current liabilities	<u>6,460</u>	<u>5,274</u>
Total non-current liabilities	<u>285,024</u>	<u>472,988</u>
Loans and borrowings (note 18 (b))	968	4,985
Other financial liabilities (note 29)	-	2,182
Trade and other payables (note 22)	50,218	47,515
Current tax liabilities (note 27)	-	1,181
Provisions	248	83
Other current liabilities	<u>2,719</u>	<u>3,129</u>
Subtotal current liabilities	<u>54,153</u>	<u>59,075</u>
Liabilities directly associated with non-current assets held for sale (note 6)	<u>85</u>	<u>85</u>
Total current liabilities	<u>54,238</u>	<u>59,160</u>
Total equity and liabilities	<u><u>946,321</u></u>	<u><u>886,490</u></u>

The accompanying notes form an integral part of the consolidated annual accounts for 2016.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Income Statements
for the years ended
31 December 2016 and 2015

(Expressed in thousands of Euros)

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

	<u>2016</u>	<u>2015</u>
Revenues (note 23)	339,587	328,899
Merchandise and raw materials used (note 11)	(88,634)	(91,269)
Personnel expenses (note 24)	(118,637)	(91,085)
Amortisation and depreciation (notes 8 and 9)	(17,369)	(16,609)
Other expenses (note 25)	<u>(100,697)</u>	<u>(88,817)</u>
Operating profit	<u>14,250</u>	<u>41,119</u>
Finance income	3,663	1,532
Finance costs	(25,451)	(36,938)
Other losses (note 26)	<u>(701)</u>	<u>(4,035)</u>
Profit/(loss) before tax from continuing operations	(8,239)	1,678
Income tax income/(expense) (note 27)	<u>18,975</u>	<u>(2,788)</u>
Profit/(loss) for the year from continuing operations	10,736	(1,110)
Post-tax loss on discontinued operations	<u>(45)</u>	<u>(39)</u>
Profit/(loss) for the year	<u>10,691</u>	<u>(1,149)</u>
Profit/(loss) for the year attributable to equity holders of the Parent		
Continuing operations	10,736	(1,110)
Discontinued operations	<u>(45)</u>	<u>(39)</u>
	<u>10,691</u>	<u>(1,149)</u>
Basic and diluted earnings/(loss) per share (Euros)		
Profit/(loss) on continuing operations	<u>0.1172</u>	<u>(3.08)</u>
Loss on discontinued operations	<u>(0.0005)</u>	<u>(0.11)</u>
Profit/(loss) for the year	<u>0.1167</u>	<u>(3.19)</u>

The accompanying notes form an integral part of the consolidated annual accounts for 2016.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
for the years ended
31 December 2016 and 2015

(Expressed in thousands of Euros)

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

	<u>2016</u>	<u>2015</u>
Profit/(loss) for the year	10,691	(1,149)
Other comprehensive income:		
Items that will be reclassified to profit or loss		
Translation differences of financial statements of foreign operations	<u>4,990</u>	<u>(3,681)</u>
Total comprehensive income for the year	<u>15,681</u>	<u>(4,830)</u>
Comprehensive profit/(loss) attributable to equity holders of the Parent	<u>15,681</u>	<u>(4,830)</u>

The accompanying notes form an integral part of the consolidated annual accounts for 2016.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
for the years ended
31 December 2016 and 2015

(Expressed in thousands of Euros)

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

	Share capital	Share premium	Prior years' profit and loss	Translation differences	Total equity
Balances at 31/12/2014	<u>18,000</u>	<u>321,388</u>	<u>24,951</u>	<u>(4,419)</u>	<u>359,920</u>
Other movements	-	-	(748)	-	(748)
Loss for the year	<u>-</u>	<u>-</u>	<u>(1,149)</u>	<u>(3,681)</u>	<u>(4,830)</u>
Balances at 31/12/2015	<u>18,000</u>	<u>321,388</u>	<u>23,054</u>	<u>(8,100)</u>	<u>354,342</u>
Share capital increase of 25 April 2017 (notes 1 and 15(a))	3,824	114,707	-	-	118,531
Share capital increase of 27 April 2017 (note 15(a))	3,356	100,698	-	-	104,054
Capital increase costs	-	(3,098)	-	-	(3,098)
Shareholder contributions (incentive plan) (note 24)	-	-	18,766	-	18,766
Other differences	-	-	(1,217)	-	(1,217)
Profit for the year	<u>-</u>	<u>-</u>	<u>10,691</u>	<u>4,990</u>	<u>15,681</u>
Balances at 31/12/2016	<u>25,180</u>	<u>533,695</u>	<u>51,294</u>	<u>(3,110)</u>	<u>607,059</u>

The accompanying notes form an integral part of the consolidated annual accounts for 2016.

TELEPIZZA GROUP, S.A. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
for the years ended
31 December 2016 and 2015

(Expressed in thousands of Euros)

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

	2016	2015
Cash flows from operating activities		
Profit for the year before tax	(8,239)	1,678
<i>Adjustments for:</i>		
Amortisation and depreciation (notes 8 and 9)	17,369	16,609
(Reversal of) impairment losses (note 26)	53	914
Finance income	(3,663)	(1,532)
Finance costs	25,451	38,917
Losses on disposal of property, plant and equipment and other losses (note 26)	648	3,121
Deferred capital grants	-	(471)
Change in fair value of financial assets	(215)	(1,979)
Expenses for share-based payments	18,766	-
	50,170	57,257
Change in working capital		
(Increase)/decrease in inventories	(231)	(1,536)
(Increase)/decrease in trade and other receivables	(5,106)	9,487
(Increase)/decrease in financial assets	2,727	(4,250)
(Increase)/decrease in other current assets	(136)	(291)
Increase/(decrease) in trade and other payables	2,703	577
Increase/(decrease) in provisions	165	(1,523)
Increase/(decrease) in other non-current liabilities	1,186	345
Increase/(decrease) in other current liabilities	(410)	(449)
	898	2,360
Cash generated from operations		
Income tax paid	(2,314)	(5,042)
Net cash from operating activities	48,754	54,575
Cash flows from investing activities		
Increase/(decrease) in other non-current financial assets	(6,916)	(2,681)
Proceeds from sale of property, plant and equipment and intangible assets	3,685	3,527
Acquisition of property, plant and equipment (note 8)	(17,391)	(19,058)
Acquisition of intangible assets (note 9)	(3,794)	(2,100)
Acquisition of subsidiaries, net of cash and cash equivalents (note 7)	(5,800)	(9,734)
Net cash from/(used in) investing activities	(30,216)	(30,046)
Cash flows from financing activities		
Proceeds from capital issue	114,401	-
Proceeds from financial debt issue	194,977	-
Payments to settle financial debt	(288,240)	-
Interest received	3,663	1,532
Interest paid	(21,387)	(28,077)
Net cash from (used in) financing activities	3,414	(26,545)
Net cash from (used in) discontinued operations		(85)
Net increase/(decrease) in cash and cash equivalents	21,952	(2,101)
Cash and cash equivalents	61,626	42,804
Effect of exchange differences	2,074	(2,858)
Cash and cash equivalents at 31 December	63,972	39,946

The accompanying notes form an integral part of the consolidated annual accounts for 2016.

TELEPIZZA GROUP, S.A
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Notes to the Consolidated Annual Accounts

31 December 2016

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

(1) Nature, Activities and Composition of the Group

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

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

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

The principal activity of its subsidiaries consists of the management and operation of retail outlets under the brand names of "telepizza", "Pizza World" and "Jeno's pizza", which sell food for consumption at home and on the premises. At 31 December 2016, this activity is carried out through 454 own premises and 935 franchises located mainly in Spain, Portugal, Poland, Chile, Colombia, Peru and Ecuador. The Group also carries out its activity through master franchises located in Guatemala, El Salvador, Russia, Angola, Bolivia, Panama and Abu Dhabi.

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

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

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

The subsidiaries and sub-groups composing the Telepizza Group (the Group), and the percentage ownership and details of the respective shareholders' equities at 31 December 2016, are included in Appendix I attached hereto, which forms an integral part of this note. The Group does not hold interests in other entities or in jointly controlled entities, assets or operations.

Initial public offering

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

- a) A capital increase on 25 April 2016 of Euros 118,531 thousand through the issue of 15,294,318 ordinary shares of Euros 0.25 par value each and a share premium of Euros 7.5 each. The new shares issued were sold via a public subscription offer (see note 15) at a price of Euros 7.75 per share.
- b) A public offering of 55,673,423 shares, representing 55% of the capital, sold at Euros 7.75 each, raising a total amount of Euros 431,469 thousand.

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

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

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Merrill Lynch International and UBS Limited were appointed as the global coordinators of the aforementioned process. The total expense for these issues amounted to Euros 9,669 thousand, of which Euros 4,130 thousand (excluding the tax effect) was allocated to the public subscription offer and, therefore, recognised directly in consolidated equity (see note 15 (b)). The remaining Euros 5,539 thousand was allocated to the public offering and, therefore, recognised in other expenses in the consolidated income statement (see note 25).

Lastly, within the framework of the initial public offering, the Group restructured its financial debt, settling the subordinated loan and the former syndicated loan and arranged a new syndicated loan (see notes 18 and 29).

(2) Basis of Presentation

The accompanying consolidated annual accounts have been prepared on the basis of the accounting records of Telepizza Group, S.A. and of the consolidated companies. The consolidated annual accounts for 2016 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other applicable provisions in the financial reporting framework, to present fairly the consolidated equity and consolidated financial position of Telepizza Group, S.A. and subsidiaries at 31 December 2016 and consolidated results of operations and changes in consolidated equity and cash flows of the Group for the year then ended.

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

The directors of the Parent consider that the consolidated annual accounts for 2016, prepared on 22 February 2017, will be approved by the shareholders without significant changes.

(a) Basis of preparation of the annual accounts

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

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

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

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

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Notes to the Consolidated Annual Accounts

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

- The Group determines the useful life of certain intangible assets acquired in a business combination based on assumptions relating to brand positioning, estimated future market share, investments in the brand and the projected cash flows to be generated by these assets. Some of these assumptions changed at the start of 2009 and the Group has therefore re-estimated the useful lives of certain intangible assets, with the aid of a report drawn up by independent experts (see note 4 (e)).
- The Group tests goodwill and the brand “telepizza” for impairment on an annual basis. Calculation of the recoverable amount requires the use of estimates by management. The recoverable amount is the higher of fair value less costs to sell and value in use. The Group generally uses cash flow discounting methods to calculate these values. Discounted cash flow calculations are based on five-year projections in the budgets approved by management. The cash flows take into consideration past experience and represent management’s best estimate of future market performance. From the fifth year cash flows are extrapolated using individual growth rates. The key assumptions employed when determining fair value less costs to sell and value in use include growth rates, the weighted average cost of capital, and tax rates. The estimates, including the methodology employed, could have a significant impact on the values and the impairment loss (see note 9).
- Valuation allowances for bad debts require a high degree of judgement by management and a review of individual balances based on customers’ credit ratings, current market trends and historical analysis of bad debts at an aggregated level. Any decrease in the volume of outstanding balances entails a reduction in impairment resulting from an aggregate analysis of historical bad debts, and vice versa (see note 12).
- The Group capitalises tax credits when they are likely to be offset in the foreseeable future based on the business plans for each tax jurisdiction in which it operates (see note 27). The calculation of the recoverable amount of these deferred tax assets requires the use of estimates by management. The calculations regarding their recoverability are based on the projections for coming years in the budgets approved by the board of directors, considering past experience and represent the best estimate of future market performance.
- The Group has made a number of judgements and estimates relating to the valuation of the capital increase entailing a debt-for-equity swap carried out in 2016 (see notes 15 and 29). These judgements primarily consisted of determining the fair values of the equity instruments issued and the financial liabilities cancelled.

