TELEPIZZA GROUP, S.A.
AND SUBSIDIARIES

Explanatory Notes to the Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2018

Consolidated Statements of Financial Position
at 30 June 2018 and 31 December 2017

(Expressed in thousands of euros)

Assets	30.06.18	31.12.17
Property, plant and equipment (Note 5)	50,126	50,456
Goodwill (Note 3)	392,859	392,539
Other intangible assets (Note 4)	325,345	326,923
Deferred tax assets	29,196	30,438
Non-current financial assets (Note 7)	40,249	35,455
Total non-current assets	837,775	835,811
Inventories	10,448	10,903
Trade and other receivables (Note 8)	42,494	41,117
Other current financial assets	1,105	2,730
Other current assets	4,359	3,227
Cash and cash equivalents (Note 9)	91,464	87,279
Subtotal current assets	149,870	145,256
Non-current assets held for sale	505	88
Total current assets	150,375	145,344
Total assets	988,150	981,155

Condensed Consolidated Statements of Financial Position at 30 June 2018

(Expressed in thousands of euros)

Liabilities and equity	30.06.18	31.12.17
Share capital	25,180	25,180
Share premium	533,696	533,695
Accumulated gains	83,482	81,432
Treasury stock	(7,787)	-
Translation differences	(7,030)	(5,070)
Equity attributable to holders of the Parent	627,541	635,237
Non-controlling interests	678	158
Total equity (Note 10)	628,219	635,395
Financial liabilities with credit institutions (note 11)	197,218	196,687
Deferred tax liabilities (note 14)	81,584	82,100
Non-current provisions	85	85
Other non-current financial liabilities	499	4,212
Other non-current liabilities	13,855	7,140
Total non-current liabilities	293,241	290,224
Financial liabilities with credit institutions (note 11)	827	895
Other financial liabilities	-	500
Trade and other payables (note 13)	63,315	51,153
Current provisions	193	151
Other current liabilities	2,355	2,756
Subtotal current liabilities	66,690	55,455
Liabilities associated with non-current assets held for sale	-	81
Total current liabilities	66,690	55,536
Total equity and liabilities	988,150	981,155

Interim Condensed Consolidated Income Statements for the first six-month period of 2018

(Expressed in thousands of euros)

	30.06.18	30.06.17
Revenues	181,531	180,029
Merchandise and raw materials use	(49,180)	(48,809)
Personnel expense (note 14 a))	(48,759)	(47,837)
Amortization and depreciation (notes 4 y 5)	(8,419)	(8.900)
Other expenses (note 14 b))	(57,591)	(48,647)
Operating profit	17,582	25,393
Finance income	563	418
Finance costs	(3,662)	(4,389)
Other losses	(417)	(443)
Profit before tax from continuing operations	14,066	21,422
Income tax/expense (note 14 c))	(4,250)	(5,981)
Profit/ (loss) for the year from continuing operations	9,816	15,441
Minority interest	372	(1)
Profit/ (loss) for the year attributable to holders of equity	9,444	15,442
Earnings per share expressed in euros (note 10g))	0.09	0.15

Interim Condensed Consolidated Statements of Comprehensive Income
for the first six-month period of 2018

(Expressed in thousands of euros)

	30.06.18	30.06.17
Consolidated profit/(loss) for the period	9,816	15,442
Other comprehensive income:		
Items to be reclassified to profit and loss		
Translation differences from financial statements of foreign operations	(1,960)	(4,265)
Total comprehensive income for the period	7,856	11,177
Total comprehensive income attributable to holders of equity instruments of the Parent	7,484	11,178
Total comprehensive income attributable to non-controlling interests	372	(1)

Interim Condensed Consolidated Cash Flow Statements

for the first six-month period of 2018

(Expressed in thousands of euros)

	30.06.18	30.06.17
Cash flows from operating activities:	28,243	24,421
Profit/(loss) before tax	14,066	21,422
Adjustments to profit/(loss):	11,936	8,857
Depreciation and amortisation	8,419	8,900
Other adjustments to profit/(loss)	3,517	(43)
Changes in working capital	3,706	(7,612)
Other cash flows from operating activities:	(1,465)	1,754
Finance income	-	-
Finance costs	-	4,389
Income tax receipts (payments)	(1,465)	(2,635)
Cash flows from investing activities:	(12,439)	(13,474)
Investment payables:	(17,145)	(15,712)
Property, plant and equipment, intangible assets and investment property	(12,351)	(14,114)
Other financial assets	(4,794)	(1,598)
Divestments from property, plant and equipment, intangible assets and investment property	4,706	2,238
Other cash flows from financing activities:	-	-
Dividends received	-	-
Interest received	-	-
Cash flows from financing activities:	(10,857)	(3,414)
Proceeds from and payments for equity instruments:	(7,787)	444
Issue	(7,787)	444
Proceeds from and payments for financial liability instruments:	563	(514)
Issue	563	
Redemptions and repayment		(514)
Other cash flows from financing activities	(3,633)	(3,344)
Interest payable	(3,633)	(3,344)
Other charges and payments for financing activities	-	-
Effect of changes in exchange rates	(762)	(2,438)
Increase/(decrease) in cash and cash equivalents	4,185	5,095
Cash and cash equivalents at beginning of year	87,279	63,972
Cash and cash equivalents at end of year	91,464	69,067

Interim Condensed Consolidated Statements of Changes in Equity
for the first six-month period of 2018

(Expressed in thousands of euros)

