Registered No: 02882515

Domino's Pizza UK & Ireland Limited

Report and Financial Statements

30 December 2018

Company information

52 weeks ended 30 December 2018

Directors
S G Hemsley
D J Wild
N E Wyncoll
R Caley
A Bushnell
T Holdway
P I Trundley
B Wiech
D G Bauernfeind
S A Bush

Secretary
A J Bushnell

Auditors
Ernst & Young LLP
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Domino's Pizza UK & Ireland Limited is a private company registered in England & Wales, limited by shares.

Strategic report

52 weeks ended 30 December 2018

The directors present their strategic report and financial statements for the 52 weeks ended 30 December 2018.

Results and dividends
The profit before tax for the period amounted to £64,159,000 (2017: £100,745,000). Ordinary dividends of £100,000,000 (2017: £105,000,000) were paid during the period.

Business review

Market

The UK overall delivered food market in the UK continued to grow strongly in 2018, with the ongoing stimuli of increased awareness, the convenience of digital ordering, and improved home entertainment. The pizza market also continued to grow, albeit at a slightly slower rate, reflecting its very strong starting position and increased competition from new cuisine options. All of the delivered food market was negatively impacted in the middle of the year by the record hot and dry weather.

The casual dining market also witnessed concerted cost inflation during the year, particularly labour. Increases in the National Living Wage, as well as the introduction of the apprenticeship levy, impacted on profitability for the sector. Combined with high rents and rising business rates, a number of operators closed restaurants or went out of business altogether.

As in 2017, we have been operating in an uncertain consumer environment. Although employment is at record levels and wage inflation has picked up, costs of living are rising and customers are very focused on value. Until the UK's future relationship with the EU becomes clearer, we expect this uncertainty to continue.

Drivers of growth

Compared to the equivalent 52 weeks of 2017, UK system sales were up 7.1% to £1,091.6m. Like-for-like growth, excluding the effect of splitting territories, was 4.6%. Like-for-like growth was relatively balanced between order volume (+2.2%) and value (+2.4%).

We continued to take share in the overall pizza delivery market, thanks to our scale, our brand, our new store growth and the quality of our product; and of course, from the continued expertise and dedication of our franchisees.

58 new stores were opened in 2018, taking the total over the last three years to 234. With 1,103 stores across the UK, we are confident of reaching our goal of 1,600 over time. This confidence is underpinned by the strong performance of stores opened in the last three years, which have had an average address count of 16,577 compared to 24,159 across the mature store base. Sales per address per week, at 84p, were up 3.3% across the mature store base, and sales per address in new and immature stores are respectively 5.7% and 1.4% higher than the mature store base.

Customer experience

We operate in a highly competitive marketplace. Technology and new business models have given customers more choice and greater convenience, as well as making it easier to seek value. Our own business has evolved rapidly to meet these challenges and look for additional opportunities.

Domino's in the UK is a leading digital success story. The speed of migration to digital ordering over the last five years has been extraordinary. In 2018, online orders represented 79% of all orders by value, and 89% of delivery orders by volume. During the year we began a project to upgrade both our eCommerce platform and our app, to make it easier and more cost effective to make future updates, and to make further improvements to the customer journey. The Group will contribute £10m to this programme.

After a period in the first half of 2017 when customers were telling us we weren't offering value for money, we have renewed our focus on the appeal of our promotions and improved communication around them. We saw the benefit not only in an improvement in volume growth, but also in customer ratings for value: through 2018, an average of 32% of customers rated us 5/5 for value compared to 27% during 2017. The overall level of promotional activity remained relatively steady, with 88.2% of orders on some kind of promotion, and an average discount to menu prices of 38.6%.

We also continue to use collection deals as a way to reinforce the value message. Collection business tends to be incremental to delivery and has limited labour cost attached to it, so still makes an attractive contribution at lower prices. Collection sales rose 5.9% in 2018.

Brand

The strength of the Domino's brand is a key differentiator for us. Franchisees contribute 4% of their sales into a national advertising fund which we then invest on their behalf. As we drive sales higher, the advertising fund grows, creating a virtuous circle.

The strength of the brand, supported by great tasting pizza, excellent service and good value for money, drives higher store sales and profitability. Our spontaneous recall in 2018 was 82%, compared to an average of 55% for our closest competitors.

Strategic report (continued)

52 weeks ended 30 December 2018

"The Official Food of Everything" platform, launched in September 2017, was the mainstay of our communications throughout the year, and showed its versatility through a range of campaigns. As we increased our focus on major events, our campaign for the football World Cup was particularly effective, supported by a range of topical out-of-home billboards, a strong video presence on social media, and a dedicated pizza, the Meatfielder.

We continued to sponsor relevant TV platforms, such as Hollyoaks, Sky Sports News and the ITV Hub, and we also began to target the large and growing gaming audience through our multi-year deal with Gfinity, a leading e-sports solutions provider.

Key performance indicators
In order to continue to implement, develop and measure the Company's strategic performance, we monitor three financial and non-financial key performance indicators ('KPIs') in addition to the Company's income statement results.

System sales (52 week basis)

2018	£1,092m
2017	£1,019m

System sales represents the most useful indicator of the overall strength of the Domino's brand. The Company measures the total sales of the Company's franchisee and corporate store system in the UK and ROI to external customers. Systems sales does not represent revenue attributable to Domino's as it is derived mainly from stores owned by franchisees. The growth in system sales was 7.1% (2017: 8.6%).

Statutory revenue

2018	£371.9m
2017	£350.7m

Statutory revenue represents revenues directly attributable to the Company being derived from monies paid by franchisees for foodstuffs together with royalty payments and franchisee fees payable for use of the Domino's brand.

New store openings

2018	58
2017	95

A strong indicator of growth in our business is continued presence by increasing store numbers.

Risk management
The overall risk management is conducted through the board of Domino's Pizza Group plc, the ultimate parent company ("Group board") The Group board has continued to identify, evaluate and monitor risks facing the Company and, during the year under review, a particular focus has been placed on assessing the likely impact that each identified risk could have on the business.

Our approach
All businesses choose to take considered risks in the expectation of earning a return for their shareholders. The Group board has determined its risk appetite, stating the risks it seeks to take (or is prepared to face) within the Company's business model and the adopted strategy, and has also defined the risks it is not prepared to take. The latter are avoided or eliminated as far as possible, or transferred to insurers.

The Group board is responsible for overseeing management's activities in identifying, evaluating and managing the risks facing the Company. Importantly, we treat identifying and managing risk as an integral part of managing the business, and not as an additional bureaucratic chore. Principal risks are recorded in the Company's risk register and regularly reviewed and evaluated. Each risk has a business owner, responsible for managing that risk, implementing appropriate controls and mitigating actions and reporting on it to the leadership team.

As a sense-check on management's actions, the Group board undertakes its own assessment of principal risks in each year, which is then integrated into the risk register. These known risks are taken into account in developing the Company's strategy and business plans.

Principal risks and uncertainties
The business faces a wide range of risks on a daily basis. The Group board has undertaken a robust assessment of what it believes are the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The table overleaf summarises these principal risks and how they are being managed or mitigated.