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Although estimates are calculated by the Company's directors based on the best information available at 31 December 2016, future events may require changes to these estimates in subsequent years. Any effect on the consolidated annual accounts of adjustments to be made in subsequent years would be recognised prospectively.

(c) Consolidated group

During 2016 Telepizza Switzerland GmbH, Foodco Maroc and Foodco Panamá were incorporated. Also in 2016 Lubasto Holding was liquidated.

In 2015 all the shares of Burmasa Delivery, S.L. were acquired.

(d) Standards and interpretations issued but not applied

Standards and interpretations effective since 2016

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 2016 as these changes deal with types of transactions not carried out by the Group.

Standards and interpretations issued but not applied

At the date of authorisation for issue of these consolidated annual accounts, the following IFRS have come into force and been adopted by the EU, and will therefore be applied to the consolidated annual accounts for 2017 and subsequent years (depending on the effective date of each standard):

- IFRS 9 Financial instruments. Effective for annual periods beginning on or after 1 January 2018. At present the Group plans to apply this standard for the first time on 1 January 2018.

The actual impact of applying IFRS 9 to the Group's consolidated financial statements in 2018 is not known and it cannot be reliably estimated because it will depend on the financial instruments held by the Group and the financial terms at that time, as well as the accounting decisions and value judgements that it adopts in the future.

- IFRS 15 Revenue from Contracts with Customers. Effective for periods beginning on or after 1 January 2018. IFRS 15 establishes a comprehensive framework for determining and recognising revenue. It replaces the existing guidelines on revenue recognition, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

At present revenues from the sale of products are recognised when the goods are delivered to customers in establishments or at home, at which time the customer accepts the goods and all the risks and rewards are transferred. Revenues are recognised at this point of time provided that they and the costs can be measured reliably, it is probable that the consideration will be received (or has already been received in the case of cash transactions) and management has no ongoing involvement with the goods.

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TELEPIZZA GROUP, S.A.
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In accordance with IFRS 15 revenues are recognised when the customer obtains control of the goods, which also occurs when they are delivered to the customers in the commercial establishments.

No liability is recognised for the loyalty programmes managed by the Group because the discounts are granted and applied at the time of the transaction and are recognised as a reduction in revenues. IFRS 15 is not expected to have any impact.

The Group plans to adopt IFRS 15 for its consolidated financial statements for the year ended 31 December 2018, using a prospective approach.

The conclusion obtained from the Group's initial assessment of the potential impact of applying IFRS 15 to its consolidated financial statements is that it will be very limited.

The following are standards or interpretations that have not yet been adopted by the European Union that will be obligatory in coming years and are expected to have a greater impact for the Group:

- IFRS 16 Leases. Effective for periods beginning on or after 1 January 2019. IFRS 16 introduces a single accounting model for the recognition of leases in the balance sheet by lessees. The lessee recognises an asset for the right of use of the underlying asset and a liability for the lease due to the obligation to make the lease payments. There are optional exceptions for short-term leases and the leasing of articles of little value. The lessor accounting method remains similar to that under the current standard; i.e. lessors continue to classify leases as finance leases or operating leases.

The standard is effective for annual periods beginning on or after 1 January 2019, although early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers, on or before the date of first application of IFRS 16.

The Group has started an initial assessment of the possible impact on its consolidated financial statements. To date, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases for factories and commercial premises. Furthermore, the nature of these lease expenses will now change, as IFRS 16 replaces the straight-line expensing of operating leases with an amortisation charge for the right-of-use assets and an expense for interest on the lease liabilities.

As the lessee, the Group can apply the standard with a retrospective approach or a modified retrospective approach with optional practical expedients.

The lessee shall apply the chosen option consistently to all leases. At the present date, the Group plans to apply IFRS 16 for the first time on 1 January 2019. It has not yet decided which transition approach it will use.

As the lessor, the Group is not obliged to make any adjustments to leases in which it is the lessor, except when it is an intermediary lessor in a sublease.

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The Group has not yet quantified the impact of adopting IFRS 16 on the assets and liabilities recognised. The quantitative impact will depend, inter alia, on the transition method selected, the degree to which the Group uses the practical expedients and the recognition exemptions, as well as all the additional leases entered into by the Group. The Group considers that the analysis to be made of the lease term and the discount rate to be used are especially relevant in the application and quantification of this standard. The Group expects to disclose its transition approach and quantitative information before adoption, and in any case expects that applying this standard will have a significant impact on the Group's financial statements.

(e) Comparative information

The consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes thereto for 2016 include comparative figures for 2015, which were approved by the sole shareholder on 25 June.

(f) Functional and presentation currency

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

(3) Application of the Parent's loss

The Parent's board of directors proposes that the loss of Euros 9,759,708 incurred by the Telepizza Group, S.A. for the year ended 31 December 2016 be carried forward as accumulated losses. This proposal is pending approval by the shareholders at their general meeting.

The application of the Euros 12,046,749 loss for 2015, approved by the former sole shareholder on 15 April 2016, consisted of carrying the entire amount forward as prior years' losses.

(4) 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.

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

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

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

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

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

(b) Business combinations

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

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

The Group applies the acquisition method for business combinations.

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

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

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

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

The initial measurement is only adjusted when correcting errors.

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

(c) Foreign currency transactions and balances

(i) Foreign currency transactions, balances and cash flows

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

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

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

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

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

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

(ii) Translation of foreign operations

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

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

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

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

(d) Property, plant and equipment

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

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

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

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

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

The depreciable amount is the cost of an asset.

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

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

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

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

(e) Intangible assets

(i) Goodwill

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

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

Internally generated goodwill is not recognised as an asset.

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(ii) Intangible assets acquired in business combinations

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

(iii) Other intangible assets

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

- Concessions, patents and licences

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

- Computer software

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

Computer software maintenance costs are expensed as incurred.

(iv) Useful life and amortisation rates

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

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

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

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

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

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

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

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

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

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

(i) Non-current assets held for sale

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

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

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

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

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

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

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

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

(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.

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

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

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

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

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

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

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.

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

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

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

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

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.

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

(h) Leases(i) Classification of leases

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

(ii) Lessor accounting

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

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

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

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

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

(ii) Lessee accounting records

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

• Finance leases

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

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

- Operating leases

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

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

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

(i) Financial instruments

(i) Classification of financial instruments

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

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

(ii) Offsetting principles

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

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

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

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

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

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

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

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

(iv) Loans and receivables

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

(v) Impairment

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

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

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

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

(vi) Financial liabilities

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

(vii) Derecognition of financial assets

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

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

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

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

(viii) Derecognition and modifications of financial liabilities

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

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

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

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

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

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

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

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

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

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The issue of equity instruments by the Group to settle a financial liability is part of the consideration paid to settle the financial liability. Consequently, the equity instruments issued to fully or partially settle a financial liability are measured at fair value, unless the fair value of the settled liability can be measured more reliably. If the Group settles only a part of the financial liability, a portion of the fair value of the equity instruments issued is allocated to determine whether the remaining part of the financial liability has changed. The difference between the fair value of the equity instruments issued to settle the financial liability or, where appropriate, the fair value of the liability and the carrying amount is recognised in gains/losses on settlement of financial liabilities through the issue of equity instruments in the consolidated income statement.

(j) Inventories

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

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

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

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

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

The 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.

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

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

(l) Hedge accounting

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

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(m) Government grants

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

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

(n) Employee benefits(i) Termination benefits

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

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

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

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

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(ii) Short-term employee benefits

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

Short-term employee benefits are reclassified to long term if the characteristics of the benefit change or if there is a non-temporary change in expectations of the timing of settlement.

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.

(o) Provisions

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

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

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

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

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

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(p) Revenue recognition

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

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

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

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

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

Revenues from leases to franchisees and revenues for personnel management are also recognised when the service is rendered.

The Group does not have significant volumes of product returns.

(q) Income tax

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

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

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

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

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Since 1 January 2007 the Company has been the parent of a tax group, as defined by the consolidated tax regime, which comprised Tele Pizza, S.A., Circol, S.A., Mixor, S.A. and Luxtor, S.A. at 31 December 2016.

(i) Recognition of deferred tax liabilities

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

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

(ii) Recognition of deductible temporary differences

The Group recognises deferred tax assets provided that:

- it is probable that taxable profit will be available against which the deductible temporary difference can be utilised or when tax legislation allows the future conversion of deferred tax assets into a receivable from public entities. However, assets arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and, at the time of the transaction, affect neither accounting profit nor taxable income.
- the temporary differences are associated with investments in subsidiaries and joint ventures that will reverse in the foreseeable future and sufficient tax gains are expected to be generated against which the temporary differences can be offset.

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

(iii) Measurement of deferred tax assets and liabilities

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

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

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

(iv) Offset and classification

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

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

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

(r) Segment reporting

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

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

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

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

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

(t) Share-based payment transactions

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

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

- *Equity-settled share-based payment transactions*

Equity-settled payment transactions are recognised as follows:

- If the equity instruments granted vest immediately on the grant date, the services received are recognised in full, with a corresponding increase in equity;
- If the equity instruments granted do not vest until the employees complete a specified period of service, those services are accounted for during the vesting period, with a charge to profit and loss and the corresponding increase in equity.

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

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

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

In accordance with prevailing tax legislation in Spain, costs settled through the delivery of equity instruments are deductible in the tax period in which delivery takes place, in which case a temporary difference arises as a result of the time difference between the accounting recognition of the expense and its tax-deductibility.

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

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(5) Segment Reporting

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

At 31 December 2016 and 2015, the Group comprises the following operating segments:

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

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

The impact of the expenses recognised in the consolidated income statement as a result of the public offering and the management incentive plans totals Euros 32,027 thousand, which has been included in the Spain segment.