	Share capital	Share premium and reserves	Treasury Shares of Equity	Profit/(loss) for the period	Adjustments due to changes in value	Non-controlling interests	Total equity
Balance at 31.12.17	25,180	583,283		31,844	(5,070)	158	635,395
Total recognised income/(expenses)	-	-		9,444	(1,960)	372	7,856
Transactions with shareholders or owners	-	(6,370)	(7,787)	-	-	-	(14,157)
Capital increase	-	-	-	-	-	-	-
Shareholder contributions	-	(6,370)	-	-	-	-	(6,370)
Treasury Shares	-	-	(7,787)	-	-	-	(7,787)
Other changes in Equity		30,821		(31,844)		148	(875)
Transfers between equity items	-	31,844		(31,844)	-	-	-
Other changes		(1,023)				148	(875)
Balances at 30.06.18	25,180	607,734	(7,787)	9,444	(7,030)	678	628,219

Interim Condensed Consolidated Statements of Changes in Equity
for the first six-month period of 2017
(Expressed in thousands of euros)

	Share capital	Share premium and reserves	Profit/(loss) for the period	Adjustments due to changes in value	Non-controlling interests	Total Equity
Balance at 31.12.16	25,180	574,298	10,691	(3,110)	-	607,059
Total recognised income/(expenses)	-	-	15,442	(4,265)	-	11,177
Transactions with shareholders or owners	-	444	-	-	326	770
Capital increase	-	-	-	-	-	-
Shareholder contributions	-	-	-	-	-	-
Increase (decrease) due to business combinations		444	-		326	770
Transfers between equity items	-	10,691	(10,691)	-	-	-
Balances at 30.06.17	25,180	585,433	15,442	(7,375)	326	619,006

TELEPIZZA GROUP AND SUBSIDIARIES

Explanatory notes to the Condensed Consolidated

(1) Nature, Activities and Breakdown of the Group

Telepizza Group, S.A. (the Company or Parent) was formed as a limited liability company in Spain on 11 May 2005 for an indefinite period, under the name of Bahíaflora Inversiones, S.L. On 30 June 2005, its company name was changed to Foodco Pastries Spain SAU. and in March 2016 it was changed to its current name. Its registered office is located in San Sebastián de los Reyes (Madrid).

In accordance with the minutes of the decisions of the Sole Shareholder dated 22 January 2016, executed in a public deed on 05 February 2016, it was resolved to transform the Company into a public limited company, and to draft new articles of association to adapt them to the new company form.

On 31 March 2016, the Board of Directors of the Parent, the Telepizza Group, unanimously agreed to request the admission to listing of the Madrid, Barcelona, Bilbao and Valencia Stock Markets and the concomitant Public Offering and Public Offering for the Subscription of New Shares on the Spanish Stock Market, a process which ended successfully. Accordingly, all shares of the Parent have been listed on the stock market since 27 April 2016.

The Company's object is the performance of economic studies, the sales promotion of all types of products for its own account or for the account of third parties, including mailing, the importation and exportation of all manner of products and raw materials, the manufacture, distribution and marketing of products for human consumption and the lease of machinery and capital goods. The activities forming the corporate purpose can be carried on partially or in full and directly or indirectly, through the ownership of shares or holdings in other companies that perform them in accordance with their company object both in Spain and abroad. The Company will not carry out any activity for which the law requires adherence to specific conditions or requirements without complying therewith.

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

The main activity of its subsidiaries consists of the management and operation of stores under the "Telepizza", "Pizza World" and "Jeno's Pizza" brands for consumption at home and on the premises which, at 30 June 2018, is performed through 415 own premises and 1,212 franchises, located mainly in Spain, Portugal, Poland, Chile, Colombia, Peru, Ecuador, Panama, Paraguay, Morocco, France, Switzerland,the Czech Republic and Ireland. Likewise, the Group performs its activities through master franchises located in Guatemala, El Salvador, Russia, Angola, Bolivia, Iran, the United Kingdom and Malta.

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

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

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

In may 2018, the Company has signed a strategic alliance and a masterfranchisee agreement with Yum! Brands, Inc. in order to accelerate their growth in Latin-American (excluding Brasil), Caribbean, Spain, Portugal and Switzerland. This agreement has been approved in June 2018 by the Telepizza Group Annual General Shareholders meeting.

The closure of this strategic alliance is subject to several conditions including the regulatory approval consequently in June 2018 the agreement hasn't come into force.

(2) Basis of Presentation

(a) Basis of presentation of the half-yearly financial statements

These condensed consolidated financial statements for the period ended 30 June 2018 has been prepared from the accounting records of Telepizza Group, S.A. and of its consolidated entities. They have been also prepared in conformity with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other applicable provisions of the financial reporting regulatory framework. Accordingly, they present fairly the consolidated equity and the consolidated financial position of Telepizza Group, S.A. and Subsidiaries at 30 June 2018, and the consolidated financial results, the consolidated cash flows and the changes in consolidated equity for the year ended as of that date.

The Group adopted the IFRS-EU at 01 January 2004 and applied IFRS 1 "First-time Adoption of International Financial Reporting Standards" on that date.

These interim condensed consolidated financial statements were prepared by the Parent's Board of Directors at its meeting held on 26 July 2018.

b) Comparative information

In accordance with paragraph 20 of IAS 34, and in order to obtain comparative information, these interim condensed consolidated financial statements include the condensed consolidated statements of financial position at 30 June 2018 and 31 December 2017, the interim condensed consolidated income statements for the six-month periods ended 30 June 2018 and 2017, the interim condensed consolidated statements of comprehensive income for the six-month periods ended 30 June 2018 and 2017, the interim condensed consolidated statements of changes in equity for the six-month periods ended 30 June 2018 and 2017, the interim condensed consolidated cash flow statements for the six-month periods ended 30 June 2018 and 2017, together with the explanatory notes to the interim condensed consolidated financial statements for the six-month period ended 30 June 2018.

c) Responsibility for the information provided and estimates made

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

Likewise, although the estimates performed by the Company's directors were calculated based on the best available information at 30 June 2018, it is possible that events that may take place in the future may force them to be amended in the coming years. The effect on the consolidated financial statements of the amendments which, where appropriate, arise from the adjustments to be performed in the coming years would be recognised prospectively.