The risks in this table have been assessed on a residual basis according to our current view of the potential severity (being the combination of impact and probability) and assume that existing controls are effective. The environment in which we operate is constantly evolving: new risks may arise, the potential impact of known risks may increase or decrease and/or our assessment of these risks may change. The risks therefore represent a snapshot of what the Group board believes are the principal risks and are not an exhaustive list of all risks the Company faces.

The Group board has again considered the risk posed by Brexit and has noted that there are likely to be risks associated with increases in the cost of raw materials and potential labour cost increases for franchisees. At the present time, the Group board does not consider Brexit to be a principal risk to the business model, but will continue to monitor and evaluate this risk and reassess the exposure as necessary.

Strategic report (continued)

52 weeks ended 30 December 2018

People-related risks	Failure to respond to and overcome competitive pressures	Inability to react to changes in the health debate and public desire for healthier food
Risk The business is overly dependent on key individuals (either at Executive level or in relation to specialist skills), possibly exacerbated by a failure to attract or retain the skilled and experienced people it needs.	***Risk*** The business faces strong competition from a range of players, including those exploiting emerging technologies or new food options and new entrants into the UK market.	***Risk*** As society's expectations evolve, and governmental acts on public health concerns, we may need to change the products we offer and our approach to marketing.
Potential impact Medium	***Potential impact*** High	***Potential impact*** Medium
Probability Medium	***Probability*** Medium	***Probability*** Low
Mitigation The Board considers succession planning on a regular basis and has set the CEO a personal objective of developing multiple potential successors. Contingency plans are in place which could be implemented on a short-term basis should we suddenly lose a key Executive.	***Mitigation*** Management keeps the competitive landscape under continual review and the Board also monitors the markets in which it operates, as well as KPI data on the current business. Strategy is reviewed and developed by the Board on at least an annual basis.	***Mitigation*** Management keeps consumers' purchasing preferences under continual review and adjusts menus in response to these. We also engage, appropriately, with the government on the public health debate to ensure that our views are understood by policy makers and influencers.
Nature of threat These risks could have some impact on future performance, for a limited time.	***Nature of threat*** These risks have the potential to compromise our future performance or, in an extreme scenario, even the business model.	***Nature of threat*** These risks have the potential to compromise our future performance or, in an extreme scenario, even the business model.
Change from 2017 ↓	***Change from 2017*** ↑	***Change from 2017*** ↔
Commentary There has considerable work undertaken this year to improve the HR operating model to establish more robust processes for talent management and succession planning. People planning sessions are being held at all levels within the organisation to utilise better the skills pool, drive performance and identify and develop successors for key roles.	***Commentary*** Online channels that provide access to diverse cuisine options are becoming an increasing force in the market place. The Company is investing in its eCommerce channels to enhance the customer experience and maintain a highly competitive offering. Additionally, trials are ongoing to assess whether these/other online channels can also be used for profitable incremental customer acquisition.	***Commentary*** The Company is continually reviewing its products and ingredients to ensure they meet governmental guidelines whilst delivering the best possible taste for our customers. We anticipate during 2019 the government will publish recommendations on tackling childhood obesity. The Company keeps its products under regular review and some products may undergo reformulation to reduce sugar, salt and fat levels as required.

Failure to achieve UK growth through new store openings	Commercial leverage of large franchisees	Food safety
Risk Failure to meet store growth targets would be a breach of our Master Franchise Agreements (MFAs). Our ability to open new stores depends on our ability to lease or buy suitable premises, obtain the necessary planning approvals and identify a suitable franchisee to run the store.	***Risk*** The Company has a number of franchisees whose businesses run large numbers of stores and so enjoy some commercial leverage. The Company may be unable to persuade these franchisees to implement our preferred strategies, or to pass on cost increases in full or in part.	***Risk*** There is the risk of contamination in either the pre-proved dough we produce at the Company's Supply Chain Centres, or in the pizza topping ingredients we distribute to our franchisees' stores.
Potential impact High	***Potential impact*** High	***Potential impact*** Medium
Probability Low	***Probability*** Medium	***Probability*** Medium
Mitigation Board approval is needed for the targets contained within the MFAs, and the Board monitors the pipeline of proposed store openings on a continual basis. Franchisee development programmes are run and we employ surveyors to identify and secure appropriate premises.	***Mitigation*** Open and transparent relationships with multi-site franchisees are managed at senior levels of the Company. We also explain the profit-sharing model to all franchisees, so that they understand that success is mutual. Numbers of stores managed by the large franchisees are monitored.	***Mitigation*** The business has implemented a rigorous regime of standards and food safety checks, working with the appropriate government regulator.
Nature of threat These risks could have an impact on future performance. In an extreme case an unremedied breach of the MFA could threaten the Company's business model and liquidity.	***Nature of threat*** These risks have the potential to compromise our future performance for a period of time.	***Nature of threat*** If this risk materialised, it could have a significant impact on future performance and potentially liquidity, for a limited time. The reputational impact could have a longer-term effect on performance and, in an extreme case, threaten the business model.
Change from 2017 ↔	***Change from 2017*** ↑	***Change from 2017*** ↓
Commentary The overall risk remains broadly similar to the prior year. The MFA targets have been agreed for a 10 year period starting 2016 requiring 350 additional stores over the period (on a net basis).	***Commentary*** The actual risk has not changed materially during the year but there has been increased public debate on the perceived pressure on franchisee store profitability. There has been a regular, open and frank dialogue with the franchisee community throughout the year.	***Commentary*** This risk continues to be monitored on a regular basis by a qualified in-house resource. The board routinely receives reports on 'food safety' risk controls. During the year we have strengthened compliance with our suppliers assurance programme with demonstratable improvements in supplier standards. The third party assurance provided by FSC 22000 ensures robust operational controls are in place.

Strategic report (continued)

52 weeks ended 30 December 2018

Interruption of raw material supplies	**Supply Chain Centres are unable to supply the stores**	**Failure of online ordering systems for a prolonged or critical period**
Risk The business relies on a number of third-party suppliers for pizza toppings, some of whom provide the sole source of an ingredient. These suppliers must make a commercial return to stay in business and reinvest in their operations. The Company would be vulnerable if a supplier decided to cease trading, suffered a major interruption or food safety incident, or was responsible for an ethical breach of such severity that the Company would no longer trade with them.	***Risk*** We distribute both the pre-proved dough we produce and third-party pizza toppings to our franchisees' stores. In the event of physical damage to, or loss of, a Supply Chain Centre we would need to make urgent contingency arrangements wherever possible. However, the space required to hold dough whilst proving forms a critical constraint to our business.	***Risk*** Over 89% of delivered sales are now placed online, around half of which are using apps for mobile devices. As well as the reliance on data centres and our own software developed in house, there is also a risk from malicious denial of service attacks.
Potential impact High	***Potential impact*** High	***Potential impact*** High
Probability Low	***Probability*** Medium	***Probability*** Medium
Mitigation Suppliers who are selected through competitive tendering and appropriate due diligence processes supply the Company under long-term contracts. The economics of their businesses are kept under review and their performance against their obligations monitored. We assess their compliance with acceptable business standards.	***Mitigation*** In the event of the loss of a Supply Chain Centre, third-party ingredients could be delivered to stores direct, at an additional cost. The Company is considering developing additional dough proving facilities, which would mitigate this risk significantly. Loss of our dough production facilities would be more difficult to overcome, but contract production of dough would be possible, at an additional cost.	***Mitigation*** Cyber-risk appears on the Board agenda and Audit Committee agenda on a regular basis and management reviews the performance of its IT infrastructure on a continual basis. Our systems are hosted by third-party specialists, with parallel processing across multiple sites and real-time replication and appropriate protection from malicious attempts to disrupt the availability of our sites.
Nature of threat These risks have the potential to compromise our future performance for a limited time.	***Nature of threat*** These risks could have a significant impact on future performance and potentially liquidity, for a limited time.	***Nature of threat*** These risks could have some impact on future performance, for a limited time.
Change from 2017 ↓	***Change from 2017*** ↓	***Change from 2017*** ↔
Commentary An on-going programme is underway to reduce supplier dependency and improve security of supplies through dual sourcing. Our supply risk relating to single-source supplies has been reduced through increasing capability across providers with multiple supply sites.	***Commentary*** The level of risk has reduced. The current supply chain configuration provides a degree of over capacity to manage short to medium supply issues from the loss of dough production capacity. This situation is regularly reviewed to take account of growth in the system.	***Commentary*** On the whole, the level of risk has remained constant, but we have remained vigilant to the risk posed by third parties in terms of potential system disruption and online fraud. The company has maintained its compliance with PCI level 1 and continues to enhance its systems control environment technical capability and systems resilience.