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

	2016					Total
	Thousands of Euros					
	Spain	Other Europe	Latin America	Master franchise and rest of world	Eliminations	
Operating income						
Own outlet sales	110,536	34,549	50,876	-	-	195,961
Factory sales to franchisees	74,810	14,091	8,871	247	-	98,019
Royalties	18,716	2,957	2,189	850	-	24,712
Other income	12,436	1,650	5,332	1,477	-	20,895
To other segments	12,278	-	-	-	(12,278)	-
Total operating income	228,777	53,247	67,268	2,574	(12,278)	339,587
Gross margin	162,594	35,879	50,109	2,371	-	250,953
Amortisation and depreciation	11,886	1,431	4,052	-	-	17,369
Segment operating profit/(loss)	(1,552)	7,155	6,277	2,370	-	14,250
Net finance income/(cost)	(20,479)	(357)	(952)	-	-	(21,788)
Other gains	22	10	206	-	-	238
Other losses	(394)	(174)	(371)	-	-	(939)
Income tax	21,264	(1,406)	(846)	(37)	-	18,975
Profit/(loss) from continuing operations	(109)	4,196	4,316	2,333	-	10,736
Loss after tax						
from discontinued operations	(45)	-	-	-	-	(45)
Loss attributable to the Parent	(109)	4,196	4,316	2,333	-	10,736
Segment assets	790,473	45,955	109,588	-	-	946,016
Assets from discontinued operations or held for sale	305	-	-	-	-	305
Group assets	790,778	45,955	109,588	-	-	946,321
Segment liabilities	43,751	8,047	8,691	-	-	60,489
Liabilities from discontinued operations or held for sale	86	-	-	-	-	85
Unassigned liabilities	-	-	-	-	-	885,747
Group liabilities	43,836	8,047	8,691	-	-	946,321
Investments in property, plant and equipment and intangible assets	13,668	4,248	9,069	-	-	26,985

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	2015					Total
	Thousands of Euros					
	Spain	Other Europe	Latin America	Master franchise and rest of world	Eliminations	
Operating income						
Own outlet sales	116,361	32,577	51,174	-	-	200,112
Factory sales to franchisees	69,157	13,042	7,694	667	-	90,560
Royalties	15,879	1,713	1,815	892	-	20,299
Other income	10,076	2,035	5,192	625	-	17,928
To other segments	9,474	-	-	-	(9,474)	-
Total operating income	220,946	49,367	65,875	2,184	(9,474)	328,899
Gross margin	154,083	33,780	48,079	1,689	-	237,631
Amortisation and depreciation	(11,064)	(1,425)	(4,120)	-	-	(16,609)
Segment operating profit/(loss)	27,028	7,065	5,341	1,685	-	41,119
Net finance income/(cost)	(33,729)	(211)	(1,466)	-	-	(35,406)
Other gains	9	57	1	-	-	67
Other losses	(3,412)	(424)	(266)	-	-	(4,102)
Income tax	(1,941)	491	(1,293)	(45)	-	(2,788)
Profit/(loss) from continuing operations	(12,045)	6,978	2,317	1,640	-	(1,110)
Loss after tax from discontinued operations	(39)	-	-	-	-	(39)
Loss attributable to the Parent	(12,084)	6,978	2,317	1,640	-	(1,149)
Segment assets	754,458	39,944	91,958	-	-	886,360
Assets from discontinued operations or held for sale	130	-	-	-	-	130
Group assets	754,588	39,944	91,958	-	-	886,490
Segment liabilities	44,784	6,678	5,662	-	-	57,124
Liabilities from discontinued operations or held for sale	85	-	-	-	-	85
Unassigned liabilities	-	-	-	-	-	829,281
Group liabilities	44,869	6,678	5,662	-	-	886,490
Investments in property, plant and equipment and intangible assets	18,455	2,524	9,209	-	-	30,188

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

The Company has classified two outlets in Spain and its subsidiary in Morocco, which is currently in liquidation, under non-current assets held for sale and their operations are included in discontinued operations in the consolidated income statement.

(7) Business Combinations

In 2016, the Group acquired various outlets that were in operation, mainly from franchisees in Spain, Chile and Peru, the master franchisee business in Panama and a franchise business in Switzerland. These outlets were acquired as part of the Group's global strategy, which involves operating outlets as own stores in various geographic regions rather than as franchises and also due to entry in new geographic markets.

On 30 December 2015, through Tele Pizza, S.A., the Group acquired a 100% interest in Burmasa Delivery, S.L., the franchisee of three stores in Burgos. During 2015 the Group acquired several outlets, mainly in Spain.

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

	Thousands of Euros	
	2016	2015
Cost of the combination, cash paid	5,800	9,734
Less, fair value of net assets acquired	(624)	(1,636)
Goodwill (note 9)	5,176	8,098

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

Net assets acquired during 2016 total Euros 624 thousand and consist entirely of the property, plant and equipment of the stores acquired from franchisees.

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The amounts recognised in 2015 by significant class at the date of acquisition of the assets and liabilities are as follows:

	Thousands of Euros
	Fair value
Intangible assets	940
Property, plant and equipment	1,584
Other non-current assets	20
Inventories	33
Trade and other receivables	105
Cash and cash equivalents	188
 Total assets	 2,870
 Trade and other payables	 (1,046)
 Total net assets acquired	 1,824
 Cash paid	9,922
Cash and cash equivalents of the acquiree	(188)
 Cash outflow for the acquisition	 9,734

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

The businesses acquired during 2016 have generated consolidated revenues and consolidated profit for the Group for the period from the acquisition date to the reporting date of Euros 3,142 thousand and Euros 124 thousand (profit), respectively. The businesses acquired in 2015 generated consolidated revenues and consolidated profit for the Group for the period from the acquisition date to the 2015 reporting date of Euros 3,533 thousand and Euros 259 thousand, respectively.

Had the acquisition taken place on 1 January 2016, Group revenues and consolidated loss for the year ended 31 December 2015 would have amounted to Euros 345.540 thousand and Euros 10.789 thousand (profit), respectively.

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(8) Property, Plant and Equipment

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

Data	Thousands of Euros					Total
	Land and buildings	Technical installations and machinery	Other installations, equipment and furniture	Advances and property, plant and equipment under construction	Other property, plant and equipment	
<u>Cost</u>						
Balance at 31.12.2014	8,848	107,671	13,204	223	15,016	144,962
Additions	32	13,811	1,679	1,259	2,277	19,058
Disposals	(1,115)	(16,346)	(2,956)	-	(2,106)	(22,523)
Other transfers	5	977	170	(1,091)	(61)	-
Exchange losses	(158)	(1,264)	(361)	-	(84)	(1,867)
Balance at 31.12.2015	7,612	104,849	11,736	391	15,042	139,630
Additions	9	13,447	1,221	3,125	213	18,015
Disposals	(661)	(15,584)	(1,123)	-	(1,900)	(19,268)
Other transfers	5	631	210	(864)	18	-
Exchange losses	261	1,295	174	(6)	283	2,019
Balance at 31.12.2016	7,226	104,638	12,218	2658	13,656	140,396
<u>Depreciation or impairment</u>						
Depreciation at 31.12.2014	(4,613)	(76,763)	(9,224)	-	(11,285)	(101,885)
Impairment at 31.12.2014	(350)	(6,811)	(14)	-	-	(7,175)
Depreciation for the year	(390)	(6,046)	(1,303)	-	(1,300)	(9,039)
Disposals	511	12,768	1,460	-	1,618	16,357
Exchange gains	116	724	191	-	103	1,134
Impairment	349	786	-	-	-	1,135
Depreciation at 31.12.2015	(4,376)	(69,317)	(8,876)	-	(10,864)	(93,433)
Impairment at 31.12.2015	-	(6,027)	(12)	-	-	(6,039)
Depreciation for the year	(664)	(7,090)	(651)	-	(1,310)	(9,715)
Disposals	574	11,971	794	-	1,594	14,933
Exchange losses	(172)	(600)	(134)	-	(189)	(1,095)
Impairment	(68)	1,063	-	-	-	995
Depreciation at 31.12.2016	(4,638)	(65,036)	(8,867)	-	(10,769)	(89,310)
Impairment at 31.12.2016	(68)	(4,964)	(12)	-	-	(5,044)
<u>Carrying amount</u>						
At 31.12.2014	3,885	24,097	3,966	223	3,731	35,902
At 31.12.2015	3,236	29,505	2,848	391	4,178	40,158
At 31.12.2016	2,520	34,638	3,339	2,658	2,887	46,042

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During 2016 and 2015 significant additions were made to installations and machinery, mainly due to the investments related to new outlets opened and the purchase of franchised outlets. Additions have also been made to furniture and motorcycles. Similarly, in 2015, significant investments were made in lighting, energy efficiency measures and air conditioning.

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

Disposals in 2016 and 2015 primarily include property, plant and equipment used in outlets which have been franchised, closed or sold, and items relating to the termination of rental contracts for certain outlets.

At 31 December 2016 and 2015 the Group had no commitments to acquire items of property, plant and equipment. Assets totalling Euros 831 thousand and Euros 1,040 thousand have been pledged as security, respectively. The Group does not have any significant unused property, plant and equipment.

During 2016 the Group recognised income from the reversal of impairment totalling Euros 995 thousand (an impairment loss of Euros 536 thousand in 2015). It has also recognised impairment losses of Euros 648 thousand on sales of outlets to franchisees (Euros 1,697 thousand in 2015). The impairment losses recognised and reversed are basically due to the impairment of assets used in operations in the Group's outlets. Impairment losses have been determined based on value in use. Value in use is calculated based on future cash flows, projected up to the expiry date of the lease contract for each outlet. The main assumptions employed to project cash flows are detailed in note 9. The impaired assets comprise installations, machinery and store furniture.

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

Details of the cost of fully depreciated property, plant and equipment at 31 December 2016 and 2015 are as follows:

	Thousands of Euros	
	2016	2015
Technical installations and machinery	39,170	44,422
Other	12,816	14,082
	<u>51,986</u>	<u>58,504</u>

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At 31 December 2015 property, plant and equipment includes the following amounts for items leased by the Group under finance leases:

	Thousands of Euros	
	2016	2015
Cost of items held under finance leases	-	2,535
Accumulated depreciation and impairment losses	-	(846)
Carrying amount	-	1,689

All of the finance leases were cancelled in 2016 and the Group has acquired all the property, plant and equipment leased under these agreements.

Details of the main terms of finance leases in force at 31 December 2015 are as follows:

Asset	Agreement date	Number of monthly instalments	Thousands of Euros		
			Cash value	Amount of the instalment	Purchase option
Machinery (several agreements)	Between May 2012 and June 2014	60	2,535	85	71
Less, accumulated depreciation			(846)		
Total			1,689		

A summary of the liabilities resulting from these operations at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Total liability under the contracts	-	2,947
Payments made		
In prior years	-	(482)
During the year	-	(414)
Finance lease payables (note 18 (a) and (b))	-	2,051

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Property, plant and equipment leased by the Group to third parties under operating leases consists of assets in sublet outlets, which were carried at the following amounts at 31 December 2016 and 2015:

	Thousands of Euros	
	2016	2015
Cost	4,409	4,947
Accumulated depreciation at 1 January	(4,113)	(4,510)
Depreciation charge for the year	(59)	(91)
Carrying amount	<u>237</u>	<u>346</u>

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

However, to calculate the future minimum receivables under non-cancellable operating leases, the Group has applied the same criterion as for the calculation of minimum operating lease payments, therefore taking into account the duration of the sublease agreement because the Group has committed to sub-leasing the premises to the franchisee for this period (see note 25).

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

Operating lease instalments recognised as income in 2016 and 2015 total Euros 6,695 thousand and Euros 2,413 thousand, respectively. They are recognised as “other revenues” (see note 23).

