



Domino's Pizza Enterprises Limited
1/485 Kingsford Smith Drive
Hamilton, QLD, Australia 4007
ACN: 010 489 326
www.dominos.com.au

19 February 2020

The Manager

Market Announcements Office

Australian Securities Exchange

4th Floor, 20 Bridge Street

SYDNEY NSW 2000

Dear Sir

Appendix 4D and financial statements for the half-year ended 29 December 2019

Please find attached for immediate release to the market the following documents in respect of the half-year ended 29 December 2019:

- (a) Appendix 4D
- (b) 2020 half-year financial statements.

For further information, contact Nathan Scholz, Head of Investor Relations at investor.relations@dominos.com.au or on +61-419-243-517.

Authorised for lodgement by the Board.

Craig Ryan

Company Secretary

END

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DOMINO'S PIZZA ENTERPRISES LIMITED

ACN 010 489 326

Half-year Financial Report
for the half-year ended 29 December 2019

This half-year report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3

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APPENDIX 4D

DOMINO'S PIZZA ENTERPRISES LIMITED

Current reporting period: Half-year ended ended 29 December 2019

Previous reporting period: Half-year ended ended 30 December 2018

SECTION A: RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Percentage change%		Amount \$'million	
Revenue and net profit				
Revenue from ordinary activities	Up	29.0%	to	905.8
Profit from ordinary activities after tax from continuing operations	Up	34.3%	to	71.0
Profit from ordinary activities after tax attributable to members	Up	29.8%	to	69.2
Net profit attributable to members	Up	29.8%	to	69.2

Dividends

	Amount per security (cents)	Franked percentage per security
Final dividend in respect of full year ended 30 June 2019 paid 12 September 2019	52.8	100%
Interim dividend payable in respect of half-year ended 29 December 2019	66.7	100%

Record date for determining entitlements to the dividend: 26 February 2020

	29 December 2019 \$	30 June 2019 \$
Net tangible assets per security		
Net tangible assets per security	(5.15)	(5.81)

SECTION B: COMMENTARY ON RESULTS

For comments on trading performance during the half-year, refer to the media release.

The interim 100% franked dividend of 66.7 cents per share was approved by the Board of directors on 18 February 2020. In complying with accounting standards, as the dividend was not approved prior to period end, no provision has been taken up for this dividend in the half-year financial report.



DIRECTORS' REPORT

The directors of Domino's Pizza Enterprises Limited (the Company or DPE) submit herewith the condensed financial report for the consolidated entity (the Company and its controlled entities) for the half-year ended 29 December 2019. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

The following persons held office as directors of Domino's Pizza Enterprises Limited during the half-year:

Jack Cowin
Ross Adler
Grant Bourke
Lynda O'Grady
Ursula Schreiber
Don Meij

REVIEW OF OPERATIONS

The following are the key operational highlights for the half-year.

CONSOLIDATED ENTITY

The consolidated profit after tax for the period from continuing operations is \$71.0 million (for the period ending 30 December 2018: \$52.8 million). For the period ending 29 December 2019 net profit before tax has been impacted by one-off significant charges totalling \$5.7 million compared to \$25.7 million for the comparative half.

The Group's revenue was \$905.8 million compared with \$702.0 million in the first half of 2018/19. Revenue increased from changes made to the Australian warehouse and distribution arrangements which resulted in the agreements being accounted for as a principal arrangement and hence the associated revenue being recognised on a gross basis. Revenue also increased from Same Store Sales (SSS) growth of 4.1% and continued organic new store openings.

In relation to the one-off significant charges, ANZ incurred \$1.1 million relating to legal fees associated with a class action. Europe incurred \$4.6 million of costs relating to Denmark integration and establishment costs, as well as the conversion of Hallo Pizza in Germany and Pizza Sprint in France to Domino's branded stores.

The effective tax rate (tax expense divided by profit before tax) is 30.8%, compared to 30.4% for the first half of 2018/19 and a fully franked dividend of 66.7 cents per share will be paid on 13 March 2020.

Cash from operating activities is \$133.4 million for the first half compared to \$82.9 million in the first half of 2018/19. This increase is mainly due to reduction in one-off significant charges of \$19.8 million, strong operating performance in ANZ, Japan and Europe, and improvement to working capital movements.

The consolidated entity's overall risk management and governance strategies have not substantially changed since the last full year annual report.

AUSTRALIA/NEW ZEALAND OPERATIONS

ANZ EBIT increased \$9.4 million mainly as a result of a decrease in one-off significant charges. Revenue increased by \$137.1 million for the period compared with the first half of 2018/19. The revenue growth was impacted by changes made to the Australian warehouse and distribution arrangement, positive SSS for the period and an increase in net store openings of 6.

EUROPE OPERATIONS

Europe EBIT increased by \$14.9 million as a result of a reduction of one-off significant charges. Revenue increased by \$17.2 million compared with the first half of 2018/19. The revenue growth is driven by SSS growth for the period and continued new stores expansion; with 37 new stores additions in the first half of 2019/20 and offset by 11 planned store closures relating to the consolidation of Hallo Pizza and Sprint stores. Europe has continued its digital growth in all markets in which it operates.