Strategic report (continued)

52 weeks ended 30 December 2018

Loss of personal data relating to customers, employees or others; loss of corporate data
Risk For ease of use, our online ordering systems hold some customer data, the loss of which (whether accidental or following hacking) would cause disruption and cost to the Company. In addition, the Company's own data on employees and suppliers is exposed to the same risks of loss.
Potential impact High
Probability Medium
Mitigation Cyber risk appears on the Board agenda on at least an annual basis and management keeps the security of data under its ownership or control under continual review. We do not hold customer credit card data on our systems. Franchisees are trained in their obligations in respect of personal data and are required to train their staff appropriately. Appropriate IT security is in place and kept under continual review.
Nature of threat These risks have the potential to compromise our future performance. In an extreme scenario, the reputational damage could possibly threaten the business model if we suffered a total loss of consumer confidence.
Change from 2017 ↑
Commentary Cyber-risk remains a major and increasing threat. The cyber-security maturity is regularly reviewed by the Company's management and external advisers. We have appointed a dedicated Chief Information Security Officer who is responsible for driving continual improvement in data governance and protection.

By order of the board

D G Bauernfeind
Director
4 July 2019

Directors' report

52 weeks ended 30 December 2018

The directors present their report for the 52 weeks ended 30 December 2018.

Directors of the company
The current directors are shown on page 1.

Changes during the period were as follows:-

S Wallis (resigned 1 October 2018)
R C E Osborne (resigned 11 June 2018)
D G Bauernfeind (appointed 9 October 2018)
S A Bush (appointed 1 October 2018)

Dividends
There were total ordinary dividends for the year of £100,000,000 (2017: £105,000,000).

Future developments
The Company intends to continue to operate in supplying ingredients and facilitating sales within the pizza delivery market, continuing to increase growth and profitability.

Financial instruments
The Company's principal financial instruments are bank loans, franchisee loans and trade creditors. The company has not entered into any derivative transactions such as interest rate swaps or financial foreign currency contracts. The main risks arising from the company's financial instruments are cash flow interest risk, fair value risk, interest rate risk and credit risk. In view of the low level of foreign currency transactions the Board does not consider there to be any significant foreign currency risks.

Due to the nature of customers who trade on credit terms, being predominantly franchisees, the franchisee selection process is sufficiently robust to ensure an appropriate credit verification procedure. In addition, balances are monitored on an ongoing basis with the result that the company's exposure to bad debts is not significant. Since the Company trades only with franchisees that have been subject to the franchisee selection process there is no requirement for collateral.

Employment policies
The Company is committed to the principle of equal opportunity in employment. The Company recruits and selects applicants for employment based solely on a person's qualifications and suitability for the position, whilst bearing in mind equality and diversity. It is the Company's policy to recruit the most capable person available for each position. The Company recognises the need to treat all employees honestly and fairly. The Company is committed to ensuring that its employees feel respected and valued and are able to fulfil their potential and recognises that the success of the business relies on their skill and dedication.

The Company gives full and fair consideration to applications for employment from disabled persons, with regard to their particular aptitudes and abilities. Efforts are made to continue the employment of those who become disabled during their employment.

Employee involvement
Employees are encouraged to participate in the success of the business through incentive and share option schemes. Progress is regularly communicated to the management of subsidiary companies and all management and staff are expected to communicate fully within their own area of responsibility.

Directors' and officers' liability insurance
The Company maintains insurance against certain liabilities, which could arise from a negligent act or a breach of duty by its directors and officers in the discharge of their duties.

Going Concern
The Company expects to maintain its positive net asset position and continue to generate profit and positive cash flows on its own account for the foreseeable future. The directors, having assessed the Company's position and future prospects, are confident over the ability of the Company to continue as a going concern or its ability to access external funding to provide sufficient levels of head room to allow the company to operate and execute its growth strategy. The company is obligor to a 5-year revolving unsecured multi-currency facility of £350m which was renewed 13 December 2018. On the basis of their assessment of the Company's financial position and of the enquiries made the directors reasonably expect that the Company will be able to continue in operational existence for the foreseeable future. Therefore they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Auditor
Following a tender process, a resolution to appoint PriceWaterhouseCoopers LLP was passed at the 2019 Domino's Pizza Group plc AGM. Accordingly, we will appoint PriceWaterhouseCoopers LLP to replace Ernst & Young LLP.

Directors' report (continued)

52 weeks ended 30 December 2018

Directors' statement of disclosure of information to auditors

Having made the requisite enquiries, the Directors in office at the date of these Financial Statements have each confirmed that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the board

D G Bauernfeind
Director

4 July 2019

Statement of directors' responsibilities in respect of the financial statements

52 weeks ended 30 December 2018

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Opinion

We have audited the financial statements of Domino's Pizza UK & Ireland Limited for the 52 weeks ended 30 December 2018 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 23, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice)

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 December 2018 and of its profit for the 52 weeks then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Report and Financial Statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic and directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made;or
- we have not received all the information and explanations we require for our audit; or

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Christopher Voogd (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
4 July 2019

Statement of comprehensive income

52 weeks ended 30 December 2018

	Notes	52 weeks ended 30 December 2018 Total £000	53 weeks ended 31 December 2017 Total £000
Revenue	2	371,861	350,745
Cost of sales		(219,464)	(206,062)
Gross profit		152,397	144,683
Distribution costs		(27,657)	(24,858)
Administrative costs		(66,724)	(26,882)
Operating profit	3	58,016	92,943
Investment income		6,009	7,684
Finance income	6	1,223	1,552
Finance expense	7	(1,089)	(1,434)
Profit before taxation		64,159	100,745
Taxation	8	(10,132)	(15,597)
Profit for the period		54,027	85,148
Other comprehensive income		-	-
Total comprehensive income for the year attributable to owners of the parent		54,027	85,148