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

	Thousands of Euros	
	2016	2015
Up to 1 year	5,685	5,095
Between 1 and 5 years	20,567	18,036
More than 5 years	14,076	13,153
	<u>40,328</u>	<u>36,284</u>

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(9) Intangible Assets

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

	<u>Thousands of Euros</u>
<u>Cost</u>	
Balance at 31.12.2014	<u>376,239</u>
Goodwill on business combinations for the year (note 7)	8,098
Additions on first consolidation	932
Translation differences	(115)
Disposals	(2,082)
Impairment losses for the year (note 26)	<u>(378)</u>
Balance at 31.12.2015	<u>382,694</u>
Goodwill on business combinations for the year (note 7)	5,176
Translation differences	500
Impairment losses for the year (note 26)	<u>(1,048)</u>
Balance at 31.12.2016	<u><u>387,322</u></u>

Details of goodwill by country at 31 December 2016 and 2015 are as follows:

	<u>Thousands of Euros</u>	
	<u>2016</u>	<u>2015</u>
Spain	268,741	267,601
Portugal	61,311	61,311
Poland	4,620	4,620
Chile	41,819	40,672
Colombia	8,371	8,144
Panama	260	-
Switzerland	1,844	-
Other	356	346
	<u><u>387,322</u></u>	<u><u>382,694</u></u>

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

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

	2016				
	Spain	Portugal	Chile	Poland	Colombia
Discount rate (WACC)	7.00%	8.10%	8.40%	7.15%	8.75%
Growth rate of income in perpetuity (g)	2.00%	2.20%	4.15%	1.00%	3.90%
	2015				
	Spain	Portugal	Chile	Poland	Colombia
Discount rate (WACC)	7.70%	8.10%	8.40%	7.15%	8.75%
Growth rate of income in perpetuity (g)	1.70%	1.40%	3.20%	1.00%	4.00%

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

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

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

The annual impairment test was not performed on the goodwill generated in 2016 on the businesses acquired in Panama and Switzerland because they were acquired in 2016 and the business combination is provisional.

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

The result of the sensitivity analysis of goodwill impairment per CGU group for 2015 was as follows (in thousands of Euros):

2015	WACC		g		Business operating assumptions	
	> 0.5%	>0.25%	<0.5%	<0.25%	> 0.5%	<0.25%
Poland	250	-	112	-	733	200
Chile	4,097	1,968	3,287	1,545	5,989	2,813
Portugal	-	-	-	-	-	-
Colombia	-	-	-	-	1,190	812
Spain	-	-	-	-	-	-
Impairment	<u>4,347</u>	<u>1,968</u>	<u>3,399</u>	<u>1,545</u>	<u>7,912</u>	<u>3,825</u>

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Details of other intangible assets and movement are as follows:

	Thousands of Euros					
	Concessions patents, Licences	Trademar ks	Contractual rights and other	Other intangible assets	Computer software	Total
<u>Cost</u>						
Balances at 31.12.2014	1,585	253,502	151,359	771	21,765	428,982
Additions	140	-	-	45	1,915	2,100
Disposals	(155)	-	-	(271)	(234)	(660)
Exchange losses	(2)	-	-	(17)	(99)	(118)
Balances at 31.12.2015	1,568	253,502	151,359	528	23,347	430,304
Additions	71	-	-	26	3,697	3,794
Disposals	-	-	-	(76)	(2,866)	(2,942)
Exchange gains	(7)	-	-	20	150	163
Balances at 31.12.2016	1,632	253,502	151,359	498	24,328	431,319
<u>Amortisation or impairment</u>						
Amortisation at 31.12.2014	(874)	(18,526)	(50,736)	(566)	(18,731)	(89,433)
Impairment at 31.12.2014	(8)	-	-	-	-	(8)
Amortisation for the year	(181)	-	(5,818)	(6)	(1,565)	(7,570)
Disposals	155	-	-	271	163	589
Other transfers	129	-	-	(129)	-	-
Exchange gains	2	-	-	19	79	100
Amortisation at 31.12.2015	(769)	(18,526)	(56,554)	(411)	(20,054)	(96,314)
Impairment at 31.12.2015	(8)	-	-	-	-	(8)
Amortisation for the year	(181)	-	(5,815)	(9)	(1,649)	(7,654)
Disposals	-	-	-	75	2,869	2,944
Exchange losses	(4)	-	(31)	(7)	(422)	(64)
Amortisation at 31.12.2016	(954)	(18,526)	(62,400)	(352)	(18,856)	(101,088)
Impairment at 31.12.2016	(8)	-	-	-	-	(8)
<u>Carrying amount</u>						
At 31.12.2014	703	234,976	100,623	205	3,034	339,541
At 31.12.2015	791	234,976	94,805	117	3,293	333,982
At 31.12.2016	670	234,976	88,959	146	5,472	330,223

The Company has recognised an intangible asset with an indefinite useful life under patents, licences and trademarks in relation to the “telepizza” brand. The original value of this asset was Euros 247,028 thousand and its carrying amount at 31 December 2016 and 2015 is Euros 228,502 thousand (see note 4 (g)). The “Jeno’s pizza” brand also has an indefinite useful life and a value of Euros 6,474 thousand at 31 December 2016 and 2015, which is allocated to the group of CGUs in Colombia.

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

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

Based on the estimates and projections available to the Parent's directors, the expected future economic benefits of these CGUs fully justify the carrying amount of recognised goodwill and intangible assets with an indefinite useful life. The discount rate assumption used when calculating value in use in 2016 and 2015 of intangible assets with an indefinite useful life is as follows:

	2016	2015
Discount rate (WACC)	7.75%	7.35% - 8.35%
Growth rate of income in perpetuity (g)	2.00%	1.50% - 2.00%

The Group applied the upper figure of the discount rate range for its impairment analysis in 2015.

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

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

If a sensitivity analysis of impairment of intangible assets with an indefinite useful life were performed, in 2016 and 2015 the result, in thousands of Euros, of reasonably possible variations of between 50 and 25 basis points in the discount rate, between 50 and 25 basis points in the growth rate of income in perpetuity or between 50 and 25 basis points in the business operating assumptions, would not have an impact on the consolidated annual accounts at 31 December 2016.

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The result of the sensitivity analysis of impairment of intangible assets with an indefinite useful life for 2015 was as follows (in thousands of Euros):

	WACC		g		Business operating assumptions	
	> 0.5%	>0.25%	<0.5%	<0.25%	+/- 0.50%	+/- 0.25%
	Impairment 2015	10,597	-	473	-	1,938

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

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

Description of the asset	Euros			
	Remaining useful life	Amortisation for the year	Accumulated amortisation	Carrying amount
<u>2016</u>				
Telepizza brand	Indefinite	-	18,526	228,502
“Jeno’s Pizza” brand	Indefinite	-	-	6,474
Contractual rights	20	4,296	50,586	85,929
		<u>4,296</u>	<u>69,112</u>	<u>320,905</u>
<u>2015</u>				
Telepizza brand	Indefinite	-	18,526	228,502
“Jeno’s Pizza” brand	Indefinite	-	-	6,474
Contractual rights	21	4,296	46,290	90,225
		<u>4,296</u>	<u>64,816</u>	<u>325,201</u>

At 31 December 2016 and 2015 the Group has no commitments to purchase intangible assets.

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Details of the cost of fully amortised intangible assets at 31 December 2016 and 2015 are as follows:

	Thousands of Euros	
	2016	2015
Computer software	15,055	16,009
Other	933	1,156
	<u>15,988</u>	<u>17,165</u>

(10) Non-current Financial Assets

Details of non-current financial assets at 31 December 2016 and 2015 are as follows:

	Thousands of Euros	
	2016	2015
Security deposits and guarantees	6,216	6,119
Non-current trade receivables	20,500	16,390
Other loans and receivables	3,911	1,202
	<u>30,627</u>	<u>23,711</u>

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

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

(11) Inventories

Details at 31 December 2016 and 2015 are as follows:

	Thousands of Euros	
	2016	2015
Merchandise	10,527	10,138
Raw materials	865	978
Finished goods	231	276
Total inventories	<u>11,623</u>	<u>11,392</u>

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

	Thousands of Euros	
	2016	2015
Net purchases	88,865	92,805
Change in inventories	(231)	(1,536)
	<u>88,634</u>	<u>91,269</u>

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

At 31 December 2016 and 2015 the Group has no inventories pledged as collateral to secure repayment of debts and commitments with third parties. The Group has taken out sufficient insurance policies to cover the risk of damage to its inventories.

(12) Trade and Other Receivables

Details are as follows:

	Thousands of Euros	
	2016	2015
Trade receivables	37,384	34,724
Other receivables	3,468	3,661
Public entities	5,825	3,186
Impairment	(8,232)	(7,141)
Trade and other receivables	<u>38,445</u>	<u>34,430</u>

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

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

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

	Thousands of Euros	
	2016	2015
<i>Current</i>		
Balance at 1 January	(7,141)	(7,881)
Charge	(1,094)	(914)
Application/reversal	3	1,654
	(8,232)	(7,141)

(13) Cash and Cash Equivalents

Details at 31 December 2016 and 2015 are as follows:

	Thousands of Euros	
	2016	2015
Cash in hand and at banks	63,972	39,946
Cash and cash equivalents	63,972	39,946

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

(14) Deferred Tax

Details of deferred tax assets are as follows:

Deferred tax assets	Thousands of Euros				
	Non-deductible amortisation/ depreciation	Tax credits and deductions	Finance costs	Other	Total
Balances at 31.12.2014	2,219	7,563	-	1,690	11,472
Taken to the income statement (note 27)	(450)	1,867	-	(1,030)	387
Balances at 31.12.2015	1,769	9,430	-	660	11,859
Taken to the income statement (note 27)	(188)	1,332	19,268	(106)	20,306
Balances at 31.12.2016	1,581	10,762	19,268	554	32,165

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The deferred tax assets recognised in the consolidated statement of financial position mainly reflect tax loss carryforwards and non-deductible finance costs generated by the Group companies Telepizza Group, S.A., Tele Pizza, S.A. and Mixor, S.A. (see note 27).

As a result of the merger of Tele Pizza, S.A and Burmasa Delivery, S.L., in 2016 deferred tax assets of Euros 185 thousand were recognised for tax losses incurred by the latter. In 2015, the merger of Tele Pizza S.A and A Tu Hora S.A, led to the recognition of deferred tax assets totalling Euros 3,576 thousand for tax losses incurred by A Tu Hora S.A.,

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

Due to the significant reduction in its financial debt, in 2016 the Group recognised deferred tax assets of Euros 19,628 thousand for prior years' non-deductible interest. This amount was out of a total of Euros 41,073 thousand available for recognition (see note 27), as it was considered probable that the Group will have future taxable profits to apply these assets.

Details of deferred tax liabilities are as follows:

Deferred tax liabilities	Thousands of Euros			
	Accelerated depreciation/ amortisation	Intangible assets	Other	Total
Balances at 31.12.2014	573	85,449	883	86,905
Taken to the income statement (note 27)	(206)	(1,659)	(293)	(2,158)
Balances at 31.12.2015	367	83,790	590	84,747
Taken to the income statement (note 27)	(106)	(1,546)	(229)	(1,881)
Balances at 31.12.2016	261	82,244	361	82,866

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

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

Furthermore, the limit of 25% for offsetting tax loss carryforwards in 2015 was raised to 60% for 2016 and 70% for 2017 and subsequent years. The deadline of 18 years for offsetting tax loss carryforwards was also eliminated and there is now no time limit for their offset.

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

(15) Equity

(a) Share capital

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

At 31 December 2015 the share capital comprised 360,000 shares of Euros 50 par value each, fully subscribed by Foodco Finance, S.à.r.l., with registered office in Luxembourg (see note 1).

