

Registered No: 02882515

# Domino's Pizza UK & Ireland Limited

Report and Financial Statements

31 December 2017



## Company information

53 weeks ended 31 December 2017

### Directors

S G Hemsley

S Wallis

D J Wild

N E Wyncoll

R Caley

A Bushnell

T Holdway

R C E Osborne (resigned 11 June 2018)

P I Trundle

B Więch

### Secretary

A J Bushnell

### Auditors

Ernst & Young LLP

No.1 Colmore Square

Birmingham

B4 6HQ

### Bankers

Barclays Bank Plc

669 Midsummer Boulevard

Central Milton Keynes

Buckinghamshire

MK9 3BQ

### Registered office

1 Thornbury

West Ashland

Milton Keynes

Buckinghamshire

MK6 4BB

United Kingdom

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

## Strategic report

53 weeks ended 31 December 2017

The directors present their strategic report and financial statements for the 53 weeks ended 31 December 2017.

### Results and dividends

The profit before tax for the period amounted to £100,745,000 (2016: £84,827,000). Ordinary dividends of £105,000,000 (2016: £95,000,000) were paid during the period.

### Business review

The UK market moderated this year, after three years of very strong like-for-like growth. Consumers were more cautious and value conscious, and incomes were squeezed as wage inflation lagged broader cost inflation. The competitive environment continued to evolve, with delivery service companies continuing to invest heavily in growing scale.

Despite these dynamics, Domino's achieved another good performance. On a 52 week basis system sales were up 8.6%, driven by growth from order volume of 6.5% and 1.9% on average order value. Like for like sales growth (excluding effect of splitting territories) was 4.8%. We continued to take share in the pizza delivery market, thanks to our scale, our physical expansion, the strength of our brand and the quality of our product; and we held our share of the overall delivered food market, which continues to grow strongly.

New store growth was the key driver of our performance in the year. After 81 new openings in 2016, our franchise partners opened a further 95 in 2017. With 1,045 stores now across the UK, we are confident of reaching our target of 1,600.

Around two-thirds of new store openings are coming in existing territories, where franchisees are realising the significant customer service and financial benefits of splitting territories.

The inherent profitability of the system and the strength of the brand are also enabling franchisees to make attractive returns in increasingly small standalone catchment areas. For example, in market towns of no more than 10,000 households, a Domino's store is likely to be the only branded quick service restaurant or food delivery business, leading to a disproportionate market share.

While the sales growth drivers of our business can be simplified down to new openings and like-for-like growth from existing stores, these factors and the overall profitability of the system are in turn underpinned by the operational areas of focus discussed below.

### Key performance indicators

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

#### System sales (52 week basis)

2017	£1,079.4m
2016	£988.8m

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 8.6% (2016: 13.8%) in the UK and 19.9% (2016: 10.1%) in ROI.

#### Statutory revenue

2017	£350.7m
2016	£305.1m

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

2017	95
2016	81

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

#### Underlying operating profit

2017	£90.7m
2016	£81.5m

Underlying operating profit excludes the impact of costs of restructuring and one-off items.

Underlying operating profit is a good indicator of the efficiency of the business model for the shareholders and franchisees alike. The Company measures underlying operating profit compared to the 52-week reporting period in 2016.

## Strategic report (continued)

53 weeks ended 31 December 2017

### Risk management

The 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 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 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 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 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 Board believes are the principal risks and are not an exhaustive list of all risks the Company faces. In prior years we had included the implementation of our new ERP system as a principal risk. Following the successful implementation of the system the Board no longer considers this to be a principal risk.

The 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 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)

53 weeks ended 31 December 2017

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
<b>Risk</b> 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.	<b>Risk</b> 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.	<b>Risk</b> 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.
<b>Potential impact</b> Medium	<b>Potential impact</b> High	<b>Potential impact</b> Medium
<b>Probability</b> Medium	<b>Probability</b> Low	<b>Probability</b> Low
<b>Mitigation</b> 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.	<b>Mitigation</b> 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.	<b>Mitigation</b> 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.
<b>Nature of threat</b> These risks could have some impact on future performance, for a limited time.	<b>Nature of threat</b> These risks have the potential to compromise our future performance or, in an extreme scenario, even the business model.	<b>Nature of threat</b> These risks have the potential to compromise our future performance or, in an extreme scenario, even the business model.
<b>Change from 2016</b> ↔	<b>Change from 2016</b> ↑	<b>Change from 2016</b> ↔
<b>Commentary</b> There has been considerable work undertaken this year to improve the HR operating model and to establish more robust processes for talent management and succession planning.	<b>Commentary</b> This risk has increased during the year due to increased market pressure and evidence of increased "value for money" awareness driving consumer choice. A number of initiatives have been undertaken during the year to maintain product competitiveness.	<b>Commentary</b> The Company is continually reviewing its products to ensure they meet governmental guidelines. Improvements are being made to make product nutritional information more accessible and certain products may undergo reformulation to reduce sugar levels.