(d) Accounting policies and measurement bases

The accounting policies and measurement bases used in these interim condensed consolidated financial statements at 30 June 2018 are the same as those used in the consolidated financial statements for the year ended 31 December 2017.

Standards and interpretations effective since 2017

The amendments of standards and interpretations, together with new standards introduced since 01 January 2018, did not lead to any significant changes in the presentation of the accounts.

On the other hand, at the date of issue of these financial statements, such standards and interpretations had been adopted by the EU and the following IFRS had entered into force, which will be applied based on their effective date.

- IFRS 16 Leases Effective for periods beginning on or after 01 January 2019. IFRS 16 introduces a unique model for the recognition of leases in the balance sheet for lessees. The lessee recognises an asset for the right of use, which represents its right to use the underlying asset, and a lease liability, which represents its obligation to make lease payments. Optional exemptions exist for short-term leases and leases of items of scant value. The lessors' accounting records are kept in a similar way to the current standard, that is, the lessors continue to classify the leases as financial or operating leases.

The standard applies to annual periods beginning on or after 01 January 2019, although it may be adopted early by entities that apply IFRS 15 Revenue from contracts with customers on, or before the date of initial application of IFRS 16.

The Group performs an initial evaluation of the potential impact on its consolidated financial statements. To date, the most significant impact identified was that the Group will recognise new assets and liabilities for its operating leases on factories and commercial premises. Furthermore, the nature of the expenses relating to these leases will now change, since IFRS 16 substitutes the lineal expense of operating leases with a charge for the amortisation of assets with a right of use and an expense for interest on lease liabilities.

As lessee, the Group can apply the standard on a retrospective basis, or on a retrospective basis modified with simple optional practices.

The lessee will apply the alternative chosen on a uniform basis to all its leases. At present, the Group expects to apply IFRS 16 for the first time on 01 January 2019. The Group is not bound to make any adjustment to the leases in which it acts as lessor, unless it is an intermediary lessor in a sub-lease.

According to IFRS 16 a lessee shall apply this Standard to its leases either:

(a) retrospectively to each prior reporting period presented applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; or

(b) retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application.

If a lessee elects to apply this Standard in accordance with paragraph (a), the lessee shall not restate comparative information. Instead, the lessee shall recognise the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

If a lessee elects to apply this Standard in accordance with paragraph (b), the lessee shall:

- Recognise a lease liability at the date of initial application for leases previously classified as an operating lease applying IAS 17. The lessee shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the date of initial application.

- Recognise a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. The lessee shall choose, on a lease-by-lease basis, to measure that right-of-use asset at either:

(i) its carrying amount as if the Standard had been applied since the commencement date, but discounted using the lessee’s incremental borrowing rate at the date of initial application; or

(ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

The Group has decided to apply as transition method the one explained in paragraph b) retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application increasing the assets in the same amount of liabilities.

The Group is quantifying the impact on its assets and liabilities recognised as a result of the adoption of IFRS 16. The quantitative effect will depend, among other things, to the extent to which the Group uses the practical simplifications and the recognition exemptions, together with all the additional leases formalised by the Group. With respect to the application of this standard and its quantification, the Group considers the analysis to be performed on the lease period to be especially significant, together with the discount rate to be applied. The Group expects to reveal its transition approach and its quantitative information prior to adoption and, in any case, it foresees that the impact of the application of this standard will be significant for the Group's financial statements.

(3) Goodwill

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

	Thousands of euros
Cost	
Balance at 31.12.16	387,322
Goodwill on business combinations in the period	8,481
Translation differences	(518)
Disposal	(2,570)
Losses of value in the period	(176)
Balance at 31.12.17	392,539
Goodwill on business combinations in the period	2,410
Translation differences	(171)
Disposals	(1,918)
Balance at 30.06.18	392,859

Additions are related to the acquisition of stores from franchises. The detail of goodwill at 30 June 2018 and 31 December 2017, by country, is as follows:

	Thousands of euros	
	30.06.18	31.12.17
Spain	265,116	266,389
Portugal	62,540	61,916
Poland	4,620	4,620
Chile	41,745	41,723
Colombia	8,429	8,417
Panama	235	228
Switzerland	2,001	1,986
Ireland	6,219	5,315
Paraguay	560	561
Czech Republic	1,071	1,071
Other	323	313
	392,859	392,539

This first half of 2018 the Group has acquired several stores mainly in Chile and Portugaland in addition there has been an increase in the Ireland Goodwill because of the higher price of adquisition in 904 miles of euros.

These acquisitions of outlets are part of the Group's global strategy, which involves operating the outlets as own stores un various geographic regions rather than as franchisees.

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

	Thousand of euros	
	30.06.18	31.12.17
Cost of the combination, cash paid	2,749	10,068
Less, fair value of net assets acquired	(339)	(1,587)
Goodwill (note 9)	2.410	8,481

Goodwill arising in business combinations in both years reflects that the stores acquired have a strong market position.