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

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

- On 25 April 2016, the Group's former sole shareholder resolved to increase the share capital by Euros 3,824 thousand through the issue and circulation of 15,294,318 new ordinary shares with a par value of Euros 0.25 each, of the same class and series and with the same rights as the previously issued shares. These shares were issued with a share premium of Euros 7.50 per share, amounting to a total share premium of Euros 114,707 thousand. As a result, the capital increase and share premium amounted to Euros 118,531 thousand (see note 1).

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

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- On 27 April 2016, the former sole shareholder resolved to increase the share capital by Euros 3,357 thousand, with a share premium of Euros 100,698 thousand, by issuing 13,426,361 new shares of Euros 0.25 par value each with a share premium of Euros 7.50 each. The shares were subscribed and fully paid by Foodco Finance, S.à.r.l., by partially capitalising the subordinated loan of Euros 104,054 that had been extended to the Group on 25 April 2016 (see notes 1 and 29).

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

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

	<u>Percentage ownership</u>
KKR Credit Advisors (US) LLC	15.5%
Foodco Finance S.à.r.l.	11.2%

Like other groups in the sector, the Telepizza Group controls its capital structure on a leverage ratio basis. This ratio is calculated as net debt divided by EBITDA (Profit before interest, tax, depreciation and amortisation). Net debt is the sum of financial liabilities less cash and cash equivalents. EBITDA is the sum of the consolidated income statement items "Operating profit" plus "depreciation and amortisation". This debt ratio for 2016 and 2015 was calculated as follows:

	<u>Thousands of Euros</u>	
	<u>2016</u>	<u>2015</u>
Total loans and borrowings	196,579	389,832
Less: Cash and cash equivalents	<u>(63,972)</u>	<u>(39,946)</u>
Net debt	132,607	349,886
EBITDA	<u>31,619</u>	<u>57,728</u>
Debt ratio	<u>4.19</u>	<u>6.06</u>

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(b) Share premium

At 31 December 2016 and 2015, the share premium is freely distributable. As mentioned in section a) of this note, during 2016 the Company has increased share capital on two occasions, raising the share premium by Euros 215,405 thousand.

At 31 December 2016, the Parent's share premium was reduced by Euros 4,130 thousand due to the costs of the capital increase and the fees of the related advisors, principally Merrill Lynch International and UBS Limited, which acted as the global coordinators of the initial public share offering (see note 1).

(c) Accumulated gains/losses• Legal reserve

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

• Shareholder contributions

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

The increase in this Parent caption during 2016 is due to the recognition of Euros 9,971 thousand for incentive plans relating to the initial public offering, which were approved beforehand by the sole shareholder (see notes 1 and 24).

• Other cumulative gains/(losses)

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

(d) Translation differences

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

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(16) Earnings/(Loss) per Share

(a) Basic

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

	<u>2016</u>	<u>2015</u>
Profit/(loss) for the year attributable to equity holders of the Parent (in Euros)	10,691,485	(1,148,968)
Weighted average number of ordinary shares outstanding (in number of securities)	<u>91,586,370</u>	<u>360,000</u>
Basic earnings/(losses) per share (in Euros) (1)	<u>0.1167</u>	<u>(3.1916)</u>

(1) The par value of the shares is Euros 0.25 and Euros 50 at 31 December 2016 and 2015, respectively.

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

(b) Diluted

At 31 December 2016 and 2015 diluted earnings/losses per share are the same as basic earnings/losses per share because the ordinary shares are not subject to any dilutive effects.

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

Details of derivative financial instruments measured at fair value at 31 December 2016 and 2015 are as follows:

2016	Notional amount	Thousands of Euros	
		Fair values	
		Liabilities	
		Non-current	Current
<i>Derivatives</i>			
Interest rate swaps	(100,000)	78	-
Total derivatives at fair value through consolidated profit or loss	(100,000)	78	-
		Thousands of Euros	
		Fair values	
		Liabilities	
		Non-current	Current
<i>Derivatives</i>			
Interest rate swaps	(205,000)	(215)	-
Foreign currency swaps	(1,625)	-	-
Total derivatives at fair value through consolidated profit or loss	(206,625)	(215)	-

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

In 2014 the Group arranged a new interest rate hedge for Euros 205,000 thousand, which swapped the Euribor rate with a 1% floor for a fixed rate of 1.06%. This instrument became effective on 22 December 2014 and expires on 22 December 2017. At 31 December 2015 it had a negative fair value of Euros 215 thousand. On 4 May 2016 the Group cancelled this hedge (no additional fees were applied on the early cancellation), which had a negative fair value at the date of cancellation of Euros 278 thousand. The difference between the value recognised and fair value at the cancellation date resulted in a loss of Euros 63 thousand.

The Group also arranged an exchange rate hedge for Euros 1,625 thousand effective as of 15 April 2015 and with an expiry date of 15 April 2016 to hedge part of the Group's transactions in Chilean pesos.

The Group accrued income of Euros 293 thousand in 2016 and Euros 1,964 thousand in 2015 in relation to its derivative financial instruments.

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(18) Interest-bearing Loans, Borrowings and Bonds

(a) Non-current loans and borrowings

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

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

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

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

The finance costs accrued on the syndicated loan amounted to Euros 11,125 thousand and Euros 20,227 thousand in 2016 and 2015, respectively.

At 31 December 2016 and 2015 the accrued interest payable on these loans amounted to Euros 968 thousand and 4,101 thousand, respectively.

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

	Thousands of Euros			
	2016		2015	
	Principal	Interest	Principal	Interest
Less than one year (note 18 (b))	-	968	884	4,101
Two to five years	195,611		286,176	-
More than 5 years	-	-	-	-
	<u>195,611</u>	<u>968</u>	<u>287,060</u>	<u>4,101</u>

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

Type	Final maturity	Thousands of Euros		
		Limit	Balance at 31/12/2016	Margin over Euribor
Senior				
Senior Facility	2021	200,000	200,000	Euribor + 2.75%
Revolving	2021	15,000	-	Euribor + 2.75%
Loan arrangement fees		-	(4,389)	-
Balance at 31 December			<u>195,611</u>	

Details of non-current loans and borrowings at 31 December 2015 are as follows:

Type	Final maturity	Thousands of Euros		
		Limit	Balance at 31/12/2015	Margin over Euribor
Senior				
Senior Facility	2020	285,000	285,000	Euribor + 6%
Revolving	2020	10,000	-	Euribor + 5.75%
Lease payables (note 8)			1,176	-
Balance at 31 December			<u>286,176</u>	

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

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

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

At 31 December 2015 the finance lease liabilities were effectively secured as the rights to leased assets revert to the lessor in the event of default. The agreements that gave rise to the finance lease liabilities were cancelled in 2016.

(b) Current loans and borrowings

Details of current loans and borrowings at 31 December 2016 and 2015 are as follows:

	Thousands of Euros	
	2016	2015
Finance lease payables (note 8)	-	875
Accrued interest (note 18 (a))	968	4,101
Other payables	-	9
	968	4,985

(19) Employee Benefits

Termination benefits

The total expense recognised in 2016 and 2015 for termination benefits is Euros 950 thousand and Euros 443 thousand, respectively (see note 24).

(20) Contingencies

The Group has contingent liabilities for bank and other guarantees related to its normal business operations amounting to Euros 4,589 thousand at 31 December 2016 (Euros 3,547 thousand at 31 December 2015). No significant liabilities are expected to arise from these guarantees.

The Group has no significant litigation or claims of any nature. However, the Group is subject to regulatory processes and inspections by government bodies with respect to an international operation, which could result in possible risks totalling Euros 1,200 thousand. The directors do not consider that any liabilities will arise other than those recognised in these consolidated annual accounts.

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(21) Government Grants

Movement in non-refundable government grants is as follows:

	Thousands of Euros	
	2016	2015
Grants received	-	7,369
Grants taken to income		
In prior years	-	(7,175)
During the year	-	(194)
	-	-
Balance at 31 December	-	-

The Group received certain government grants to finance items of property, plant and equipment, principally a grant from the Madrid regional government extended 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.

(22) Trade and Other Payables

Details are as follows:

	Thousands of Euros	
	2016	2015
Trade payables	40,586	35,664
Public entities	6,013	6,249
Other payables	300	1,377
Salaries payable	3,288	4,176
Current guarantees and deposits received	31	49
	50,218	47,515
	50,218	47,515

At 31 December 2016 trade payables include Euros 8,131 thousand payable to financial institutions for reverse factoring transactions (Euros 8,614 thousand at 31 December 2015).

The balance of salaries payable includes Euros 1,446 thousand in relation to the three-year remuneration plan arranged by the former sole shareholder as explained in the initial public offering prospectus, which affects a certain number of employees.

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

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

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

	2015
	Days
Average supplier payment period	107
Transactions paid ratio	119
Transactions payable ratio	55
	Thousands of Euros
Total payments made	121,445
Total payments outstanding	30,339

(23) Revenues

Details are as follows:

	Thousands of Euros	
	2016	2015
Outlet sales to customers	195,961	200,112
Wholesale factory sales to franchisees and other sales	98,019	90,560
Royalties and advertising fees	24,712	20,299
Other income	20,895	17,928
	339,587	328,899

Other revenues in 2016 and 2015 mainly include franchise fees, which are collected when a franchise is opened or when an existing franchise agreement is renewed, income from other services provided to franchisees and the income from the subleasing of commercial premises to franchisees.

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(24) Personnel Expenses

Details of personnel expenses in 2016 and 2015 are as follows:

	Thousands of Euros	
	2016	2015
Salaries and wages	101,003	74,321
Social Security	16,196	15,819
Termination benefits (note 19)	950	443
Other employee benefits expenses	488	502
Total personnel expenses	<u>118,637</u>	<u>91,085</u>

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

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

The average number of full-time equivalent employees in the Group during 2016 and 2015, distributed by category, is as follows:

	Number	
	2016	2015
Management	40	37
Outlet managers	424	419
Other personnel	5,151	4,765
	<u>5,615</u>	<u>5,221</u>

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

	Number			
	2016		2015	
	Male	Female	Male	Female
Board members	7	-	9	-
Management	28	11	29	6
Outlet managers	206	210	210	211
Other personnel	2,979	2,505	2,908	1,996
	<u>3,220</u>	<u>2,726</u>	<u>3,156</u>	<u>2,213</u>

The average number of Company employees with a minimum disability rating of 33% (or local equivalent) in 2016 and 2015, distributed by category, is as follows:

	Number	
	2016	2015
Technicians	1	
Outlet managers	1	1
Other personnel	97	108
	<u>99</u>	<u>109</u>

(25) Other Expenses

Details of other expenses are as follows:

	Thousands of Euros	
	2016	2015
Operating leases	29,722	25,987
Transport	12,677	11,865
Advertising and publicity	17,178	15,531
Utilities	11,473	12,046
Other expenses	29,647	23,388
	<u>100,697</u>	<u>88,817</u>

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

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

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

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

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

Future minimum payments under operating leases at 31 December 2016 and 2015, considering the payments to be accrued based on the lease period set out in the contracts, irrespective of the fact that most of the lease contracts for premises can be cancelled subject to a short period of notice, are as follows:

	Thousands of Euros	
	2016	2015
Less than one year	13,802	14,082
One to five years	47,588	49,523
More than 5 years	35,958	39,337
	97,348	102,942

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Future minimum payments under non-cancellable operating leases at 31 December 2016 and 2015 are as follows:

	Thousands of Euros	
	2016	2015
Less than one year	11,394	13,159
One to five years	32,651	30,184
More than 5 years	24,836	20,386
	<u>68,881</u>	<u>63,729</u>

(26) Other Losses

Details at 31 December 2016 and 2015 are as follows:

	Thousands of Euros	
	2016	2015
Losses on sale of property, plant and equipment	(648)	(3,121)
Goodwill (note 9)	(1,048)	(378)
Impairment losses/(reversals of impairment) on property, plant and equipment (note 8)	995	(536)
	<u>(701)</u>	<u>(4,035)</u>

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(27) Income Tax

A reconciliation of income tax, resulting from applying the standard tax rate in Spain to the pre-tax profit/loss, with the income tax expense recognised in the consolidated income statement for 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Profit/Loss for the year before tax from continuing operations	(8,239)	1,678
Tax losses not recognised as tax credits	5,069	7,477
	<u>(3,170)</u>	<u>9,155</u>
Expected Parent tax expense/(income) at the standard tax rate (25%)/(28%)	(792)	2,563
		-
Non-deductible expenses at the standard tax rate		
Finance costs	2182	4,463
Tax credits recognised	(20,434)	(3,576)
Deductions applied	-	(439)
(Income)/expense due to different tax rates	69	(223)
		-
Effective tax rate / Income tax expense/(income)	<u>(18,975)</u>	<u>2,788</u>

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

Income tax payable/(recoverable) for 2016 and 2015 is calculated as follows:

	Thousands of Euros	
	2016	2015
Tax expense/(income)	(18,975)	2,788
Deductible temporary differences and tax credits (note 14)	20,306	387
Taxable temporary differences (note 14)	(2,338)	1,701
Deductions applied during the year	-	(439)
Reversal of deferred tax liability from business combinations (note 14)	457	457
Adjustment for change in tax rate and other	550	183
Payments on account	(1,394)	(3,896)
Income tax payable (recoverable)	<u>(1,394)</u>	<u>1,181</u>

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

At 31 December 2016 and 2015 the Group has recognised the following deferred tax assets in respect of tax loss carryforwards in Spain:

Year	Thousands of Euros	
	2016	2015
2001	-	3,103
2002	-	717
2003	-	286
2004	-	285
2005	-	88
2008	11,025	6,036
2009	7,562	7,562
2010	628	628
2011	14,366	14,466
2012	4,343	4,782
2013	1,182	-
2014	532	532
2015	185	-
2016 (estimated)	3,224	-
Total	43,047	38,485

At 31 December 2016 and 2015 the Group has recognised the following deferred tax assets in respect of tax loss carryforwards of Telepizza Portugal:

Year	Thousands of Euros	
	2016	2015
2012	-	2,544
2013	-	37
Total	-	2,581

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At 31 December 2016 and 2015 the Group has the following unrecognised deferred tax assets in respect of tax loss carryforwards of companies in Peru, Ecuador, Colombia and Poland:

Year	Thousands of Euros	
	2016	2015
2009	-	536
2010	-	588
2011	-	3,743
2012	989	1,814
2013	1,742	1,369
2014	8,294	6,376
2015	5,625	5,120
2016 (estimated)	3,486	-
Total	<u>20,136</u>	<u>19,546</u>

At 31 December 2016 the Group has the following non-deductible interest for future offset in an indefinite period:

Year	Thousands of Euros	
	2016	2015
2012	52,643	52,643
2013	38,045	38,045
2014	48,939	48,939
2015	15,938	15,938
2016 (estimated)	8,727	-
	<u>164,292</u>	<u>155,565</u>

As mentioned in note 14 the Group has recognised deferred tax assets in relation to non-deductible interest amounting to Euros 19,628 thousand. It is considered probable that sufficient future taxable income will be available to use these tax assets.

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Based on the tax declarations filed by the Group companies during 2016 and in prior years, the Group has the following tax credits for deductions pending application:

	Thousands of Euros		Applicable until
	2016	2015	
R&D&i	263	-	2034
	263	-	

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the inspection period of four years has elapsed. At the date of authorisation for issue of these consolidated annual accounts, the main Group companies have open to inspection by the taxation authorities all the main applicable taxes since 1 January 2012.

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.

(28) Commitments

As stated in notes 8 and 9, at 31 December 2016 and 2015 the Group has no commitments relating to investing activities.

(29) Related Party Balances and Transactions

In 2014 the Parent obtained a subordinated loan from its sole shareholder, details of which are as follows:

	Thousands of Euros	
	31.12.16	
	Non-current	Current
Subordinated loan	-	-
	-	-
	Thousands of Euros	
	31.12.15	
	Non-current	Current
Subordinated loan	96,489	2,182
	96,489	2,182

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(i) Subordinated loan

On 20 October 2014 the Company arranged a subordinated loan with its sole shareholder for an amount of Euros 84,825 thousand, which accrues interest of 14.5% and falls due in 2021. This loan reflected the subordinated loan obtained by the former sole shareholder from third parties.

On 27 April 2016, through the minutes of the decisions taken, the former sole shareholder approved that this subordinated loan, together with the accrued interest payable at that date, be contributed to a capital increase through a debt-for-equity swap of Euros 104,054 thousand (see note 1). This capital increase was carried out through the issue of 13,426,361 new shares, each with a par value of Euros 0.25 and a share premium of Euros 7.50 per share. All of these shares have the same rights and class as the shares already existing and subscribed by Foodco Finance S.à.r.l. (see note 15). The remaining Euros 1,180 thousand payable was repaid in cash to the former sole shareholder.

The total interest incurred on the subordinated loan in 2016 and 2015 amounted to Euros 7,063 thousand and Euros 12,868 thousand, respectively.

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

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

The Parent's directors received remuneration of Euros 9,533 thousand in 2016 (Euros 838 thousand in 2015). The Group has also extended loans or advances to the directors totalling Euros 1,337 thousand (Euros 200 thousand in 2015). These loans are secured by the directors with certain shares of the Parent. The main conditions and characteristics of the loans to the directors are described in note 10. Life insurance premiums of Euros 7 thousand were paid to the directors in 2016 (Euros 8 thousand in 2015) and the savings plan contributions made amounted to Euros 120 thousand (Euros 75 thousand in 2015).

Members of the Group's senior management received remuneration of Euros 17,344 thousand in 2016 (Euros 1,577 thousand in 2015). The Group has also extended loans or advances to senior management totalling Euros 2,368 thousand (Euros 1,000 thousand in 2015). These loans are secured by the directors with certain shares of the Parent. The main conditions and characteristics of the loans to senior management are described in note 10. Life insurance premiums of Euros 9 thousand were paid to senior management in 2016 (Euros 7 thousand in 2015) and the savings plan contributions made amounted to Euros 67 thousand (Euros 57 thousand in 2015).

During 2016 and 2015 the Parent's directors have not carried out operations with the Company or Group companies other than ordinary operations under market conditions.

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(31) Conflicts of Interest concerning the Directors

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

During 2015 the director Mr. Steve Winegar, who represents the company Ebitda Consulting, S.L., reported a conflict of interest relating to the operations carried out by the Group in Poland, as Ebitda Consulting, S.L. is the shareholder of Amrest Z.o.o., a company whose statutory activity (the restaurant business) is similar or identical to that of the Group, and he is on the board of directors of various subsidiaries of Amrest Z.o.o.

(32) 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 2016 and 2015.

(33) Audit Fees

KPMG Auditores, S.L., the auditors of the Group's consolidated annual accounts, invoiced the Group the following fees and expenses for professional services during the years ended 31 December 2016 and 2015:

	Thousands of Euros	
	2016	2015
Audit services	178	150
Other assurance services	282	5
	460	155

The amounts detailed in the above table for audit services include the total fees for services rendered in 2016 and 2015, irrespective of the date of invoice.

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Other affiliates of KPMG International have invoiced the Group the following fees and expenses for professional services during the years ended 31 December 2016 and 2015:

	Thousands of Euros	
	2016	2015
Audit services	73	71
Other services	49	29
	122	100

(35) Risk Management Policy

Financial risk factors

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

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

Interest rate risk

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

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

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The structure of financial risk at 31 December 2016 and 2015 is as follows:

<u>Type of financing</u>	<u>Interest rate</u>	<u>Benchmark</u>	<u>Thousands of Euros</u>	
			<u>2016</u>	<u>2015</u>
Syndicated loan	Floating	Euribor	196,579	289,101
Subordinated loan	Fixed	-	-	98,671
Credit facilities	Floating	Euribor	-	9
Finance leases	Floating	DTF	-	2,051
Total			<u>196,579</u>	<u>389,832</u>

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

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

The Group has contracted a fixed interest rate swap facility for a two-year period to cover a portion of the drawdowns on the syndicated loan (see note 17).

At 31 December 2016, had interest rates been 10 basis points higher or lower, with the other variables remaining constant, it would not have affected profit for the year, mainly because borrowing costs on variable interest rate debt not covered by the interest rate swap have a floor of 1% and therefore, 1% was the rate paid for variable interest pegged to Euribor.

Currency risk

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

Currency risk mainly arises from three types of transactions:

- Commercial transactions in foreign currency
- Intragroup payables in foreign currency

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

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

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

At 31 December 2016, had the Euro strengthened/weakened by 10% against the Chilean Peso, the Colombian Peso and the Polish Zloty, with the other variables remaining constant, consolidated post-tax profit would have been Euros 186 thousand higher (Euros 465 thousand higher in 2015), mainly as a result of translating trade receivables, debt instruments classified as available-for-sale financial assets and payables to Group companies that are eliminated on consolidation. Translation differences recognised under other comprehensive income would have increased by Euros 7,191 thousand (Euros 5,981 thousand in 2015), mainly due to translation differences on foreign operations.

Liquidity risk

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

The Group's exposure to liquidity risk at 31 December 2016 and 2015 is shown below. These tables present an analysis of financial liabilities by remaining contractual maturity dates.

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

(Continued)

TELEPIZZA GROUP, S.A.
AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

	Thousands of Euros					
	Amount at 31/12/2015	Future cash flow maturities	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Loans and borrowings						
Principal	287,060	287,060	9	875	286,176	-
Interest	4,101	86,993	5,240	15,607	66,146	-
Loans and borrowings, related parties						
Principal	96,489	96,489	-	-	-	96,489
Interest	2,182	119,059	-	-	-	119,059
Derivatives	215	215	-	-	215	-
Trade and other payables	41,266	41,266	41,266	-	-	-
Total	<u>431,313</u>	<u>631,082</u>	<u>46,515</u>	<u>16,482</u>	<u>352,537</u>	<u>215,548</u>

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

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

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

Credit risk

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

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

The Group has recognised impairment losses of Euros 8,232 thousand for credit risks associated with financial assets (Euros 7,141 thousand at 31 December 2015). In 2016 the amount recognised in the consolidated income statement was Euros 1,094 thousand (Euros 914 thousand at 31 December 2015).