## Strategic report (continued)

53 weeks ended 31 December 2017

Failure to achieve UK growth through new store openings	Commercial leverage of large franchisees	Food safety
<b>Risk</b> 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.	<b>Risk</b> 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.	<b>Risk</b> 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.
<b>Potential impact</b> High	<b>Potential impact</b> High	<b>Potential impact</b> High
<b>Probability</b> Low	<b>Probability</b> Medium	<b>Probability</b> Medium
<b>Mitigation</b> 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.	<b>Mitigation</b> 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.	<b>Mitigation</b> The business has implemented a rigorous regime of standards and food safety checks, working with the appropriate government regulator.
<b>Nature of threat</b> 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.	<b>Nature of threat</b> These risks have the potential to compromise our future performance for a period of time.	<b>Nature of threat</b> 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.
<b>Change from 2016</b> ↔	<b>Change from 2016</b> ↑	<b>Change from 2016</b> ↔
<b>Commentary</b> The overall risk remains the same as last year. The MFA targets have been agreed for the next ten years and are set at 350 new stores over the period (on a net basis).	<b>Commentary</b> The assessed level of risk has increased during the year, largely due to some pressure on franchisee profitability. There is regular and ongoing dialogue with the franchisee community to mitigate this risk.	<b>Commentary</b> This risk has not changed materially during the year. The risk is monitored on a regular basis by a qualified in-house resource. The Board routinely receives a presentation on "food safety" risk controls.

## Strategic report (continued)

53 weeks ended 31 December 2017

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
<b>Risk</b> 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.	<b>Risk</b> 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.	<b>Risk</b> Over 75% 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.
<b>Potential impact</b> High	<b>Potential impact</b> High	<b>Potential impact</b> High
<b>Probability</b> Low	<b>Probability</b> Medium	<b>Probability</b> Medium
<b>Mitigation</b> 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.	<b>Mitigation</b> 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.	<b>Mitigation</b> 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.
<b>Nature of threat</b> These risks have the potential to compromise our future performance for a limited time.	<b>Nature of threat</b> These risks could have a significant impact on future performance and potentially liquidity, for a limited time.	<b>Nature of threat</b> These risks could have some impact on future performance, for a limited time.
<b>Change from 2016</b> ↓	<b>Change from 2016</b> ↓	<b>Change from 2016</b> ↔
<b>Commentary</b> A detailed review of suppliers has been undertaken and is ongoing and steps have been taken to reduce supplier dependency and improve security of supplies through dual sourcing.	<b>Commentary</b> The level of risk has reduced since 2016 following the development of the Company's new production facilities. Additionally, enhancements to the business continuity plan are expected to be implemented during 2018.	<b>Commentary</b> On the whole, the level of risk has remained constant. The Company has maintained its compliance with PCI level 1 and continues to enhance its technical capability and resilience.

## Strategic report (continued)

53 weeks ended 31 December 2017

<b>Loss of personal data relating to customers, employees or others; loss of corporate data</b>
<b>Risk</b> 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.
<b>Potential impact</b> High
<b>Probability</b> Medium
<b>Mitigation</b> 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.
<b>Nature of threat</b> 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.
<b>Change from 2016</b> ↔
<b>Commentary</b> Cyber-risk remains a major threat. The cyber-security systems are regularly reviewed by the Company's management and external advisers. Regular updates on cyber-security are provided to the Audit Committee.

By order of the board

A J Bushnell  
Director  
26 June 2018



## Directors' report (continued)

53 weeks ended 31 December 2017

The directors present their report for the 53 weeks ended 31 December 2017.

### Directors of the company

The current directors are shown on page 1.