(4) Other intangible assets

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

	Thousands of euros					
	Concessions, patents, licences	Trademarks	Contractual rights and others	Other intangible assets	Computer software	Total
Cost						
Balances at 31.12.16	1,632	253,502	151,359	498	24,328	431,319
Additions	137	-	15	-	4,553	4,705
Disposals	(2)	-	(4)	-	(70)	(76)
Exchange differences	(2)	-	(18)	(6)	73	47
Balances at 31.12.17	1,765	253,502	151,352	492	28,884	435,995
Additions	63	-	-	-	2,178	2,241
Disposals	-	-	-	-	(91)	(91)
Others transfers	-			6	(4)	2
Exchange differences	4	-	-	1	(86)	(81)
Balances at 30.06.18	1,832	253,502	151,352	499	30,881	438,066
Decline or loss in value						
Amortisation balance at 31.12.16	(954)	(18,526)	(62,400)	(352)	(18,856)	(101,088)
Balance of loss in value at 31.12.16	(8)	-	-	-	-	(8)
Decline in value for the period	(4)	-	(5,749)	1	(2,353)	(8,105)
Disposals	-	-	2	-	80	82
Exchange differences	(12)	-	129		(70)	47
Amortisation balance at 31.12.17	(970)	(18,526)	(68,018)	(351)	(21,199)	(109,064)
Balance of loss in value at 31.12.17	(8)	-	-	-	-	(8)
Decline in value for the period	(90)	-	(2,148)	(6)	(1,533)	(3,777)
Disposals	-	-	-	-	45	45
Exchange differences	-		-	(2)	85	83
Other transfers	-	-	(162)	162	-	-
Amortisation balance at 30.06.18	(1,060)	(18,526)	(70,328)	(197)	(22,602)	(112,713)
Balance of loss in value at 30.06.18	(8)					(8)
Net value						
At 31.12.16	670	234,976	88,959	146	5,472	330,223
At 31.12.17	787	234,976	83,334	141	7,685	326,923
At 30.06.18	764	234,976	81,024	302	8,279	325,345

At 30 June 2018 the Group had no commitments to acquire intangible assets of a significant amounts.

(5) Property, plant and equipment

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

	Thousands of euros					
Data	Land and buildings	Technical installations and machinery	Other installations, equipment and furniture	Advances and property, plant and equipment in progress	Other property, plant and equipment	Total
Cost						
Balances at 31.12.16	7,226	104,638	12,218	2,658	13,656	140,396
Additions	92	14,916	2,604	743	1,672	20,027
Disposals	(394)	(14,285)	(1,877)	(2)	(2,019)	(18,577)
Other transfers	46	(1,930)	1,377	(2,451)	2,661	(297)
Exchange differences	(45)	(1,617)	(180)	15	(353)	(2,180)
Balances at 31.12.17	6,925	101,722	14,142	963	15,617	139,369
Additions	490	5,744	595	42	829	7,700
Additions due to inclusions in the scope	-	-	-	-		-
Disposals	(133)	(10,401)	(915)	(2)	(985)	(12,436)
Other transfers	-	708	(194)	(541)	25	(1)
Exchange differences	(160)	(471)	(24)	(11)	(47)	(713)
Balances at 30.06.18	7,123	97,297	13,604	451	15,411	133,886
Decline or loss in value						
Depreciation balance at 31.12.16	(4,638)	(65,036)	(8,867)	-	(10,769)	(89,310)
Balance of loss in value at 31.12.16	(68)	(4,964)	(12)	-	-	(5,044)
Decline in value for the period	(769)	(7,665)	(747)	-	(1,659)	(10,840)
Disposals	281	10,052	1,119	-	1,628	13,080
Exchange differences	164	116	(406)	-	951	825
Loss in value	(305)	3,326	(645)	-	-	2,376
Depreciation balance at 31.12.17	(4,962)	(62,533)	(8,901)	-	(9,849)	(86,245)
Balance of loss in value at 31.12.17	(373)	(1,638)	(657)	-	-	(2,668)
Decline in value for the period	(199)	(3,235)	(378)	-	(831)	(4,643)
Disposals	65	7,356	499	-	993	8,913
Exchange differences	76	298	20	-	96	490
Transfer to assets held for sale	-	1	-	-	27	28
Other transfers	0	(16)			16	-
Loss in value	17	348	-	-	-	365
Depreciation balance at 30.06.18	(5,020)	(58,129)	(8,760)	-	(9,548)	(81,457)
Balance of loss in value at 30.06.18	(356)	(1,290)	(657)	-	-	(2,303)
Carrying amount						
At 31.12.16	2,520	34,638	3,339	2,658	2,887	46,042
At 31.12.17	1,590	37,551	4,584	963	5,768	50,456
At 30.06.18	1,747	37,878	4,187	451	5,863	50,126

The additions relate mainly to store openings, replacement investment, factory machinery and the acquisition of stores from franchises.

Disposals primarily include property, plant and equipment used in stores which have been franchised, closed or sold.

The Group has taken out insurance policies to cover the risks to which its property, plant and equipment is exposed.

At 30 June 2018, the Group did not have any commitments to acquire property, plant and equipment of a significant amount.

(6) Impairment

At 30 June 2018, the Parent's directors consider that no significant signs of impairment exist in any of its cash generating units. Accordingly, no provision was recognised for the impairment of such assets.

(7) Non-current financial assets

The detail of other non-current financial assets at 30 June 2018 and 31 December 2017 was as follows:

	Thousands of euros	
	30.06.18	31.12.17
Deposits and guarantees	5,952	6,062
Non-current trade receivables	30,276	25,424
Other loans and receivables	4,021	3,969
	40,249	35,455

Non-current trade receivables relate mainly to the amounts receivable for the franchised activity and for the sale of fixed assets to franchises.

Other loans and receivables related to the loans granted by the Group to certain executives for the payment of tax withholdings relating to the portion of the incentives plan for management which Foodco Finance, selling shareholder of the shares, paid to beneficiaries in shares of the Company.

(8) Trade and other receivables

The breakdown was as follows:

	Thousands of euros	
	30.06.18	31.12.17
Customer receivables	40,549	40,745
Other receivables	5,152	4,475
Tax receivables	5,479	5,117
Impairment losses	(8,686)	(9,220)
Trade and other receivables	42,494	41,117

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

The balance of other receivables includes mainly receivables for volume discounts on purchases of suppliers and advertising promotions not yet collected.