Balance sheet

At 30 December 2018

	Notes	At 30 December 2018 £000	At 31 December 2017 £000
Non-current assets			
Intangible assets	10	14,917	15,220
Property, plant and equipment	11	56,672	53,754
Trade and other receivables	12	380	219
Investments	13	42,240	23,458
		114,209	92,651
Current assets			
Inventories	14	4,903	4,777
Trade and other receivables	12	96,984	124,366
Deferred consideration		895	-
Cash and cash equivalents		12,707	12,022
		115,489	141,165
Total assets		229,698	233,816
Current liabilities			
Trade and other payables	15	(87,831)	(99,801)
Current tax liabilities	8	(2,712)	(5,464)
		(90,543)	(105,265)
Non-current liabilities			
Trade and other payables	15	(673)	(888)
Financial liabilities	16	(107,917)	(51,002)
Deferred tax	8	(240)	(109)
Total liabilities		199,373	(157,264)
Net assets		30,325	76,552
Shareholders' equity			
Called up share capital	17	2,250	2,250
Retained earnings		28,075	74,302
Total equity shareholders' funds		30,325	76,552

The financial statements of Domino's Pizza UK & Ireland Limited (Registered No: 02882515) were approved by the Board on 4 July 2019 and signed on its behalf by

D G Bauernfeind
Director

Statement of changes in equity

52 weeks ended 30 December 2018

	Share capital £000	Retained earnings £000	Equity shareholders' funds £000
At 25 December 2016	2,250	93,650	95,900
Total comprehensive income for the period	-	85,148	85,148
Current tax charge to equity	-	420	420
Deferred tax charge to equity	-	84	84
Equity dividends paid	-	(105,000)	(105,000)
At 31 December 2017	2,250	74,302	76,552
Total comprehensive income for the period	-	54,027	54,027
Current tax credit to equity	-	441	441
Deferred tax charge to equity	-	(695)	(695)
Equity dividends paid	-	(100,000)	(100,000)
At 30 December 2018	2,250	28,075	30,325

Notes to the financial statements

52 weeks ended 30 December 2018

1. Accounting policies

General information

The financial statements of Domino's Pizza UK & Ireland Limited for the 52 weeks ended 30 December 2018 were authorised for issue by the Board of Directors on 4 July 2019 and signed on its behalf by D G Bauernfeind. Domino's Pizza UK & Ireland Limited is a limited liability company incorporated in England & Wales.

The financial statements are presented in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

Basis of preparation

The Company has taken advantage of the following disclosure exemptions under FRS 101 in respect of:

a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment, because:
   (i) *the share based payment arrangement concerns the instruments of another group entity;* and
   (ii) the equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.
b) the requirements of IFRS 7 Financial Instruments: Disclosures
c) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
d) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
   (i) paragraph 79(a)(iv) of IAS 1;
   (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
   (iii) paragraph 118(e) of IAS 38 Intangible Assets.
e) the requirements of paragraphs 10(d), 10(f), 16, 38(a), 38(b), 38(c), 38(d), 40(a), 40(b), 40(c), 40(d), 111 and 134-136 of IAS 1 Presentation of Financial Statements;
f) the requirements of IAS 7 Statement of Cash Flows;
g) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
h) the requirements of paragraph 17 and 18(a) of IAS 24 Related Party Disclosures;
i) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member ; and
j) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets
k) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers

Consolidated financial statements

The basis for all of the above exemptions is because equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of DPG Holdings Limited, and the results are included in the consolidated financial statements of Domino's Pizza Group plc. The consolidated financial statements of Domino's Pizza Group plc are available from 1 Thornbury, West Ashland, Milton Keynes, MK6 4BB.

The Company expects to maintain its positive net asset position and continue to generate profit and positive cash flows on its own account for the foreseeable future. The directors, having assessed the Company's position and future prospects, are confident over the ability of the Company to continue as a going concern or its ability to access external funding to provide sufficient levels of head room to allow the company to operate and execute its growth strategy. The company is obligor to a 5-year revolving unsecured multi-currency facility of £350m which was extended on 13 December 2018. On the basis of their assessment of the Company's financial position and of the enquiries made the directors reasonably expect that the Company will be able to continue in operational existence for the foreseeable future. Therefore they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Notes to the financial statements (continued)

52 weeks ended 30 December 2018

1. Accounting policies (continued)

Judgements and key sources of estimation uncertainty

The following judgements have had the most significant effect on amounts recognised in the financial statements:

Stores within the Domino's Pizza system contribute into a national advertising fund ('NAF') and eCommerce fund (together 'the Funds') designed to build store sales through increased public recognition of the Domino's Pizza brand and development of the eCommerce platform. The Funds are managed with the objective of driving revenues for the stores and is planned to operate at break-even with any surplus or deficit carried in the Company balance sheet (for details please see note 12):

- all Fund income is designated for specific purposes and does not result in a profit or loss for the Group. The Group acts as agent for the funds and any timing surplus or deficit is carried in the Company balance sheet within working capital. Therefore the income and expenses of the Fund are not included in the Company income statement. Management consider any short-term deficits to be recoverable from future fund income;
- the assets and liabilities relating to the Funds are included in the appropriate headings in the Company balance sheet as the related legal, but not beneficial, rights and obligations rest with the Company;
- the presentation of the NAF and eCommerce funds on a net basis represents substance over legal form of the funds.

It is necessary for management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the period. The nature of estimation means that actual outcomes could differ from those estimates.

The following estimate is dependent upon assumptions which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the balance sheet date:

- The estimation of share-based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs which arise from judgements relating to the probability of meeting non-market performance conditions and the continuing participation of employees.
- The carrying value of assets and provision for closure costs arising from the Supply Chain Centre ('SCC') network transformation impacting the Penrith site, which is earmarked for closure in July 2019, and the Kingston site requires estimation of future costs and residual fair values of assets.

Investments

Investments held in subsidiaries are stated at cost less provision for impairment.

As at 29 December 2014, in accordance with paragraph D15 of IFRS 1 First Time Adoption of International Financial Reporting Standards ('IFRS 1') Appendix D, the Company has measured all investments at a deemed cost, being the previous GAAP carrying amount as at this date.

The Company assesses these investments for impairment wherever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of the recoverable amount. If the recoverable amount is less than the value of the investment, the investment is considered to be impaired and is written down to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account.

Foreign currencies

The Company's financial statements are presented in sterling, which is also the Company's functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Intangible assets

Computer software

Computer software is carried at cost less accumulated amortisation and any impairment loss. Externally acquired computer software and software licences are capitalised at the cost incurred to acquire and bring into use the specific software. Internally developed computer software programmes are capitalised to the extent that costs can be separately identified and attributed to particular software programmes, measured reliably, and that the asset developed can be shown to generate future economic benefits. These assets are considered to have finite useful lives and are amortised on a straight-line basis over the estimated useful economic lives of each of the assets, considered to be between three and ten years.

Master franchise fees

Master franchise fees are fees paid towards or recognised at fair value on acquisition of the master franchise for the markets in which the Company operates. These are carried at cost less impairment, and are treated as having indefinite useful lives.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Other intangibles

The Company provides interest-free loans to assist franchisees in the opening of new stores. The difference between the present value of loans recognised and the cash advanced has been capitalised as an intangible asset in recognition of the future value that will be generated via the royalty income and Supply Chain Centre sales that will be generated. These assets are amortised over the life of a new franchise agreement of ten years.