Changes during the period were as follows:-

P Trundle	Appointed 1 January 2017
T Holdway	Appointed 1 January 2017
B Weich	Appointed 8 May 2017

C Rees	Resigned 31 March 2017
R C E Osborne	Resigned 11 June 2018

### Dividends

There were total ordinary dividends for the year of £105,000,000 (2016: £95,000,000).

### 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 entered into on 19 December 2017. 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

Pursuant to s487(2) of the Companies Act 2006, the Auditors of the Company, Ernst & Young LLP, are deemed to be re-appointed for the subsequent financial year.

## Directors' report (continued)

53 weeks ended 31 December 2017

### 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



A J Bushnell  
Director

26 June 2018

## Statement of directors' responsibilities in respect of the financial statements

53 weeks ended 31 December 2017

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.

# Independent auditor's report

To the members of Domino's Pizza UK & Ireland Limited

53 weeks ended 31 December 2017

## Opinion

We have audited the financial statements of Domino's Pizza UK & Ireland Limited (the 'Company') for the 53 weeks ended 31 December 2017 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.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the 53 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 Directors Report, Strategic 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.

# Independent auditor's report

To the members of Domino's Pizza UK & Ireland Limited

53 weeks ended 31 December 2017

## 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.

## 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

28 June 2018

## Statement of comprehensive income

53 weeks ended 31 December 2017

	Notes	53 weeks ended 31 December 2017 Total £000	52 weeks ended 25 December 2016 Total £000
Revenue	2	350,745	305,143
Cost of sales		(206,062)	(173,544)
Gross profit		144,683	131,599
Distribution costs		(24,858)	(21,290)
Administrative costs		(26,882)	(27,929)
Operating profit	3	92,943	82,380
Investment income		7,684	3,242
Finance income	7	1,552	1,413
Finance expense	8	(1,434)	(2,208)
Profit before taxation		100,745	84,827
Taxation	9	(15,597)	(15,390)
Other comprehensive income		-	-
Total comprehensive income for the year attributable to owners of the parent		85,148	69,437

## Non-GAAP measure: underlying profit before taxation

Operating profit		92,943	82,380
Impairments of subsidiaries	5	679	1,283
Reversal of impairment of intercompany balances	5	(3,107)	(2,195)
Acquisition fees and related costs	5	220	-
Underlying operating profit		90,735	81,468
Net finance income/(expense)		118	(795)
Underlying profit on ordinary activities before taxation		90,853	80,673
Taxation		(15,597)	(15,502)
Underlying profit for the period		75,256	65,171

**Balance sheet**

At 31 December 2017

	Notes	At 31 December 2017 £000	At 25 December 2016 £000
<b>Non-current assets</b>			
Intangible assets	11	15,220	13,512
Property, plant and equipment	12	53,754	23,373
Trade and other receivables	13	219	1,188
Investments	14	23,458	9,600
Deferred tax asset	9	-	230
		92,651	47,903
<b>Current assets</b>			
Inventories	15	4,777	8,002
Trade and other receivables	13	124,366	114,272
Cash and cash equivalents		12,022	9,322
		141,165	131,596
<b>Total assets</b>		233,816	179,499
<b>Current liabilities</b>			
Trade and other payables	16	(99,801)	(63,842)
Current tax liabilities	9	(5,464)	(4,661)
		(105,265)	(68,503)
<b>Non-current liabilities</b>			
Trade and other payables	16	(888)	(394)
Financial liabilities	17	(51,002)	(14,702)
Deferred tax	9	(109)	-
<b>Total liabilities</b>		(157,264)	(83,599)
<b>Net assets</b>		76,552	95,900
<b>Shareholders' equity</b>			
Called up share capital	18	2,250	2,250
Retained earnings		74,302	93,650
<b>Total equity shareholders' funds</b>		76,552	95,900

The financial statements of Domino's Pizza UK & Ireland Limited (Registered No: 02882515) were approved by the Board on 26 June 2018 and signed on its behalf by



A J Bushnell  
Director

# Statement of changes in equity

53 weeks ended 31 December 2017

	Share capital £000	Retained earnings £000	Equity shareholders' funds £000
<b>At 27 December 2015</b>	<b>2,250</b>	<b>119,135</b>	<b>121,385</b>
Total comprehensive income for the period	-	69,437	69,437
Deferred tax charge to equity	-	78	78
Equity dividends paid	-	(95,000)	(95,000)
<b>At 25 December 2016</b>	<b>2,250</b>	<b>93,650</b>	<b>95,900</b>
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)
<b>At 31 December 2017</b>	<b>2,250</b>	<b>74,302</b>	<b>76,552</b>