(9) Cash and Cash Equivalents

Details at 30 June 2018 and 31 December 2017 are as follows:

	Thousand of euros	
	30.06.18	31.12.17
Cash in hand at banks	91,464	87,279
Cash and cash equivalents	91,464	87,279

Cash and cash equivalents recognised in the consolidated statement of financial position are the same as those reported in the statement of cash flows as the Group does not have any overdrafts.

(10) Equity

(a) Share capital

At 30 June 2018, the share capital of Telepizza Group, S.A. was represented by 100,720,679 ordinary shares represented by book entries, of 0.25 euros par value each, belonging to a single class and series. All shares have been fully subscribed and paid and have the same voting and dividend rights.

As a result of the equity instruments issued, at 30 June 2018 and 31 December 2017, share capital amounted to 25,180 thousand euros.

(b) Share premium

At 30 June 2018 and 31 December 2017, this premium was unrestricted, provided that, as a result of the distribution, the Parent's equity was not lower than the share capital amount.

(c) Accumulated gains

- Legal reserve

  The Parent's legal reserve at 30 June 2018 and 31 December 2017 stood at 10,832 thousand euros.

- Shareholder contributions

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

The increase in this heading at the Parent in 2016 corresponds to the recognition of 9,971 thousand euros, in relation to the incentive plans for the flotation on the stock market which the then Sole Shareholder approved prior to such flotation.

- Remaining accumulated gains/losses

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

(e) Treasury Stock

In this first half the Board of Directors has approved to perform a temporal program of purchase of own shares. The Program is made according to the regulation (Reglament 596/2014 and in the Commission Delegated Reglament (UE) 2016/1052 that completes the Reglament (UE) nº 596/2014. The object of this Purchase Program of own shares is to let the company comply with the obligations related to the current incentive plan.

The Purchase Program will affect to a maximum of 3,435,946 own shares, around 3,41% of the share capital. In euros the maximun amount will be 15,000,000.

At 30th June 2018 the Company has 1,342,000 shares in Treasury Stock what means a payment of 7.787 miles of euros.

(e) Translation differences

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

(f) Distribution of profit/(loss)

On 28 June 2018, the Parent's General Shareholders' Meeting resolved to allocate the Parent's result for 2017, amounting to 10,143,245 euros, to Voluntary Reserves in an amount of 3,773,500 euros and dividends 6,369,745 euros.

(g) Earnings/(loss) per share

Basic

The basic earnings/(loss) per share are calculated by dividing the profit/(loss) for the period attributable to holders of equity instruments of the Parent by the weighted average number of outstanding ordinary shares in the period, excluding treasury shares where applicable.

	30.06.18	30.06.17
Earnings/(loss) for the period attributable to holders of equity instruments of the Parent (in euros)	9,443,731	15,442,307
Weighted average number of ordinary outstanding shares (in securities)	100,596,767	100,720,679
Basic earnings/(loss) per share (euros)	0.09	0.15

Diluted

At 30 June 2018 and 30 June 2017, the diluted earnings per share were equal to the basic losses since ordinary shares do not have dilutive effects.

(11) Obligations, Loans and Other Remunerated Liabilities

On 08 April 2016, the Parent, together with its subsidiary, Tele Pizza, S.A. and various financial institutions, with Banco Santander acting as lead bank, signed a new syndicated loan for 200,000,000 euros, whose date of entry into force depends upon the stock market flotation, together with a revolving facility with a limit of 15,000 thousand euros. At 30 June 2018 and 31 December 2017, the fair value of this loan was 197,218 thousand euros and 196,687 thousand euros respectively, and the nominal value as of the same date amounted to 200,000 thousand euros. The difference between the aforementioned fair value and the nominal value relates to the loan origination and arrangement fees, totalling 5,023 thousand euros. The loan repayment schedule is as follows: 15% of the principal at 48 months from the effective date of use of the loan, 20% of the principal at 54 months from the effective date of use of the loan, and the remainder at 5 years from the effective date of use of the loan.

The accrued interest payable at 30 June 2018 and 30 December 2017 on these loans amounted to 827 thousand euros and 895 thousand euros, respectively.

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

	Thousands of euros			
	30.06.18		31.12.17	
	Principal	Interest	Principal	Interest
Less than one year	-	827	-	895
Between two and five years	197,218	-	196,687	-
Over five years	-	-	-	-
	197,218	827	196,687	895

At 30 June 2018 and 31 December 2017, the detail of the non-current payables to credit institutions was as follows:

Type	Final maturity	Thousands of euros Limit	Balance 30.06.18	Margin as of % Euribor
Senior				
Senior facility	2021	200,000	200,000	EUR+2.5%+2,25%
Revolving	2021	15,000	-	EUR+2.5%+2,25%
Debt arrangement expenses			(2,782)	
Balances at 30 June 2018			197,218	

Type	Final maturity	Limit (Thousands of euros)	Balance 31.12.17 (Thousands of euros)	Margin as of % Euribor (Thousands of euros)
Senior				
Senior facility	2021	200,000	200,000	EUR+2.75
Revolving	2021	15,000	-	EUR+2.75%
Debt arrangement expenses				
			(3,313)	
Balance at 31 December 2017			196,687	

Despite the interest referred to in the previous heading, the Group has entered into a swap contract with a floating to fixed interest rate, which is detailed in Note 11.

The Group arranged a pledge on the shares of Tele Pizza, S.A., Telepizza Chile, S.A., and Luxtor, S.A. and a pledge agreement on shares in Telepizza Portugal Comercio de Produtos Alimentares, S.A, to secure the loan detailed previously. The assets and liabilities secured by these guarantees directly or indirectly relate to virtually all them.