Property, plant and equipment

Assets under construction is stated at cost, net of accumulated impairment losses, if any. Plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is calculated to write down the cost of the assets to their residual values, on a straight-line method on the following bases:

• Freehold land	Not depreciated
• Freehold buildings	50 years
• Assets under construction	Not depreciated
• Fixtures and fittings	Over 5 to 10 years
• Supply Chain Centre equipment	Over 3 to 30 years

The assets' residual values, useful lives and methods of depreciation are reviewed and adjusted, if appropriate, on an annual basis. The majority of assets within Supply Chain Centre equipment are being depreciated over ten years or more. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year that the asset is derecognised.

All items of property, plant and equipment are reviewed for impairment in accordance with IAS 36 Impairment of Assets when there are indications that the carrying value may not be recoverable.

Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses on continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Notes to the financial statements (continued)

52 weeks ended 30 December 2018

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis. Net realisable value is based on estimated selling price less any further costs expected to be incurred to disposal.

Trade and other receivables
Trade receivables, which generally have seven to 28-day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision is made when it is likely that the balance will not be recovered in full. Balances are written off when the probability of recovery is considered remote.

National advertising fund
In addition to franchise fees, franchisees pay contributions which are collected by the Company for specific use within the national advertising fund. The Company operates the funds on behalf of the franchisees with the objective of driving revenues for their stores. The fund is specifically used to pay for marketing and advertising. The fund is planned to operate at break-even with any short-term timing surplus or deficit carried in the Company balance sheet within working capital. As all fund contributions are designated for specific purposes and do not result in a profit or loss for the Company, the Company acts as an agent for the fund and therefore the income and expenses of the fund are not included in the Company income statement.

Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Interest bearing loans and borrowings
Obligations for loans and borrowings are recognised when the Company becomes party to the related contracts and are measured initially at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or other cancellation of liabilities are recognised respectively in finance revenue and finance cost.

Income taxes
Current tax assets and liabilities are measured at the amount expected to be recovered or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised using the liability method, providing for temporary differences between the tax bases and the accounting bases of assets and liabilities. Deferred tax is calculated on an undiscounted basis at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax liabilities are recognised for all temporary differences, with the following exceptions:

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or losses can be utilised.

Tax is charged or credited to the income statement, except when it relates to items charged or credited directly to other comprehensive income or to equity, in which case the income tax is also dealt with in other comprehensive income or equity respectively.
Deferred tax assets and liabilities are offset against each other when the Company has a legally enforceable right to set off current tax assets and liabilities and the deferred tax relates to income taxes levied by the same tax jurisdiction on either the same taxable entity, or on different taxable entities which intend to settle current tax assets and liabilities 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 are expected to be settled or recovered.

Derecognition of financial assets and liabilities
A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Pensions
The Company contributes to the personal pension plans of certain staff with defined contribution schemes. The contributions are charged as an expense as they fall due. Any contributions unpaid at the balance sheet date are included as an accrual at that date. The Company has no further payment obligations once the contributions have been paid.

Revenue recognition

The Company's revenue arises from the sale of products and services and the charging of royalties and fees to franchisees.

Royalties, franchise fees and sales to franchisees
Contracts with customers for the sale of products include one performance obligation, being the delivery of products to the end customer. The Company has concluded that revenue from the sale of products should be recognised at a point in time when control

of the goods are transferred to the franchisee, generally on delivery. Revenue is recognised at the invoiced price less any estimated rebates.

The performance obligation relating to royalties is the use of the Domino's brand. This represents a sales-based royalty with revenue recognised at the point the franchisee makes a sale to an end consumer.

Franchise fees comprise revenue for initial services associated with allocating franchisees allotted address. They are non-refundable, and no element of the franchise fee relates to subsequent services. Revenue from franchisee fees is recognised when a franchisee opens a store for trading, as this is the point at which all performance obligations have been satisfied.

Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs that are directly attributable to the acquisition or construction of an asset are capitalised while the asset is being constructed as part of the cost of that asset. Borrowing costs consist of interest and other finance costs that the Company incurs. The policy is adopted for all assets that meet the definition of qualifying assets under IAS 23.

Capitalisation of borrowing costs commences when:

- expenditures for the asset and borrowing costs are being incurred; and
- activities necessary to prepare the asset for its intended use are in progress.

Capitalisation of borrowing costs ceases when the asset is substantially ready for its intended use.

For borrowing associated with a specific asset, the actual borrowing costs less any investment income on temporary investment of those borrowings are capitalised. To the extent funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation shall be determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Share-based payments

The Company provides benefits to employees (including Executive Directors) in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of the equity-settled transactions is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair values of employee share option plans are calculated using a Stochastic model for awards with TSR-related performance conditions and a Black-Scholes model for SAYE awards and other awards with EPS-related performance conditions. In valuing equity-settled transactions, no account is taken of any service and performance (vesting conditions), other than performance conditions linked to the price of the shares of the Ultimate Parent Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions and/or service conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and the Directors' best estimate of the number of equity instruments that will ultimately vest on achievement or otherwise of non-market conditions or, in the case of an instrument subject to a market condition, be treated as vested as described above.

The movement in the cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding payable due to Domino's Pizza Group plc.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. This includes anywhere non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

Notes to the financial statements (continued)

52 weeks ended 30 December 2018

Adoption of new and revised standards – IFRS 9 Financial Instruments

IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement, covering the classification, measurement and derecognition of financial assets and financial liabilities, together with a new hedge accounting model and the new expected credit loss model for calculating impairment. The standard has an effective date of 1 January 2018.

The new standard has had the following effects on the Company's financial statements:

The Company's impairment provision on financial assets measured at amortised cost (such as trade and other receivables) have been calculated in accordance with IFRS 9's expected credit loss model, which differs from the incurred loss model previously required by IAS 39. The Company's history of low credit losses as a result of strong franchisee profitability and cash sales for corporate store sales has resulted in no change to the provision value previously recorded and there is no change to the opening balances within equity.

Adoption of new and revised standards – IFRS 15 Revenue from Contracts with Customers

IFRS 15 has replaced all existing revenue requirements in IFRS and applies to all revenue arising from contracts with customers unless the contracts are within the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard has an effective date of 1 January 2018.

The Company's revenues that are applicable for IFRS 15 are royalties, franchisee fees and sales to franchisees. The Company has performed the five-step model on each of these elements, identifying the contracts, the performance obligations, transaction price and then allocating this to determine the timing of revenue recognition. For each of these there is no impact on the timing of transfer of control and therefore no impact on the timing of recognition of revenue. There are no impacts in relation to performance obligations identified or changes in measurement.

The Company considered the accounting policy for the National Advertising Fund ('NAF') and eCommerce funds on adoption of IFRS 15. The Company operates the funds on behalf of the franchisees. The Company acts as agent for the funds and any short-term timing surplus or deficit is carried in the Company balance sheet within working capital. There is no impact on the income statement, which is consistent with prior years.

The Company's profit before tax remains unchanged and no adjustments to any line items have been made to the opening balances within equity.

Adoption of new and revised standards - other

The following standards are effective for this financial year but have not had significant impact on the reported financial performance or position of the Company:

- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions;
- Amendments to IAS 7 Disclosure Initiative;
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses; and
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration.

None of the amendments above have an impact on the financial performance of the Company.