## Notes to the financial statements

53 weeks ended 31 December 2017

### 1. Accounting policies

#### *General information*

The financial statements of Domino's Pizza UK & Ireland Limited for the 53 weeks ended 31 December 2017 were authorised for issue by the Board of Directors on 26 June 2017 and signed on its behalf by A J Bushnell. 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

#### *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 entered into on 19 December 2017. 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)

53 weeks ended 31 December 2017

### 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:

- The Company has made an acquisition during the period, with acquisition costs and other restructuring expense items incurred. A significant impairment and a reversal of impairment has also been recognised. These items have been considered by management to meet the definition of non-underlying items as defined by our accounting policy and are therefore shown separately within the financial statements. Judgement is required to determine that items are suitably classified as non-underlying and the values assigned are appropriate (as included in our non-GAAP performance measures policy). For details see note 5.
- Stores within the Domino's Pizza system contribute into a national advertising fund ('the Fund') designed to build store sales through increased public recognition of the Domino's Pizza brand. The Fund is managed with the objective of driving revenues for the stores and is planned to operate at break-even with any short-term timing surplus or deficit carried in the Company balance sheet (for details please see note 13):
  - as all Fund income is designated for specific purposes and does not result in a profit or loss for the Company, the revenue recognition criteria as outlined in our accounting policy are not met and 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; and
  - the assets and liabilities relating to the Fund 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.

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.

#### *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.

## Notes to the financial statements (continued)

53 weeks ended 31 December 2017

### **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)

53 weeks ended 31 December 2017

### **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, revenue recognition criteria are not met 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**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of consideration net of returns, rebates and value-added taxes. Franchisee rebates are recognised as an expense within revenue on an accruals basis on the expected entitlement which has been earned up to the balance sheet date.

The following criteria must also be met before revenue is recognised:

## Notes to the financial statements (continued)

53 weeks ended 31 December 2017

*Royalties, franchise fees and sales to franchisees*

Royalties are based on Domino's Pizza system sales to customers and are recognised as the income is earned. The franchise fee is effectively a joining fee; it is 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. Revenue from sales to franchisees is recognised on delivery to stores.

*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

# Notes to the financial statements (continued)

53 weeks ended 31 December 2017

## Share-based payments (continued)

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 any 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.

## Non-GAAP performance measures

In the reporting of financial information, the Company uses certain measures that are not required under IFRS. The Company believes that these additional measures, which are used internally, are useful to the users of the financial statements in helping them understand the underlying business performance, as defined in the key performance indicators section of the strategic report.

The principal non-GAAP measures the Company uses are underlying operating profit, underlying profit before tax and system sales. Underlying measures remove the impact of non-underlying items from earnings and are reconciled to operating profits; system sales measure the performance of the overall business, as defined in the key performance indicators section of the strategic report.

While the disclosure of non-underlying items and system sales is not required by IFRS, these items are separately disclosed either as memorandum information on the face of the income statement, or in the notes to the accounts as appropriate. Non-underlying items include significant non-recurring items such as acquisition costs and other restructuring expense items incurred. A significant impairment and a reversal of impairment has also been recognised. These items are not considered to be underlying by management due to quantum and nature. Factors considered include items that are non-recurring, not part of the ordinary course of business or reduce understandability of business performance. For a detailed description of items see note 5.

## 2. Revenue

Revenue recognised in the income statement is analysed as follows:

	53 weeks ended 31 December 2017 £000	52 weeks ended 25 December 2016 £000
Royalties, franchise fees and sales to franchisees	350,745	305,143
	<b>350,745</b>	<b>305,143</b>

## 3. Operating profit

This is stated after charging:

	53 weeks ended 31 December 2017 £000	52 weeks ended 25 December 2016 £000
Depreciation of property, plant and equipment	2,460	2,010
Amortisation of intangible assets	4,605	2,460
Total depreciation and amortisation expense	<b>7,065</b>	<b>4,470</b>
Operating lease payments (minimum lease payments)		
– Land and buildings	835	969
– Plant, machinery and vehicles	3,090	2,375
Total operating lease payments recognised in the income statement	<b>3,925</b>	<b>2,375</b>
Impairment loss recognised on non-current assets	679	1,283
Net foreign currency gain	(561)	(332)
Cost of inventories recognised as an expense	162,266	146,388

## Notes to the financial statements (continued)

53 weeks ended 31 December 2017

**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:

	53 weeks ended 31 December 2017 £000	52 weeks ended 25 December 2016 £000
Fees payable for the audit of the Company annual accounts*	69	69
Total audit fees	69	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.