Likewise, the Group is bound to comply with a certain financial ratio. At 30 June 2018, the Group was complying with the ratio.

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

In 2016, the Group arranged an interest rate hedge instrument amounting to 100,000 thousand euros, covering the Euribor with a floor of 0% at a fixed rate of 0.27%. This instrument has an effective start date of 29 April 2018 and a maturity date of 29 April 2021. At 30 June 2018 and 31 December 2017, it had a negative fair value of 499 thousand euros and 126 thousand euros, respectively.

The detail of the derivative financial instruments valued at fair value at 30 June 2018 and 31 December 2017 is as follows:

30 June 2017	Notional amount	Fair values – Liabilities: Non-current	Fair values – Liabilities: Current
Derivatives			
Interest rate swaps	(100,000)	(499)	-
Total derivatives at fair value through consolidated profit or loss	(100,000)	(499)	-

31 December 2016		Thousands of euros	
		Fair values	
	Notional amount	Liabilities	
		Non-current	Current
Derivatives			
Interest rate swaps	(100,000)	(126)	-
Total derivatives at fair value through consolidated profit or loss	(100,000)	(126)	-

(13) Trade and Oher Payables

Details are as follows:

	Thousand of euros	
	30.06.18	31.12.17
Trade payables	46,627	42,850
Public entities	5,790	3,482
Other payables	6,119	142
Salaries payables	4,719	4,650
Current guaranties and deposits received	59	29
	63,315	51,153

Trade payables includes balances related to confirming operations totalling euros 8,526 miles of euros at 30 June 2018 (9,816 at 31 December 2017).

Other payables includes at june 2018, the dividend to be paid to the shareholders the 9th of July.

(14) Income and expenses

(a) Personnel expenses

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

	Thousands of euros	
	30.06.18	30.06.17
Wages, salaries and similar expenses	39,830	39,015
Social security	7,634	8,327
Termination benefits	1,024	197
Other employee benefit expenses	271	298
Total personal expenses	48,759	47,837

At 30 June 2018 personnel expenses includes 4,546 thousand of euros of non-recurring expenses related to Yum! Brands agreement.

The distribution, by gender, at closing date of employees and directors of the Parent was as follows:

	Number			
	30.06.18		30.06.17	
	Men	Women	Men	Women
Directors	6	-	7	-
Managers	33	9	33	9
Store heads	164	175	189	213
Other employees	2,734	2,006	2,854	2,458
	2,937	2,190	3,083	2,680

(b) Other expenses

At 30 June 2018 other expenses includes 4,486 thousand of euros of non-recurring expenses related to Yum! Brands agreement.

(c) Income tax

At 30 June 2018, the Group had recognised deferred tax assets relating to the tax losses in Spain, amounting to 32,523 thousand euros (35,191 thousand euros at 31 December 2017), having applied an amount of 2,668 thousand euros in the first six months of the year.

At 30 June 2017, the Group had recognised deferred tax assets relating to the tax losses in Spain and Portugal, amounting to 39,032 thousand euros (35,191 thousand euros at 31 December 2016), having applied an amount of 4,015 thousand euros in the first six months of the year.

The Group companies calculated the income tax provision at 30 June 2018, in line with the legislation in force in each of the countries in which it carries on its activities.

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute-of-limitations period has expired. At 30 June 2018, the Company had all the main taxes applicable to it open for review by the tax authorities from 01 January 2014, with the exception of income tax, for which it also had 2013 open for inspection.

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

(15) Segment Reporting

The Group is organised internally by operating segments, as described further below, constituting the business's strategic units. The business's strategic units operate under different market conditions and are managed separately since they require different strategies.

At 30 June 2017 and 2018, the Group was formed by the following operating segments:

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

Return on the segments is measured with respect to their profit. The segments' profit is used to measure return since the Group considers that such information is the most significant to assess the results of certain segments in relation to other groups that operate in such businesses.

The prices of the inter-segment transactions are established in line with the normal trade terms and conditions that are available for non-related third parties.

	30.06.18					
	Thousands of euros					
	Spain	Rest of Europe	Latin America	Master franchise and rest of the world	Eliminations	Total
Operating revenue						
Sales own stores	41,564	24,258	23,054	-	-	88,876
Factory sales to franchises	44,677	8,392	6,377	102	-	59,462
Royalty	12,634	2,710	1,630	420	-	17,395
Other income	9,532	2,009	4,172	-	-	15,799
To other segments	9,748	-	-	-	(9,748)	-
Total operating income	118,154	37,730	35,233	522	(9,748)	181,531
Profit/(loss) before tax	4,321	4,592	4,677	476	-	14,066
Group Assets	633,929	243,473	109,397	1,351	-	988,150

	30.06.17					
	Thousands of euros					
	Spain	Rest of Europe	Latin America	Master franchise and rest of the world	Eliminations	Total
Operating revenue						
Sales own stores	53,234	19,848	26,912	-	-	99,994
Factory sales to franchises	40,535	7,161	5,048	228	-	52,972
Royalty	10,065	1,309	1,239	395	-	13,008
Other income	7,704	1,006	5,188	157	-	14,055
To other segments	10,813	-	-	-	(10,813)	-
Total operating income	122,351	29,324	38,387	780	(10,813)	180,029
Profit/(loss) before tax	14,524	4,011	2,303	584	-	21,422
Group Assets	630,260	217,053	106,698	985	-	954,996

(16) Securities, guarantees and commitments

Note 20 to the 2017 consolidated financial statements details the securities granted by the Group. In the first six months of 2018, there were no significant variations in the securities granted with respect to 31 December 2017.