Notes to the financial statements (continued)

52 weeks ended 30 December 2018

2. Revenue

Revenue recognised in the income statement is analysed as follows:

	52 weeks ended 30 December 2018 £000	53 weeks ended 31 December 2017 £000
Sales to Franchisees	307,899	290,056
Royalties, franchise fees	63,963	60,689
	371,862	350,745

3. Operating profit

This is stated after charging:

	52 weeks ended 30 December 2018 £000	53 weeks ended 31 December 2017 £000
Depreciation of property, plant and equipment	3,352	2,460
Amortisation of intangible assets	7,047	4,605
Total depreciation and amortisation expense	10,399	7,065
Operating lease payments (minimum lease payments)		
– Plant, machinery and vehicles	3,662	3,090
Total operating lease payments recognised in the income statement	3,662	3,090
Impairment loss recognised on investments	4,206	679
Impairment loss recognised on tangible assets	6,510	-
Impairment of intercompany loans	22,567	-
Net foreign currency gain	(425)	(561)
Cost of inventories recognised as an expense	173,062	162,266

4. Auditor's remuneration

The Company paid the following amounts to its auditor in respect of the audit of the financial statements and for other services provided to the Company:

	52 weeks ended 30 December 2018 £000	53 weeks ended 31 December 2017 £000
Fees payable for the audit of the Company annual accounts*	84	69
Total audit fees	84	69

The company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the group accounts of its parent Domino's Pizza Group plc.

Notes to the financial statements (continued)

52 weeks ended 30 December 2018

5. Staff costs and directors' remuneration

(a) Staff costs

	52 weeks ended 30 December 2018 £000	53 weeks ended 31 December 2017 £000
Wages and salaries	33,936	29,107
Social security costs	3,094	3,709
Other pension costs	822	705
Share based payments	823	1,677
	38,675	35,198

The average monthly number of employees during the year was made up as follows:

	52 weeks ended 30 December 2018	53 weeks ended 31 December 2017
Administration	303	271
Production and distribution	489	393
	792	664

(b) Directors' remuneration

	52 weeks ended 30 December 2018 £000	53 weeks ended 31 December 2017 £000
Directors' remuneration	3,144	3,091
Aggregate contributions to defined contribution pension schemes	188	187
Number of Directors accruing benefits under:		
– defined contribution schemes	10	10

The remuneration stated above relates to services to the Company and the wider group.

The amounts in respect of the highest paid director are as follows:

	52 weeks ended 30 December 2018 £000	53 weeks ended 31 December 2017 £000
Directors' remuneration	531	784
Aggregate contributions to defined contribution pension schemes	51	51

6. Finance income

	52 weeks ended 30 December 2018 £000	53 weeks ended 31 December 2017 £000
Other interest receivable	142	89
Interest receivable from Group undertakings	657	1,463
Foreign exchange	424	-
Total finance income	1,223	1,552

Notes to the financial statements (continued)

52 weeks ended 30 December 2018

7. Finance expense

	52 weeks ended 30 December 2018 £000	53 weeks ended 31 December 2017 £000
Other interest payable	3	76
Bank interest payable	1,086	300
Interest payable to Group undertakings	-	207
Foreign exchange	-	851
Total finance expense	1,089	1,434

8. Taxation

(a) Tax on profit on ordinary activities

	52 weeks ended 30 December 2018 £000	53 weeks ended 31 December 2017 £000
Tax charged in the income statement		
UK corporation tax:		
– current period	11,471	15,488
– adjustment in respect of prior periods	(775)	(315)
	10,696	15,173
Income tax on overseas operations	-	-
Total current income tax charge	10,696	15,173
Deferred tax:		
Origination and reversal of temporary differences	(526)	320
Effect of change in tax rate	71	(41)
Adjustment in respect of prior periods	(109)	145
Total deferred tax	(564)	424
Tax charge in the income statement	10,132	15,597
The tax charge in the income statement is disclosed as follows:		
Income tax expense	10,132	15,597

Notes to the financial statements (continued)

52 weeks ended 30 December 2018

8. Taxation (continued)

(b) Reconciliation of the total tax charge

The tax expense in the income statement for the 52 weeks ended 30 December 2018 is lower (2017: lower) than the statutory corporation tax rate of 19.00% (2017: 19.26%). The differences are reconciled below:

	52 weeks ended 30 December 2018 £000	53 weeks ended 31 December 2017 £000
Profit before taxation	64,159	100,745
Accounting profit multiplied by the UK statutory rate of corporation tax of 19.00% (2017: 19.26%)	12,190	19,402
Expenses not deductible for tax purposes	6,624	105
Income not taxable	(2,013)	(1,659)
Adjustment relating to prior years	(884)	(214)
Impact of change in UK tax rate	71	(42)
Share option exercise deduction	(22)	(341)
Group relief claimed for no cost	(5,834)	(1,654)
Total tax expense reported in the income statement	10,132	15,597

A change to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 was substantively enacted on 26 October 2015. Following the substantive enactment of Finance Act 2016 on 6 September 2016 the UK corporation tax rate was further reduced to 17% from 1 April 2020. As a result, the relevant deferred tax balances have been remeasured as appropriate.

(c) Deferred tax

The deferred tax included in the balance sheet is as follows:

	At 30 December 2018 £000	At 31 December 2017 £000
Deferred tax arising in the UK on non-capital items	1,573	2,235
Deferred tax arising in the UK and ROI on capital gains	(1,813)	(2,344)
Deferred tax	(240)	(109)

	At 30 December 2018 £000	At 31 December 2017 £000
Gross movement in the deferred income tax account		
Opening balance	(109)	230
Tax credit to equity	(695)	84
Income statement charge	564	(423)
Closing (liability)	(240)	(109)

Deferred tax arising in the UK and ROI

	Accelerated capital allowances £000	Share-based payments £000	Other short term timing differences £000	Total £000
At 26 December 2016	(1,787)	1,819	198	230
Credit to equity	37	47	-	84
Credit/(charge) to income	(594)	171	-	(423)
At 31 December 2017	(2,344)	2,037	198	(109)
Credit to equity	-	(695)	-	(695)
Credit/(charge) to income	531	111	(78)	564
At 30 December 2018	(1,813)	1,453	120	(240)

A deferred tax liability of £240,000 (2017: £230,000) has been recognised on continuing operations to the extent that future taxable profits are expected to be in excess of the profits arising from the reversal of existing taxable temporary differences.

Notes to the financial statements (continued)

52 weeks ended 30 December 2018

9. Dividends paid and proposed

	52 weeks ended 30 December 2018 £000	53 weeks ended 31 December 2017 £000
Dividends declared and paid during the year: *222p per share (2017: 233p per share)*	100,000	105,000

10. Intangible assets

	Franchise fees £000	Software £000	Other £000	Total £000
Cost or valuation				
At 31 December 2017	1,028	29,941	800	31,769
Additions	-	7,044	-	7,044
Disposals	-	-	(300)	(300)
At 30 December 2018	1,028	36,985	500	38,513
Amortisation				
At 31 December 2017	996	15,313	240	16,549
Provided during the year	-	6,956	91	7,047
At 30 December 2018	996	22,269	331	23,596
Net book value at 30 December 2018	32	14,716	169	14,917
Net book value at 31 December 2017	32	14,628	560	15,220

Franchise fees

Master franchise fees (MFA) consist of costs relating to the MFA for the UK and the ROI. The UK and ROI MFA runs into perpetuity, with a development clause that is renewable on a ten-year basis. These have an indefinite life. They are tested annually for impairment in accordance with IAS 36.