**5. Items excluded from non-GAAP measure: underlying profit before tax****(a) Non-underlying items included in operating profit**

	53 weeks ended 31 December 2017 £000	52 weeks ended 25 December 2016 £000
Impairments of subsidiaries	679	1,283
Reversal of impairment of intercompany balances	(3,107)	(2,195)
Acquisition fees and related costs	220	-
Amounts included in operating profit	(2,887)	(2,195)

*Impairments*

Impairments of £679,000 (2016: £1,283,000) relate to impairment in investment in DP Leasing Limited (see note 14).

*Other restructuring items**Reversal of impairment of intercompany balances*

During the period £3,107,000 (2016: £2,195,000) was recognised on reversing impairment of intercompany balances with Domino's Pizza Germany Limited, a fellow group company.

*Acquisition fees and related costs*

Acquisition fees and related costs of £220,000 was incurred on the acquisition of a franchisee group that operates 25 Domino's stores in London. The acquisition provides access to the West London area through the Standard Franchise Agreement 'SFA', and the growth opportunities available in this market.

Non-underlying expenditure/income is considered to be such as it relates to one-off charges that would not give an accurate reflection of the Company's profit were it to be included in underlying profit.

**(b) Non-underlying items included below operating profit***Investment income*

Dividends of £7,684,000 (2016: £3,242,000) have been received from subsidiary and associated undertakings analysed as non-underlying due to the ad hoc nature of their declaration.

This expenditure/income is considered to be non-underlying as it relates to variable income that the company has no control over and would not give an accurate reflection of the Company's profit were it to be included in underlying profit.

**6. Staff costs and directors' remuneration****(a) Staff costs**

	53 weeks ended 31 December 2017 £000	52 weeks ended 25 December 2016 £000
Wages and salaries	29,107	27,147
Social security costs	3,709	2,849
Other pension costs	705	675
Share based payments	1,677	1,021
	35,198	31,692

## Notes to the financial statements (continued)

53 weeks ended 31 December 2017

## 6. Staff costs and directors' remuneration (continued)

## (a) Staff costs (continued)

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

	53 weeks ended 31 December 2017	52 weeks ended 25 December 2016
Administration	271	290
Production and distribution	393	287
	664	577

## (b) Directors' remuneration

	53 weeks ended 31 December 2017 £000	52 weeks ended 25 December 2016 £000
Directors' remuneration	3,091	2,904
Aggregate contributions to defined contribution pension schemes	187	196
Number of Directors accruing benefits under:		
– defined contribution schemes	10	10

Included in Directors' remuneration above are termination payments totalling £nil (2016: £268,382)

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

	53 weeks ended 31 December 2017 £000	52 weeks ended 25 December 2016 £000
Directors' remuneration	784	937
Aggregate contributions to defined contribution pension schemes	51	51

## 7. Finance income

	53 weeks ended 31 December 2017 £000	52 weeks ended 25 December 2016 £000
Bank interest receivable	13	128
Interest on loans to franchisees	76	37
Interest receivable from Group undertakings	1,463	1,174
Unwinding of discount	-	74
Total finance income	1,552	1,413

## 8. Finance expense

	53 weeks ended 31 December 2017 £000	52 weeks ended 25 December 2016 £000
Other interest payable	76	75
Bank interest payable	300	171
Interest payable to Group undertakings	207	-
Foreign exchange	851	1,943
Unwinding of discount	-	19
Total finance expense	1,434	2,208