At 30 June 2018, the Group has commitments to acquire fixed assets amounting to 4,000 thousand euros.

(17) Contingencies

The Group was not involved in any lawsuits or significant claims of any type. However, it is immersed in an international operation that is subject to regulatory processes and governmental inspections, which could give rise to possible risks for a maximum amount of 1,200 thousand euros.

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

In the first six months of 2018, remuneration and other benefits were granted to the Parent’s Board of Directors for 1,994 thousand euros (569 thousand euros in the first semester of 2017). Likewise, at 30 June 2018 and 31 December 2017, the Group had granted loans and advances to the directors amounting to 1,337 thousand euros. Such directors had received certain shares of the Parent to guarantee such loans. Such loans were granted in 2016. The life insurance premiums paid in the first six months of 2018 to the directors amounted to 6 thousand euros (12 thousand euros in the first six months of 2017), and the contributions to a savings plan amounted to 137 thousand euros (137 thousand euros in the first six months of 2017).

Remuneration item	Thousands of euros	
	30.06.18	30.06.17
Fixed remuneration	305	305
Variable remuneration	410	260
Other	1,279	4
Total staff costs	1,994	569

Other benefits	Thousands of euros	
	30.06.18	30.06.17
Loans	1,337	1,337
Contributions to pension plans and funds	137	75
Life insurance premiums	6	12
Total staff costs	1,480	1,486

In the first six months of 2018, remuneration and other benefits were granted to the Parent's Senior Management for 4,210 thousand euros (1,632 thousand euros in the first six months of 2017).

(19) Events after the reporting period

On 16th July, Telepizza has reached an agreement with AmRest Holdings, a restaurant multinational and the master franchise holder for Pizza Hut in Europe (other than in Iberia and Switzerland), to sell its Polish operations, including its 107 stores (36 directly owned establishments and 71 franchises). The anticipated value of the transaction is estimated at EUR 8m (on a cash-free, debt-free basis) and will be confirmed at the closing date.

TELEPIZZA GROUP AND SUBSIDIARIES

Directors' Report

1. Group's situation and business performance

€m (unless otherwise stated)	**H1 2018**	**H1 2017**	***% change***
Group system sales	*314.9*	*276.5*	*13.9%*
Group system constant currency sales growth (%)			**15.8%**
Core Geographies system sales	*300.0*	*261.1*	*14.9%*
Core Geographies constant currency sales growth (%)			**15.9%**
Core Geographies LFL sales growth (%)			***2.5%***
Spain system sales	**182.2**	**176.5**	**3.3%**
LfL sales growth (%)			***0.9%***
International system sales	*132.7*	*100.0*	*32.7%*
Core International system sales	*117.7*	*84.6*	*39.1%*
Core International constant currency sales growth (%)			**43.2%**
Core International LFL sales growth (%)			***6.2%***
Revenues	*181.5*	*180.0*	*0.8%*
Constant currency revenue growth (%)			**1.9%**

In the first six months of 2018, the Group reported a constant currency growth in system sales (the combined sales of our own franchised and master franchised stores) of 15.8%, in constant currency and a growth of 14.9% in our Core Geographies (excluding master franchises).

Spain

System sales in Spain rose by 3.3% in the first semester, to 182.2 million euros, boosted by organic growth ("LFL") of 0.9% and horizontal growth of 2.4%.

LFL growth is impacted by a strong comparable in Q2 2017 and by a negative calendar effect in the semester.

The Digital channel is one of our main growth drivers, we have continued developing our mobile app, introducing new features during the semester and keeping a strong sales growth rate of 41%, in June, app sales represented the 30% of our total digital sales.

Innovation is underpinning sales growth across channels. We continue with the launch of products from our gourmet range, such as the new Pizza Sweet Nestlé Caja Roja and the Pizza Bacon Crispy Gourmet, innovation sales have increased 5% during the semester, representing 16% of our total sales.

International

System sales in Core International (excluding master franchises) increased 39.1% in the first semester (43.2% in constant currency), to 117.7 million euros, boosted by LFL growth of 6.2% and a horizontal growth of 37.0%.

The Core International business had a solid performance in the semester across the different regions, with a strong horizontal growth underpinned by the addition of Apache Pizza in Ireland. Highlighting the double digit LFL growth in Portugal and the positive LFL growth across Latin American countries.

Expansion of the store network

At 30th June 2018, the number of Group stores was 1,627 (of which 711 were located in Spain and 916 abroad).

In total, there were 20 net openings in the Group in the semester, we have adjusted our expansion plan in anticipation to the closure of the Pizza Hut alliance.

Pizza Hut strategic alliance

The Annual General Meeting of Telepizza Group approved in June 2018 a strategic alliance and multijurisdictional master franchise agreement between Telepizza and Pizza Hut to accelerate their joint growth across Latin America (excluding Brazil), the Caribbean, Spain,

Portugal and Switzerland.

Pizza Hut, a division of Yum! Brands, Inc. ("Yum! Brands"), is the largest pizza restaurant company of the world with nearly 17,000 restaurants in over 100 countries. As a result of the Transaction, Telepizza, in addition to the outlets of its network (currently, 1,600), will operate approximately 1,000 Pizza Hut outlets, and will become Pizza Hut's largest master franchisee

globally by unit count and a world leader pizza operator, with an ambitious growth plan in the next years.

With the Transaction, the Company seeks to recognize its capacity to manage the network and supply pizza dough and ingredients, and to boost its international growth plan (taking advantage of the existing synergies between both groups).

The Company will nearly double the number of outlets to more than 2,500, expanding its international reach to 37 countries (more than 500 million potential consumers) and it is expected that its chain sales will increase by a maximum of EUR 1.1 billion annually. Additionally, considering the commitments undertaken in the Transaction, the Company targets an EBITDA of EUR 100 million by 2021.