Other intangible assets

Included above are intangible assets with a carrying value of £169,000 (2017: £260,000) in relation to interest-free loans given to franchisees to assist in the opening of new stores. The difference between the present value of loan recognised and the cash advanced has been capitalised as an intangible asset in recognition of the future value that will be generated.

The amortisation of intangible assets is included within administration expenses in the income statement.

Software

Included in software is the eCommerce platform and the new GPS software. These have a useful life of three years.

Notes to the financial statements (continued)

52 weeks ended 30 December 2018

11. Property, plant and equipment

	Land and buildings £000	Assets under construction £000	Supply Chain Centre equipment £000	Fixtures and fittings £000	Total £000
Cost or valuation					
At 31 December 2017	16,730	13,706	30,293	1,288	62,017
Additions	7,460	2,039	2,608	673	12,780
Transfer between classes	-	(15,745)	15,344	401	-
At 30 December 2018	24,190	-	48,245	2,362	74,797
Depreciation and impairment					
At 31 December 2017	45	-	7,601	617	8,263
Provided during the year	405	-	2,397	550	3,352
Impairment	1,466	-	5,044	-	6,510
At 30 December 2018	1,916	-	15,042	1,167	18,125
Net book value at 30 December 2018	22,274	-	33,203	1,195	56,672
Net book value at 31 December 2017	16,685	13,706	22,692	671	53,754

Included within Land and buildings is freehold land of £3,086,000 (2017: £3,254,000) and leasehold land of £948,000 (2017: £948,000).

During the period £8,610,000 (2017: £16,730,000) of land and buildings were acquired from DP Group Developments Limited, a Group company.

During the period £15,344,000 (2017: £13,706,000) has been invested in a new supply chain centre in Warrington.

12. Trade and other receivables

Non-current	**At 30 December 2018 £000**	At 31 December 2017 £000
Other receivables	380	219
	380	219

Current	**At 30 December 2018 £000**	At 31 December 2017 £000
Trade receivables	10,371	9,937
Amounts owed by associated undertakings	1,106	1,308
Amounts owed by other Group undertakings	61,700	89,717
Other receivables	9,289	10,240
Prepayments and accrued income	14,518	13,164
	96,984	124,366

12. Trade and other receivables (continued)
NAF and eCommerce debtor

The national advertising fund ('NAF') debtor and eCommerce debtor balance of £6.2m (2017: £3.9m) comprises the net of balances relating to: the NAF, which is a fund into which the franchisees contribute for purposes of marketing, advertising and other promotion; and an eCommerce fund into which the franchisees contribute to cover the research, development and operating costs of the Domino's website and mobile apps, as well as related credit card costs, such as merchant data handling costs and chargebacks.

The legal form defined by the standard franchise agreements ('SFAs') is that the two funds are separate with no right of offset if there is a deficit. Franchisees are presented with data which shows the respective surplus or deficit of each fund separately. The Group has the right to increase the charges for either fund to recover any deficits on a prospective basis, and for that reason there is no concern over the recoverability of amounts. Surpluses or deficits naturally arise because of timing differences between cash flows of the NAF and eCommerce expenditure and contributions received from the franchisees.

The commercial practice has been to combine the NAF and eCommerce fund and present any surplus or deficit on a net basis and this is the principle accepted by all parties because of the broad crossover between marketing and the website in promoting the Domino's brand.

As at 30 December 2018, the gross amounts of the NAF and eCommerce fund were as follows:

	At 30 December 2018 £000	At 31 December 2017 £000
NAF surplus	(14,100)	(11,800)
eCommerce fund deficit	20,300	15,700
Net NAF and eCommerce debtor	6,200	3,900

13. Investments

	Subsidiary undertakings £000	Associates £000	Investments £000	Total £000
Carrying value before impairment				
At 31 December 2017	30,360	3,305	-	33,665
Additions	11,905	-	11,083	22,988
At 30 December 2018	42,265	3,305	11,083	56,653
Provisions for impairment				
At 31 December 2017	10,207	-	-	10,207
Impairment during the year	4,206	-	-	4,206
At 30 December 2018	14,413	-	-	14,413
Carrying value at 30 December 2018	27,852	3,305	11,083	42,240
Carrying value at 31 December 2017	20,153	3,305	-	23,458

In August 2018, the Company acquired 100% of the share capital of Hamandi Investments Limited, a franchisee operating six Domino's stores in London. Subsequent to acquisition, the company was renamed Have More Fun (London) Limited ('Have More Fun').

Deferred consideration of £0.9m is a working capital adjustment receivable in March 2019.

In October 2018, the minority shareholder in Sell More Pizza Limited exercised the outstanding put option, enabling the Company to acquire the remaining 25% of equity in Sell More Pizza Limited for £5.7m. This has taken the Company's shareholding to 100%.

In November 2018 the Company made a 15% investment in Shorecal Limited (the 'Shorecal Investment'), a private company registered in the Republic of Ireland that operates 27 Domino's franchise stores in Ireland with a cost of investment of £11.1m. The equity investment has been designated as fair value through profit and loss. The inputs used to calculate the fair value of the Shorecal Investment fall within Level 3 of the IFRS 13 hierarchy. The fair value of the Shorecal Investment at 30 December 2018 is deemed to be the cost of investment given it was acquired close to the year end.

The impairment during the period relates to Domino's Leasing Limited, which has ceased to trade, and DP Newcastle Limited, a Dormant subsidiary.

Notes to the financial statements (continued)

52 weeks ended 30 December 2018

13. Investments (continued)

Name of company	Country of incorporation	Proportion of voting rights and share capital	Registered office
Subsidiary undertakings			
DP Pizza Ltd	Ireland	100% Ordinary	Unit 1B Toughers Business Park, Newhall, Naas CO. Kildare, Ireland
Domino's Leasing Limited	England	100% Ordinary	1 Thornbury, West Ashland, Milton Keynes, MK6 4BB, United Kingdom
DP Newcastle Limited	England	100% Ordinary	1 Thornbury, West Ashland, Milton Keynes, MK6 4BB, United Kingdom
Sell More Pizza Limited	England	100% Ordinary	1 Thornbury, West Ashland, Milton Keynes, MK6 4BB, United Kingdom
Have More Fun (London) Limited	England	100% Ordinary	1 Thornbury, West Ashland, Milton Keynes, MK6 4BB, United Kingdom
Indirect holdings in subsidiary undertakings			
Sheermans Limited	England	100% Ordinary	1 Thornbury, West Ashland, Milton Keynes, MK6 4BB, United Kingdom
Sheermans SS Limited	England	100% Ordinary	1 Thornbury, West Ashland, Milton Keynes, MK6 4BB, United Kingdom
Sheermans Harrow Limited	England	100% Ordinary	1 Thornbury, West Ashland, Milton Keynes, MK6 4BB, United Kingdom
WAP Partners Limited	England	100% Ordinary	1 Thornbury, West Ashland, Milton Keynes, MK6 4BB, United Kingdom
Associate undertakings			
Full House Restaurants Holdings Limited	England	49% Ordinary	34 Anyards Road, Cobham, Surrey, KT11 2LA, United Kingdom
Investments			
Shorecal Limited	Ireland	15% Ordinary	4 Haddington Terrace, Dun Laoghaire, Co. Dublin, A96DX80, Ireland

Notes to the financial statements (continued)

52 weeks ended 30 December 2018

14. Inventories

	At 30 December 2018 £000	At 31 December 2017 £000
Finished goods and goods for sale	4,597	4,502
Raw materials	306	275
Total inventories at lower of cost or estimated net realisable value	4,903	4,777

Provisions against inventories were £747,000 (2017: £853,000). During the period £1,045,000 (2017: £987,000) of inventories were written off.