## Notes to the financial statements (continued)

53 weeks ended 31 December 2017

## 9. Taxation

## (a) Tax on profit on ordinary activities

	53 weeks ended 31 December 2017 £000	52 weeks ended 25 December 2016 £000
<b>Tax charged in the income statement</b>		
UK corporation tax:		
– current period	15,488	15,628
– adjustment in respect of prior periods	(315)	(499)
	15,173	15,129
Income tax on overseas operations	-	321
<b>Total current income tax charge</b>	<b>15,173</b>	<b>15,450</b>
Deferred tax:		
Origination and reversal of temporary differences	320	(281)
Effect of change in tax rate	(41)	(69)
Adjustment in respect of prior periods	145	290
<b>Total deferred tax</b>	<b>424</b>	<b>(60)</b>
<b>Tax charge in the income statement</b>	<b>15,597</b>	<b>15,390</b>
The tax charge in the income statement is disclosed as follows:		
Income tax expense	15,597	15,390

## (b) Reconciliation of the total tax charge

The tax expense in the income statement for the 53 weeks ended 31 December 2017 is lower (2016: lower) than the statutory corporation tax rate of 19.26% (2016: 20.00%). The differences are reconciled below:

	53 weeks ended 31 December 2017 £000	52 weeks ended 25 December 2016 £000
Profit before taxation	100,745	84,827
Accounting profit multiplied by the UK statutory rate of corporation tax of 19.26% (2016: 20.00%)	19,402	16,965
Expenses not deductible for tax purposes	105	387
Income not taxable	(1,659)	(1,233)
Accounting depreciation not eligible for tax purposes	-	77
Adjustment relating to prior years	(214)	(209)
Impact of change in UK tax rate	(42)	(69)
Share option exercise deduction	(341)	(448)
Income tax on overseas operations	-	321
Group relief claimed for no cost	(1,654)	(401)
<b>Total tax expense reported in the income statement</b>	<b>15,597</b>	<b>15,390</b>

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.

## Notes to the financial statements (continued)

53 weeks ended 31 December 2017

## 9. Taxation (continued)

(d) *Deferred tax*

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

	At 31 December 2017 £000	At 25 December 2016 £000
Deferred tax arising in the UK on non-capital items	2,235	2,017
Deferred tax arising in the UK and ROI on capital gains	(2,344)	(1,787)
Deferred tax	(109)	230

	At December 31 2017 £000	At 25 December 2016 £000
<b>Gross movement in the deferred income tax account</b>		
Opening balance	230	708
Tax credit to equity	84	78
Income statement charge	(423)	(556)
Closing (liability)/asset	(109)	230

*Deferred tax arising in the UK and ROI*

	Accelerated capital allowances £000	Share-based payments £000	Lease inducements £000	Total £000
At 27 December 2015	(1,317)	1,903	122	708
Credit to equity	-	78	-	78
Credit/(charge) to income	(470)	(162)	76	(556)
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)

A deferred tax liability of £109,000 (2016: asset £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.

## 10. Dividends paid and proposed

	53 weeks ended 31 December 2017 £000	52 weeks ended 25 December 2016 £000
Declared and paid during the year:		
Equity dividends on Ordinary shares:		
First interim dividend for 2017 : 79.5p (2016: 45.5p)	35,000	20,000
Second interim dividend for 2017 : 45.5p (2016: 90.1p)	20,000	40,000
Third interim dividend for 2017 : 113.6p (2016: 79.5p)	50,000	35,000
Dividends paid	105,000	95,000

## Notes to the financial statements (continued)

53 weeks ended 31 December 2017

## 11. Intangible assets

	Franchise fees £000	Software £000	Other £000	Total £000
<b>Cost or valuation</b>				
At 25 December 2016	1,028	23,928	500	25,456
Additions	-	6,234	300	6,534
Disposals	-	(221)	-	(221)
<b>At 31 December 2017</b>	<b>1,028</b>	<b>29,941</b>	<b>800</b>	<b>31,769</b>
<b>Amortisation and impairment</b>				
At 25 December 2016	996	10,733	215	11,944
Provided during the year	-	4,801	25	4,826
Disposals	-	(221)	-	(221)
<b>At 31 December 2017</b>	<b>996</b>	<b>15,313</b>	<b>240</b>	<b>16,549</b>
<b>Net book value at 31 December 2017</b>	<b>32</b>	<b>14,628</b>	<b>560</b>	<b>15,220</b>
<b>Net book value at 25 December 2016</b>	<b>32</b>	<b>13,195</b>	<b>285</b>	<b>13,512</b>

**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 £260,000 (2016: £285,000) 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.