(Continued)

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

31 December 2016

(Expressed in thousands of Euros)

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

	Registered office	Percentage ownership	Capital	Reserves	Gains/losses	Total equity
Tele Pizza S.A. (1)	Madrid	100%	16,380	101,253	(29,154)	88,479
Mixor, S.A. (3)	Madrid	100%	3,215	3,771	(9)	6,977
Circol, S.A. (3)	Madrid	100%	1,085	3,459	435	4,979
Grupo Telepizza Chile (2)	Santiago de Chile	100%	3,065	56,653	4,012	63,730
Telepizza Portugal Comercio de Produtos Alimentares, S.A (2)	Lisbon	100%	1,900	18,997	5,143	26,040
Telepizza Poland Sp. Z o.o. (1)	Warsaw	100%	9,319	(9,858)	(1,438)	(1,977)
Telepizza Maroc, S.A. (3) (4)	Casablanca	100%	59	(803)	-	(744)
Telepizza Guatemala S.A (3)	Guatemala	100%	1	254	508	763
Luxtor, S.A. (1)	Avila	100%	6,128	12,728	10,868	29,724
Telepizza Ecuador S.A. (3)	Quito	100%	2,278	(786)	(482)	1,010
Cozicharme Comercio de Produtos Alimentares, LDA (2)	Lisbon	100%	5	-	(5,516)	(5,511)
Bazigual, SGPS,LDA (2)	Lisbon	100%	5	1,169	(3)	1,171
Inverjenos S.A.S. (1)	Bogotá	100%	1,511	4,191	(2,453)	3,249
Telepizza Shanghai S.A.(3)	Shanghai	100%	100	(217)	6	(111)
Telepizza Andina S.A.C (3)	Lima	100%	9,706	(3,155)	(452)	6,099
Procusto Activos, S.L.U (3)	Madrid	100%	3	(1)	(1)	1
Foodco Pastries Maroc(3)	Tangier	100%	28	(2)	(101)	(75)
Foodco Pastries Panamá(3)	Panama	100%	9	-	(55)	(4,446)
Telepizza Switzerland GmbH(3)	Berne	100%	19	-	-	19

(1) Audited

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

(3) Unaudited

(4) Dormant companies

This appendix forms an integral part of note 1 to the consolidated annual accounts for 2016, in conjunction with which it should be read.

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

31 December 2015

(Expressed in thousands of Euros)

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

	Registered office	Percentage ownership	Capital	Reserves	Gains/losses	Total equity
Tele Pizza S.A. (1)	Madrid	100%	7,800	333,978	33,116	374,895
Mixor, S.A. (3)	Madrid	100%	3,215	3,783	(12)	6,987
Circol, S.A. (3)	Madrid	100%	1,085	3,233	226	4,544
Grupo Telepizza Chile (2)	Santiago de Chile	100%	3,065	45,245	6,039	54,349
Telepizza Portugal Comercio de Produtos Alimentares, S.A (2)	Lisbon	100%	1,900	15,498	4,600	22,038
Telepizza Poland Sp. Z o.o. (1)	Warsaw	100%	9,319	(9,435)	(439)	(554)
Telepizza Maroc, S.A. (3) (4)	Casablanca	100%	59	(793)	-	(735)
Burmasa Delivery S.L (3)	Burgos	100%	355	(24)	-	331
Lubasto Holding B.V (3)	Amsterdam	100%	27	-	(32)	(1)
Telepizza Guatemala, S.A.C (3)	Guatemala	100%	1	184	555	739
Luxtor, S.A. (1)	Avila	100%	6,128	12,675	10,258	29,061
Telepizza Ecuador S.A. (3)	Quito	100%	1,548	(556)	(204)	787
Cozicharme Comercio de Produtos Alimentares, LDA (2)	Lisbon	100%	5	(28,145)	(3,827)	(31,977)
Bazigual, SGPS, Unipessoal LDA(2)	Lisbon	100%	5	(141)	695	559
Inverjenos S.A.S. (1)	Bogotá	100%	1,471	6,935	(6,257)	2,149
Telepizza Shanghai S.A.(3)	Shanghai	100%	100	20	(25)	95
Telepizza Andina S.A.C (3)	Lima	100%	8,043	(2,627)	(630)	4,786

(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 2016, in conjunction with which it should be read.

TELEPIZZA GROUP S.A.
AND SUBSIDIARIES

Directors' Report

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

1. The Group's Position and Business Performance

In 2016 the macroeconomic context of our main market, Spain, was characterised by the consolidation of the recovery in the main economic indicators.

GDP growth in 2016 reached 3.2%, underpinning the positive trend that began in 2015, when growth was 3.2%. Household spending is estimated to have risen by 3.3% in 2016, ahead of the 3.1% increase posted in 2015.

The unemployment rate has continued to decline in 2016, falling from 20.9% in 2015 to 18.6% in 2016.

These signs of recovery are expected to continue throughout 2017, and all the above indicators are set to improve.

The **Portuguese** economy began to show signs of a recovery in 2015 after a slowdown of several years during which measures taken to reduce the public deficit eroded consumer confidence and total expenditure. This recovery has been borne out in 2016, as the expected improvements in the main economic indicators have begun to emerge.

Portugal's GDP is estimated to have grown by 1.0% in 2016 while household spending is estimated to have risen 1.9%. The unemployment rate saw an improvement, having declined from 12.6% to 11.1% year-on-year. This positive trend is expected to be maintained throughout 2017.

The **Polish** economy registered growth in 2016, with a 3.2% increase in GDP and a 3.7% climb in household spending. The unemployment rate also improved slightly during the year, decreasing from 7.5% in 2015 to 7.2% in 2016. This growth trend is expected to continue throughout 2017.

The **Chilean** economy has continued to present GDP growth, the final estimate for 2016 standing at 1.7%. Similarly, household spending continued to grow, recording an increase of 1.7%. At 2016 year end, the estimated unemployment rate was 6.6%, similar to that for the previous year. Lastly, the macroeconomic scenario is expected to remain at these levels in 2017 (GDP 2.1% and household spending 1.9%).

GDP in **Colombia** has continued to rise, with estimated growth of 3.0% in 2016. Its unemployment rate remains close to 9.7%. Household spending is estimated to have grown at 2.4%. This positive trend is expected to continue in 2017.

In **Peru**, where the Group began operating in 2011 and has since continued to expand its presence, the macroeconomic conditions also continue to follow a growth path. In 2016 the Peruvian GDP rose by 3.6% while household spending increased by 3.5%. The unemployment rate remained stable, ending 2016 at 6.3%. These indicators are expected to be even slightly better in 2017.

(Continued)

TELEPIZZA GROUP S.A.
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Directors' Report

In **Ecuador**, where the Group began operations in November 2012 and it has expanded its presence significantly, the macroeconomic situation in 2016 reflects lower growth than in previous years. GDP growth for 2016 is estimated at -2.2%, and household spending climbed by 1.4%. Unemployment has stayed at a similar level to 2015, ending 2016 at 6.4% (5.7% in 2015). From a macroeconomic standpoint the outlook is not good for 2017.

Activity of the Group

<i>(Thousands of Euros)</i>	2016	2015	<i>% variation</i>
<i>Sales of Group chain¹</i>	517.0	491.8	5.1%
<i>Sales of the chain in core regions²</i>	486.9	459.8	5.9%
Sales growth in constant currency in the core regions			6.9%
<i>LFL sales growth in core regions (%)</i>			<u>4.9%</u>
Chain sales in Spain	335.2	318.5	5.3%
<i>LFL sales growth³ in Spain (%)</i>			<u>3.6%</u>
<i>International chain sales</i>	181.8	173.3	4.9%
<i>International chain sales in core regions</i>	151.7	141.3	7.4%
International sales growth in constant currency in core regions (%)	151.7	136.9	10.8%
<i>LFL international sales growth in core regions (%)</i>			<u>7.9%</u>
<i>Revenues</i>	339.6	328.9	3.2%
Revenue growth in constant currency (%)			4.4%
Reported Group EBITDA⁴	31.6	51.4	-45.0%
Underlying Group EBITDA⁵	63.6	57.7	10.3%

Telepizza Group, S.A. is the Group's Parent, which holds a 100% interest in the Telepizza Group.

¹ The chain sales are sales of own outlets plus franchisees' sales and master franchises' sales

² Excluding sales of master franchises

³ LFL sales growth reflects the growth in chain sales, adjusted for store openings and closures and the impact of exchange rates vis-à-vis the Euro.

³ LFL growth is the chain's sales growth after adjustments for openings and closures.

⁴ EBITDA defined as operating profit or loss plus depreciation and amortisation plus the gains on disposal of assets.

⁵ EBITDA defined as operating profit or loss plus depreciation and amortisation plus the gains or disposal of assets, excluding Euros 32 million of costs related to the public share offering and the gains/loss on the disposal of assets.

TELEPIZZA GROUP S.A.
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Directors' Report

The Group primarily carries out its activity under the Telepizza brand in the ready-to-eat home delivery service sector, with pizza as the main product.

Its subsidiaries manage and operate fast-food sales outlets and restaurants for consumption at home and on the premises. At 31 December 2016, they carry out this activity through their own outlets and franchises located mainly in Spain, Portugal, Poland, Chile, Colombia, Peru, Ecuador, Switzerland and Panama as operations with direct investment.

The Group also carries out its activities through master franchises in Saudi Arabia, Guatemala, El Salvador, Bolivia, Russia and Angola and it has signed agreements for future development of the brand in countries such as Iran, Malta and the United Kingdom.

The Group operated 1,389 outlets in 2016 compared to 1,311 in 2015.

Through its factories the Group produces dough and supplies ingredients to all its outlets, whether operated directly by the Telepizza Group or through its franchisees.

Chain sales, which comprise sales made to the public by own outlets, franchisees and master franchisees, amounted to Euros 517 million in 2016, up 5.1% on the Euros 492 million achieved in 2015, representing growth of 6.9% excluding the exchange rate impact in core regions. Chain sales are an indicator used in the sector to measure business performance.

The reasons for this year-on-year chain sales growth are firstly the consolidation of the recovery in Spain, where positive growth has been reported for 11 consecutive quarters, and secondly the excellent performance of the international activity.

	Millions of Euros	
	2016	2015
Outlet sales to customers	196	200
Sales to the public at franchisees and master franchisees	321	292
Chain sales	517	492

Details of own outlet sales are provided in note 23 to the accompanying consolidated annual accounts.

The sales of the franchisees and master franchisees are obtained from commercial reports. These sales are directly related to the line item royalties and advertising income in the breakdown provided in note 23, as the latter is the percentage of sales that the Company bills to the franchisees and master franchisees.

Activity in the domestic market

The Group mainly carries out its activity through the Telepizza and Pizza World brands, holding a leading position in the sector. Telepizza is the leader in the pizza home delivery segment in Spain, positioned far ahead of its nearest competitor in terms of both size and sales (*source: TNS*).

TELEPIZZA GROUP S.A.
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Directors' Report

The Group's main market is Spain, where the chain's sales total Euros 335.2 million, accounting for 64.8% of the chain's total sales. In 2016 chain's sales in Spain were up 5.3% on the previous year, when they amounted to Euros 318.5 million, driven by organic growth (LFL) of 3.6% and horizontal growth of 1.7%.