15. Trade and other payables

	At 30 December 2018 £000	At 31 December 2017 £000
Included in current liabilities:		
Trade payables*	18,951	20,398
Other taxes and social security costs	5,839	4,863
Other payables*	1,779	1,767
Accruals and deferred income	39,322	40,703
Amounts owed to Group undertakings	21,940	32,070
	87,831	99,801

	At 30 December 2018 £000	At 31 December 2017 £000
Included in non-current liabilities:		
Other payables*	673	888
	673	888

* Financial liabilities at amortised cost.

Terms and conditions of the above financial liabilities:

- trade payables are non-interest bearing and are normally settled on seven to 30-day terms; and
- other payables are non-interest bearing and have an average term of six months.

16. Financial liabilities

	At 30 December 2018 £000	At 31 December 2017 £000
Non-current		
Bank revolving facility	107,917	51,002
	107,917	51,002

On 8 July 2017, the Group extended the existing multi-currency syndicated revolving credit facility by one year to 8 July 2022. Subsequently, on 13 December 2017 the revolving credit facility was amended and extended to £350,000,000 with a term of five years. A one-year extension was agreed in November 2018 and has been extended to 12 December 2023.

Interest charged on the revolving credit facility ranges from 0.75% per annum above LIBOR (or equivalent) when the Group's leverage is less than 1:1 up to 1.85% per annum above LIBOR for leverage above 2.5:1. A further utilisation fee is charged if over one-third utilised at 0.15% which rises to 0.30% of the margin rate if over two-thirds is drawn. In addition, a commitment fee is calculated on undrawn amounts based on 35% of the current applicable margin

There is a cross guarantee for the facility, for details see note 21.

Notes to the financial statements (continued)

52 weeks ended 30 December 2018

17. Share capital and reserves

Authorised, allotted, called up and fully paid share capital

	At 30 December 2018		At 31 December 2017	
	Number	£	Number	£
Ordinary shares	45,000,000	2,250,000	45,000,000	2,250,000

18. Share-based payments

The amount recognised for share-based payments in respect of employee services received during the 52 weeks ended 30 December 2018 was a expense of £823,000 (2017: £13,000 credit). This all arises on equity-settled share-based payment transactions. The comparative figures in this note have been restated to reflect the parent company's share split in the period.

2012 Long Term Incentive Plan ('2012 LTIP')

At the 2012 AGM shareholders approved the adoption of new LTIP rules which allow for either the grant of market value options or performance shares. Awards are approved and granted at the discretion of the Remuneration Committee to Senior Executives and other employees. Awards are capable of vesting within a three-year period should certain performance targets be achieved by the Group and all awards will be equity settled. During the period 1,225,628 awards were granted (2017: 1,154,598). At 31 December 2017, there were 2012 LTIP awards over 1,240,494 (2017: 1,107,971) shares in Domino's Pizza Group plc.

The weighted average remaining contractual life of the options outstanding at 30 December 2018 was 1.3 years (2017: 1.4 years). The weighted average share price for options exercised during 2018 was 0.0p (2017: 281.9p).

The fair value of options granted is estimated at the date of granting using Stochastic and Black-Scholes models, taking into account the terms and conditions upon which they were granted. Total shareholder return ('TSR') is generated for the Group and the comparator group at the end of the three-year performance period. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome. The following table lists the inputs to the model used for the period ended 30 December 2018:

	52 weeks ended 30 December 2018
Weighted average fair value	190.35p
Weighted average share price	285.58p
Weighted average exercise price	0.00p
Expected dividend yield	3.27%
Risk-free rates	0.77%
Expected volatility	28.6%

Further information on the Group's 2012 LTIP awards are given in the Executive Director policy table on pages 69 to 70 of the Directors' remuneration report of Domino's Pizza Group Plc's Annual Report.

Employee share options

Sharesave scheme

During 2009 the Group introduced a Sharesave scheme giving employees the option to acquire shares in the Group at a 20% discount. Employees have the option to save an amount per month up to a maximum of £500 and at the end of three years they have the option to purchase shares in the Group or to take their savings in cash. The contractual life of the scheme is three years. The weighted average fair value of each option granted in 2018 was 298.1p (2017: 240.3p).

Notes to the financial statements (continued)

52 weeks ended 30 December 2018

19. Related party transactions

	Sales to related party £000	Amounts owed by related party £000
Related party		
Associates and joint ventures		
30 December 2018	38,633	1,106
31 December 2017	30,829	1,125

Terms and conditions of transactions with associates and joint ventures
Sales and purchases between related parties are made at normal market prices. Outstanding balances with entities are unsecured and interest free and cash settlement is expected within seven days of invoice. The Company has not provided for or benefited from any guarantees for any related party receivables or payables. During the financial period ended 30 December 2018, the Company has made a provision of £nil for doubtful debts relating to amounts owed by related parties (2017: £nil).

20. Obligations under leases and hire purchase contracts

The Company has entered into commercial leases on motor vehicles and items of plant, machinery and equipment. These leases have an average duration of between three and five years.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	At 30 December 2018 £000	At 31 December 2017 £000
Not later than one year	1,627	797
After one year but not more than five years	2,055	1,606
After five years	783	884
	4,465	3,287

21. Contingent liability

Pursuant to the relevant regulation of the European Communities Regulations 1992 the Company has guaranteed the liabilities of the Irish subsidiary, DP Pizza Limited, and as a result the Irish Company has been exempted from the filing provisions in section 7, Companies (Amendment) Act 1986 of the ROI.

The bank revolving facility is secured by an unlimited cross-guarantee between the Company, DP Pizza Limited, DPG Holdings Limited, DP Realty Limited, Domino's Pizza Group Plc, DP Group Developments Limited, DP Cyco Switzerland Limited and Domino's Pizza GmbH. The maximum drawdown limit is £350m.

22. Post balance sheet event

On 24 June 2019 the Company acquired a supply chain centre in Warrington from DP Group Developments Limited a fellow Group company. The property was transferred for consideration of £20,614,000. At the balance sheet date an impairment of £1,456,000 was recognised against the intercompany balance with the seller, being the surplus in loan value over the consideration.

Notes to the financial statements (continued)

52 weeks ended 30 December 2018

23. Ultimate parent company and controlling party

In the opinion of the directors the immediate parent company and controlling party is DPG Holdings Limited a company incorporated in the United Kingdom, which is a wholly owned subsidiary of Domino's Pizza Group plc, the ultimate parent undertaking and controlling party.

The smallest and largest group and for which group financial statements are drawn up, and of which the company is a member, is Domino's Pizza Group plc. Copies of the financial statements of Domino's Pizza Group plc may be obtained from its registered office, 1 Thornbury, West Ashland, Milton Keynes, MK6 4BB.