## 12. Property, plant and equipment

	Land and buildings £000	Assets under construction £000	Supply Chain Centre equipment £000	Fixtures and fittings £000	Total £000
<b>Cost or valuation</b>					
At 25 December 2016	-	-	33,796	3,622	37,418
Additions	16,730	13,706	2,460	382	33,278
Disposals	-	-	(5,963)	(2,716)	(8,679)
<b>At 31 December 2017</b>	<b>16,730</b>	<b>13,706</b>	<b>30,293</b>	<b>1,288</b>	<b>62,017</b>
<b>Depreciation and impairment</b>					
At 25 December 2016	-	-	11,433	2,612	14,045
Provided during the year	45	-	1,745	670	2,460
Disposals	-	-	(5,577)	(2,665)	(8,242)
<b>At 31 December 2017</b>	<b>45</b>	<b>-</b>	<b>7,601</b>	<b>617</b>	<b>8,263</b>
<b>Net book value at 31 December 2017</b>	<b>16,685</b>	<b>13,706</b>	<b>22,692</b>	<b>671</b>	<b>53,754</b>
<b>Net book value at 25 December 2016</b>	<b>-</b>	<b>-</b>	<b>22,363</b>	<b>1,010</b>	<b>23,373</b>

During the period £16,730,000 of land and buildings were acquired from DP Group Developments Limited, a Group company.

During the period £13,706,000 has been invested in a new supply chain centre in Warrington, the construction was still in progress at the year end.

## Notes to the financial statements (continued)

53 weeks ended 31 December 2017

## 13. Trade and other receivables

	At 31 December 2017 £000	At 25 December 2016 £000
<b>Non-current</b>		
Other receivables	219	1,188
	219	1,188
<b>Current</b>		
Trade receivables	9,937	12,553
Amounts owed by associated undertakings	1,308	993
Amounts owed by other Group undertakings	89,717	81,591
Other receivables	10,240	6,581
Prepayments and accrued income	13,164	12,554
	124,366	114,272

Included in the current element of other receivables is the national advertising fund ('NAF') balance of £3.9m (2016: £1.9m payable) due to the difference in timing between cash flows of the activities committed to by the fund and contributions received from franchisees. Total contributions made to the fund during the 53 weeks ended 31 December 2017 were £46.8m (2016: £41.5m).

## 14. Investments

	Subsidiary undertakings £000	Associates £000	Total £000
<b>Carrying value before impairment</b>			
At 25 December 2016	15,823	3,305	19,128
Additions	14,537	-	14,537
<b>At 31 December 2017</b>	<b>30,360</b>	<b>3,305</b>	<b>33,665</b>
<b>Provisions for impairment</b>			
At 25 December 2016	9,528	-	9,528
Impairment during the year	679	-	679
<b>At 25 December 2016 and 31 December 2017</b>	<b>10,207</b>	<b>-</b>	<b>10,207</b>
<b>Carrying value at 31 December 2017</b>	<b>20,153</b>	<b>3,305</b>	<b>23,458</b>
Carrying value at 25 December 2016	6,295	3,305	9,600

On 5 October 2017 the Company acquired 75% of the share capital of Sell More Pizza Limited, a franchisee group that operates 25 Domino's stores in London. The acquisition provides access to the West London area through the Standard Franchise Agreement (SFA).

An impairment review was undertaken at 31 December 2017 in respect of all investments (See note 5) and as a result an impairment of £679,000 (2016: £1,283,000) was recognised on DP Leasing Limited.

Name of company	Country of incorporation	Proportion of voting rights and share capital	Registered office
<i>Subsidiary undertakings</i>			
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	75% Ordinary	1 Thornbury, West Ashland, Milton Keynes, MK6 4BB, United Kingdom
<i>Indirect holdings in subsidiary undertakings</i>			
Sheermans Limited	England	75% Ordinary	1 Thornbury, West Ashland, Milton Keynes, MK6 4BB, United Kingdom
Sheermans SS Limited	England	75% Ordinary	1 Thornbury, West Ashland, Milton Keynes, MK6 4BB, United Kingdom
Sheermans Harrow Limited	England	75% Ordinary	1 Thornbury, West Ashland, Milton Keynes, MK6 4BB, United Kingdom
WAP Partners Limited	England	75% Ordinary	1 Thornbury, West Ashland, Milton Keynes, MK6 4BB, United Kingdom
<i>Associate undertakings</i>			
Full House Restaurants Holdings Limited <i>indirect holding</i>	England	49% Ordinary	1 Thornbury, West Ashland, Milton Keynes, MK6 4BB, United Kingdom

## Notes to the financial statements (continued)

53 weeks ended 31 December 2017

## 15. Inventories

	At 31 December 2017 £000	At 25 December 2016 £000
Finished goods and goods for sale	4,502	7,824
Raw materials	275	178
Total inventories at lower of cost or estimated net realisable value	4,777	8,002

Provisions against inventories were £853,000 (2016: £402,000). During the period £987,000 (2016: £406,000) of inventories were written off.