As a result of the foregoing, the Board of Directors of Telepizza expects the alliance to be a tool for value creation for Telepizza's shareholders, franchisees, clients and employees.

Additional information was made public in the Board of Directors Report regarding point 5 of the agenda for the AGM, available in the corporate website of Telepizza Group.

Financial performance

€m (unless otherwise stated)	H1 2018	H1 2017	*% change*
Total revenues	**181.5**	**180.0**	***0.8%***
COGS	-49.2	-48.8	*0.8%*
Gross margin	**132.4**	**131.2**	***0.9%***
% of revenues	72.9%	72.9%	*n.m.*
Other Opex	-97.0	-96.5	*-0.6%*
Comparable EBITDA	**35.3**	**34.7**	***1.7%***
% of revenues	*19.5%*	*19.3%*	*+0.2pp*
Build-up costs related to Pizza Hut deal	-0.3	-	n.m.
Underlying EBITDA	**35.0**	**34.7**	***0.9%***
Pizza Hut deal extraordinary costs	-9.0	-	n.m.
Reported EBITDA	**26.0**	**34.7**	***-25.1%***
Depreciation (excl. PPA amortisation)	-6.3	-6.0	*-4.7%*
Underlying EBITA	**28.8**	**28.7**	**0.1%**
PPA amortisation	-2.1	-2.9	*-26.2%*
Net financial income / (expense)	-3.9	-4.0	*-1.8%*
Exchange differences	0.8	0.0	*n.m.*
Other	-0.4	-0.4	*n.m.*
Income tax	-4.2	-6.0	*-28.9%*
Minority interest	-0.4	0.0	n.m.
Results for the period	**9.4**	**15.4**	***-38.8%***
Results for the period (adjusted by extraordinary items)	**16.2**	**15.4**	**5.0%**

Revenue increased by 0.8%, reflecting the increased system sales and the mix between owned and franchised store sales.

COGS increased by 0.8% and Gross margin increased by 0.9%, in line with the revenue.

The underlying EBITDA in the first semester increased by 0.9% to 35.0 million euros, adjusted by €9 million of extraordinary costs related to the Pizza Hut agreement.

We are also providing a comparable EBITDA growth of 1.7%, which excludes the recurring costs consequence of the Pizza Hut agreement, related to increased corporate costs to reinforce the company in anticipation of the closing of the deal.

The Adjusted Net Result, excluding by the of €9.0 million of extraordinary costs related to the Pizza Hut agreement and the positive fiscal impact, increases by 5% to €16.2 million.

2. Outlook

We expect to achieve circa 4% system sales growth in Spain.

In Core International, we expect a total double-digit system sales growth, with a significant contribution of the horizontal expansion.

We are adjusting our net new store opening target to a range of 20 to 30 stores in Core Geographies (circa 70 gross openings).

The guidance for Underlying EBITDA will be low single digit growth.

Our capex guidance remains unchanged at circa 25 million euros.

Lastly, we reiterate the commitment to pay the dividend with a charge to 2018 results.

3. Risks and uncertainties

The main risks to which the Group is exposed arise from the situation of consumption and the restaurant market in each of the countries in which we operate.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk in the fair value and price risks), credit risk, liquidity risk and cash flow interest rate risk. The Group's global risk management programme focuses on the uncertainty of financial markets and attempts to minimise the potential adverse effects on its profitability; accordingly, it uses derivatives to cover certain risks.

Liquidity risk

The Group maintains a liquidity policy involving the arrangement of credit facilities and the maintenance of marketable securities for a sufficient amount to support the needs envisaged, having the capacity to draw down such financing and settle market positions on its short-term investments on an immediate basis, ensuring the minimisation of such financial risk.

Credit risk

The Group does not have any significant credit risks, considering that: such risk does not have a significant concentration, cash is placed and derivatives are arranged with highly-solvent entities, the average collection period from customers is very reduced and customers have an adequate credit rating, which significantly reduces the possibility of insolvency.

4. Innovation

The Group continually works to create, develop and improve all Company products, always taking into account the tastes of consumers, working with the best ingredients that provide its products with a balance in terms of taste and nutritional composition. In this process, quality is a key factor. The Group continues to perform strict controls to approve new suppliers, thereby guaranteeing maximum quality in the product and service to stores.

Another decisive factor in R&D&i work is acceptance tests. Such tests are performed with market research companies, with the main objective of ascertaining customers' opinions and ensuring good acceptance of the product. Furthermore, these tests include the opinion and experience of employees from other departments involved within the Company, such as operations and marketing. The whole process is submitted to a test, in line with the suggestions regarding product preparation, use of names, composition and presentation of the different products.

In the first semester of 2018, Telepizza launched 2 new varieties of pizza in Spain, as well as new products, offering other alternatives to consumers.

The common line in the launches was to reinforce the idea of variety and to offer something novel to the consumer, as well as to demonstrate a qualitative improvement in the range of products.

The international area is benefiting from the R&D&i work performed in Spain and, furthermore, it is provided with support in all developments and product testing performed at local level.

5. Transactions with treasury shares

At 30th June 2018, Telepizza Group held 1,342,000 million treasury shares, acquired through its share buyback program, at an average price per share of 5.8€, additional information about the program has been filed with the CNMV.

6. Events after the reporting period

On 16th July, Telepizza reached an agreement with AmRest Holdings, a restaurant multinational and the master franchise holder for Pizza Hut in Europe (other than in Iberia and Switzerland), to sell its Polish operations, including its 107 stores (36 directly owned establishments and 71 franchises). The anticipated value of the transaction is estimated at EUR 8m (on a cash-free, debt-free basis) and will be confirmed at the closing date.