The chain's sales comprise own outlet sales (extracted directly from our financial statements) plus the franchise and master franchise sales reported by the franchisees and master franchisees and to which the royalties they pay us are applied.

Home delivery sales, representing 59% of chain sales in Spain in 2016, continue to climb at a steep 9.5% year-on-year rate. Telepizza has gained market share in this channel, boosted by online sales, which grew at 22.5% year-on-year and accounted for 35.8% of Telepizza's home delivery sales in Spain in 2016.

The online channel is not only the principal driver of growth but also generates other advantages for Telepizza, for our franchises and our clients:

- Online customers place orders more frequently than telephone customers, generating a higher average spend per online customer (+35% compared to telephone customers).
- Orders are more precise and Telepizza employees spend less time on the telephone, enabling them to concentrate on improving the service.
- Improved image, higher brand visibility and greater innovation penetration.
- Continuous interaction with our customers through social networks.

Mobile sales are growing at a higher rate than online sales. And for the first time, in the second quarter of 2016, mobile sales outgrew previous sales in that channel.

The outlet sales channel (take away and consumption on the premises) accounted for 41% of the chain's sales in Spain in 2016. This channel has seen lower growth than the home delivery channel and its customers are more price sensitive.

Furthermore, through an ongoing innovation strategy and selective promotions, Telepizza is undertaking competitive actions in the outlet sales channel, accelerating our Remodelling and Relocation plan. The main objective of this plan is to improve the image in outlets and it is already producing sales increases vis-à-vis comparable outlets that have not yet been updated. At 2016 year end 410 outlets had the new image, 52.7% of own outlets and 24.1% of franchises out of the total number of outlets.

Another strategy that has continued to have a positive impact in 2016 has been the opening of outlets in towns with less than 35,000 inhabitants. The investment required for this new format is lower than for the traditional format, bringing more flexibility to the expansion strategy.

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Directors' Report

The Group's industrial division boasts state-of-the-art technology for manufacturing dough for pizza, which has allowed the Group to make ongoing 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 brand's success is based on two key factors: the quality of the product, freshly made and to meet customers' tastes, and the service, which covers most of Spain. The Company has made an effort to raise consumer satisfaction levels in these two areas in 2016.

Activity in the international market

Activity in international markets has seen an overall positive performance and strong growth.

International sales totalled Euros 181.8 million in 2016 (Euros 173.3 million in 2015), representing 35.2% of the Group's total chain sales.

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

Sales of the International division in key geographic regions (excluding master franchises) grew 7.4% in 2016 (10.8% in constant currency), driven by LFL growth of 7.9%, horizontal growth and affected by a 3.4% negative exchange rate impact.

Throughout the year, the rest of Europe segment was the best performing within the Group, with LFL growth of 10%. In addition, the VAT reduction applicable to consumers in Portugal from 1 July onwards led to a favourable climate for ongoing growth in that country.

All Latin America countries where the Group operates directly presented a strong sales performance, resulting in an overall 10.4% rise in constant currency in 2016.

The master franchises' chain sales fell by 2.8% in constant currency in 2016, to Euros 30 million. This trend was mainly due to the performance in Central America, due to the elimination of promotional activities with a low margin for the master franchise, which were in place in the previous year.

During 2016, master franchise agreements were signed in Iran, Malta and the United Kingdom. In this last case with a highly experienced operator in the fast food restaurant sector, to open outlets in three of the thirty-three areas in which the country has been divided.

Furthermore, during the year, the first master franchise outlets have been opened in Saudi Arabia, having first adapted Telepizza's product and image to local tastes and legal requirements, and established the supply chain for that country.

Expansion of the network of outlets

At 31 December 2016 the Group had 1,389 outlets (675 in Spain and 714 abroad), compared to 1,311 outlets at 31 December 2015. At 2016 year end 67% of the outlets were franchises.

TELEPIZZA GROUP S.A.
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Directors' Report

During 2016 the Group added 105 new outlets, having closed 27, as part of the optimisation of the network of outlets.

Telepizza continues to see major potential for expansion in Spain, especially via the franchised mini-outlets in towns of less than 35,000 inhabitants and in shopping centres, where Telepizza still has low penetration, compared to other countries where the Group operates, particularly Chile.

In the International area, there is an interesting opportunity for expansion in our core Latin American countries, which present favourable long-term demographic and macro-economic trends and where there is limited penetration of the sale of pizza for home delivery, mainly in Colombia and Peru.

Group financial information

€million	31/12/2016	31/12/2015	% change
Group chain sales²	517.0	491.9	5.1%
Own outlet sales	196.0	200.2	(2.1%)
Franchise sales	290.9	259.6	11.7%
Master franchise sales	30.1	32.1	(6.2%)
Total revenues	339.6	328.9	3.2%
Own outlet sales	196.0	200.1	-2.1%
Supplies, royalties and marketing	122.7	108.9	12.7%
Other income	20.9	19.9	5.2%
Gross margin	250.9	237.6	5.6%
Gross margin (%)	73.9%	72.3%	
Personnel expenses excluding IPO costs	(92.1)	(91.1)	1.2%
Other costs excluding IPO costs	(95.2)	(88.8)	7.1%
Underlying EBITDA³	63.6	57.7	10.2%
Underlying EBITDA margin (%)	18.7%	17.6%	
Depreciation and amortisation (excluding PPA)	(11.6)	(10.8)	7.4%
Underlying operating profit⁽⁴⁾	52.0	46.9	10.9%
IPO-related costs	(32.0)	-	-
PPA amortisation	(5.8)	(5.8)	-
Net finance income/(cost)	(21.8)	(35.4)	
Other	(0.7)	(4.0)	
Profit/(Loss) before income tax	(8.3)	1.7	-
Tax expense/(income)	19.0	(2.8)	-
Net profit/(loss) for the year	10.7	(1.1)	-

Chain sales rose by 5.1% to Euros 517 million in 2016. Operating income totalled Euros 339.6 million, 3.2% higher than in 2015 (4.4% at constant currency).

The conversion of chain sales to income was affected mainly by the change in mix in own outlets and franchises, with an increase in franchise sales in respect of total sales:

- Own outlet sales fell by 2.1% (-0.7% in constant Euros) to Euros 196 million, as a result of the lower number of own stores in 2016 compared to 2015.

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Directors' Report

- The franchise chain sales, excluding master franchises, rose by 11.7% to Euros 291 million and income from supply sales, royalties and marketing climbed 12.7% to Euros 123 million.
- Other income increased by 5.2% to Euros 21 million, due to the higher level of income obtained in 2016 compared to the prior year for services rendered to the franchisees.

The gross operating margin was Euros 251 million (Euros 238 million in 2015), 73.9% of net revenues and up 1.6 p.p. on 2015, due to good raw material prices and the rise in the average spend in the first part of the year.

In absolute terms the rest of the cost structure, excluding the aforementioned initial public offering costs, rose by 4.1% year-on-year, partly due to sales growth, which affected the costs that are dependent on sales.

- Personnel expenses excluding IPO costs were Euros 92 million, up 1.2% on 2015, due to the rise in home delivery sales and the effort made to improve the service.
- Other costs excluding IPO costs amounted to Euros 95 million, a rise of 6.8% in the year, driven by higher investments in the brand and a greater media presence in 2016. The latter is the result of the higher sales, as a percentage of the chain sales is spent on advertising.

Underlying EBITDA was up by 10.2% to Euros 63.6 million in 2016 compared to the previous year. The underlying EBITDA margin was 18.7%, up one percentage point on 2015 mainly because of the higher gross margin.

Profit for the year includes Euros 32 million of non-recurring costs relating to the public offering and sale of shares, which was financed entirely by the capital raised as a result thereof. These costs are related to the services associated with the public offering and sale of shares and the management incentive plans.

The underlying operating profit, defined as operating profit + costs related to the initial public offering+ the amortisation associated with the PPA from 2006, amounted to Euros 52 million, up 10.9% year-on-year.

The net finance cost stood at Euros -21.3 million, an improvement of 38.5% compared to 2015, due to a Euros 114 million reduction in net financial debt and the better financial conditions of the new syndicated loan.

The Company recognised a tax credit of Euros 19.6 million for interest related to the debt structure of prior years, which was not tax deductible. The new debt structure and the business performance were taken into account when recognising this credit, considering it reasonable to expect offset in the coming years.

The Group's consolidated profit was Euros 10.7 million, compared to a loss of Euros -1.1 million in 2015.

Investments in the year totalled Euros 27 million, with approximately 60% of this amount related to expansion projects (such as the opening and remodelling of outlets and technological investments).

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Directors' Report

At 31 December 2016 the Group recognised tax assets for accumulated losses of Euros 32 million.

2. Outlook

During 2016 the Company continued to operate in a fiercely competitive environment. The macroeconomic recovery in Europe shows signs of consolidating and the consumer confidence index for the domestic market has improved. The sales policy adopted has boosted sales and, in certain cases, such as in Spain and Portugal, sales have outperformed the market.

Operations in Latin America have benefited from a favourable macroeconomic environment as the Company's expansion helped bolster sales.

In 2016 master franchise agreements were signed in the United Kingdom, Saudi Arabia, Iran and Malta, setting the foundations for growth in this area in 2017.

The measures taken to improve product and service quality, the effort on the sales front, and efficiency gains made in 2016 and in prior years, have made it possible to offset the impact of growing competition, resulting in significant growth in sales and operating profit, but above all have helped to put the Company in a position to be confident about undertaking its future growth plans.

In 2017 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 outlook for Spain's economy in 2017 is that it will continue to grow. The current consensus for 2017 indicates GDP growth of 2.3%, a drop in unemployment to 18% and a 2.1% gain in household spending, a slowing of the trend in 2016.

With these improvements on the horizon, Telepizza is confident that it will benefit from its position of market leadership, buoyed by the improvements initiated in 2015 and the experience of recent years, when changes were made to its strategy to adapt to market conditions, and from the efficiency improvements introduced.

In 2017 Telepizza will continue to apply a sales policy based on adapting its product range to the circumstances, increasing coverage in the domestic market and making the most of tried and tested tools such as online sales, providing greater support for mobile devices, and launching new products.

INTERNATIONAL

In 2017, Telepizza will continue to work to consolidate its position in the international markets in which it operates, accelerating its expansion in emerging countries in Latin America, using its experience of managing these markets and developing the master franchise formula in new markets.

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

The master franchise will continue to provide a channel for opening operations in new territories.

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3. R&D&Innovation Activities

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 process is tested, taking on board the suggestions regarding product preparation and the names, ingredients and presentation of different products.

In 2016 Telepizza launched new types of pizza in Spain, in addition to new products that offer consumers other options.

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

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

4. Risk Management Policy

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

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

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 Group carries out exhaustive monitoring of trends in benchmark interest rates in order 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 Group has contracted a fixed interest rate swap facility for a five-year period for the Senior Facility.

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

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

Liquidity risk

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

Credit risk

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

5. Own shares

At 31 December 2016 no Group company holds shares or rights over shares of Tele Pizza Group, S.A. and therefore the Group has no voting or profit-sharing rights related to own shares.

6. Average supplier payment period

The average payment period for suppliers of the consolidated Spanish companies is 107 days.

7. Significant events after 31 December 2016

At the date of authorisation for issue of these consolidated annual accounts no significant events have occurred after the reporting date.