## 16. Trade and other payables

	At 31 December 2017 £000	At 25 December 2016 £000
Included in current liabilities:		
Trade payables*	20,398	20,148
Other taxes and social security costs	4,863	4,009
Other payables*	1,767	3,335
Accruals and deferred income	40,703	30,935
Amounts owed to Group undertakings	32,070	5,355
	99,801	63,782
	At 31 December 2017 £000	At 25 December 2016 £000
Included in non-current liabilities:		
Other payables*	888	394
	888	394

\* 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.

## 17. Financial liabilities

	At 31 December 2017 £000	At 25 December 2016 £000
<b>Non-current</b>		
Bank revolving facility	51,002	14,702
	51,002	14,702

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 1.80% 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 22.

## Notes to the financial statements (continued)

53 weeks ended 31 December 2017

## 18. Share capital and reserves

*Authorised share capital*

	At 31 December 2017		At 25 December 2016	
	Number	£	Number	£
Ordinary shares	44,000,000	2,200,000	44,000,000	2,200,000
Ordinary A shares	1,000,000	50,000	1,000,000	50,000
	45,000,000	2,250,000	45,000,000	2,250,000

*Allotted, called up and fully paid share capital*

	At 31 December 2017		At 25 December 2016	
	Number	£	Number	£
Ordinary shares				
At 31 December 2017 and 25 December 2016	44,000,000	2,200,000	44,000,000	2,200,000

	At 31 December 2017		At 25 December 2016	
	Number	£	Number	£
Ordinary A shares				
At 31 December 2017 and 25 December 2016	1,000,000	50,000	1,000,000	50,000

	At 31 December 2017		At 25 December 2016	
	Number	£	Number	£
Total shares				
At 31 December 2017 and 25 December 2016	45,000,000	2,250,000	45,000,000	2,250,000

## 19. Share-based payments

The amount recognised for share-based payments in respect of employee services received during the 53 weeks ended 31 December 2017 was a credit of £13,000 (2016: £1,021,000 expense). 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 1,154,598 awards were granted (2016: 903,636). At 31 December 2017, there were 2012 LTIP awards over 1,107,971 (2016: 2,275,664) shares in Domino's Pizza Group plc.

The weighted average remaining contractual life of the options outstanding at 31 December 2017 was 1.4 years (2016: 4.3 years). The weighted average share price for options exercised during 2017 was 281.9 (2016: 341.3p).

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 31 December 2017:

	53 weeks ended 31 December 2017
Weighted average fair value	159.0p
Weighted average share price	271.6p
Weighted average exercise price	0.00p
Expected dividend yield	3.04%
Risk-free rates	0.25%
Expected volatility	29.89%

# Notes to the financial statements (continued)

53 weeks ended 31 December 2017

## 19. Share-based payments (continued)

Further information on the Group's 2012 and 2016 LTIP awards are given in the Executive Director policy table on pages 44 to 47 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 2017 was 240.3p (2016: 190.7p).

## 20. Related party transactions

	Sales to related party £000	Amounts owed by related party £000
<b>Related party</b>		
Associates and joint ventures		
<b>31 December 2017</b>	30,829	1,125
25 December 2016	26,776	1,545
Sheermans Limited		
<b>31 December 2017</b>	6,116	167
25 December 2016	-	-

### Terms and conditions of transactions with related parties

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 31 December 2017, the Company has made a provision of £nil for doubtful debts relating to amounts owed by related parties (2016: £nil).

## 21. 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 31 December 2017 £000	At 25 December 2016 £000
Not later than one year	797	1,491
After one year but not more than five years	1,606	2,043
After five years	884	-
	<b>3,287</b>	<b>3,534</b>

## 22. 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.

## Notes to the financial statements (continued)

53 weeks ended 31 December 2017

### 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.