JAPAN OPERATIONS

Japan EBIT and revenue increased by \$4.5 million and \$49.4 million respectively, compared with the first half of 2018/19. Japan's results benefited from strong SSS growth and 42 net store openings.



DIRECTORS' REPORT (CONTINUED)

REVIEW OF OPERATIONS (CONTINUED)

EBIT is a non IFRS performance measure and is defined in the glossary of the 2019 Annual Financial Report. This information is disclosed above as it represents a key measure used by management in describing and managing the performance of the business and operations for the year. Non IFRS measures have not been audited or reviewed in accordance with Australian Auditing Standards.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 4 of the half-year condensed consolidated financial report.

ROUNDING OFF OF AMOUNTS

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the half-year condensed consolidated financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of the directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the directors

Jack Cowin
Non-Executive Chairman
Sydney, 18 February 2020

Don Meij
Managing Director/ Group Chief Executive Officer
Sydney, 18 February 2020



**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF DOMINO'S PIZZA ENTERPRISES LIMITED**

Deloitte.

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18 February 2020

The Directors
Domino's Pizza Enterprises Limited
Level 1, KSD1
485 Kingsford Smith Drive
HAMILTON QLD 4007

Dear Directors

Auditor's Independence Declaration to Domino's Pizza Enterprises Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Domino's Pizza Enterprises Limited.

As lead audit partner for the review of the consolidated half year financial report of Domino's Pizza Enterprises Limited for the half-year ended 29 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully

DELOITTE TOUCHE TOHMATSU

Matthew Donaldson
Partner
Chartered Accountants

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**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF DOMINO'S PIZZA ENTERPRISES LIMITED**

Deloitte.

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**Independent Auditor's Review Report to the
Members of Domino's Pizza Enterprises
Limited**

We have reviewed the accompanying half-year financial report of Domino's Pizza Enterprises Limited, which comprises the condensed consolidated statement of financial position as at 29 December 2019, the condensed consolidated statement of profit and loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 7 to 26.

Directors' Responsibility for the Half-Year Financial Report

The directors' of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 29 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Domino's Pizza Enterprises Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF DOMINO'S PIZZA ENTERPRISES LIMITED (CONTINUED)

Deloitte.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Domino's Pizza Enterprises, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Domino's Pizza Enterprises Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 29 December 2019 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Matthew Donaldson
Partner
Chartered Accountants
Brisbane, 18 February 2020

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DIRECTORS' DECLARATION

The directors declare that:

1. in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the directors

Don Meij

Managing Director/ Group Chief Executive Officer

Sydney, 18 February 2020

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**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 29 DECEMBER 2019**

	Note	29 December 2019 \$'000	30 December 2018 \$'000
Continuing operations			
Revenue	3	905,753	702,041
Other gains and losses		11,285	5,161
Finance income		2,383	-
Food, equipment and packaging expenses		(361,878)	(220,405)
Employee benefits expense		(170,191)	(144,971)
Plant and equipment costs		(11,052)	(11,452)
Depreciation and amortisation expense		(61,049)	(29,157)
Occupancy expenses		(2,637)	(23,764)
Finance costs		(9,727)	(6,694)
Marketing expenses		(88,596)	(77,897)
Royalties expense		(38,144)	(32,924)
Store related expenses		(13,551)	(11,674)
Communication expenses		(12,622)	(9,675)
Acquisition, integration, conversion and legal settlement costs		(5,677)	(25,445)
Other expenses		(41,683)	(37,231)
Profit before tax		102,614	75,913
Income tax expense		(31,627)	(23,065)
Profit for the period from continuing operations		70,987	52,848
Other comprehensive income			
Item that may be reclassified to profit or loss			
Gain/(loss) on net investment hedge taken to equity		1,998	(4,291)
Exchange differences arising on translation of foreign operations		(5,630)	19,198
Gain/(loss) on cash flow hedges taken to equity		1,942	(1,276)
Income tax relating to components of other comprehensive income		(1,221)	1,667
Other comprehensive (loss)/income for the period, net of tax		(2,911)	15,298
Total comprehensive income for the period		68,076	68,146
Profit is attributable to:			
Owners of Domino's Pizza Enterprises Limited		69,219	53,318
Non-controlling interests		1,768	(470)
Total profit for the period		70,987	52,848
Total comprehensive income for the period is attributable to:			
Owners of the parent		66,860	68,056
Non-controlling interests		1,216	90
Total comprehensive income for the period		68,076	68,146
		Cents	Cents
Earnings per share from continuing operations			
Basic (cents per share)		80.6	62.4
Diluted (cents per share)		80.6	62.2

The above Statement should be read in conjunction with the accompanying notes. The 29 December 2019 period results include the impact of AASB 16 *Leases*, whilst the 30 December 2018 period results were prepared under the previous lease accounting standard; refer to note 1 for the nature and effect of the implementation of this new accounting standard.



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 29 DECEMBER 2019

	Note	29 December 2019 \$'000	30 June 2019 \$'000
Assets			
Current assets			
Cash and cash equivalents		126,869	101,404
Trade and other receivables		144,946	93,902
Other financial assets		16,388	16,528
Inventories		31,376	22,110
Current tax assets		445	1,579
Other assets		30,887	29,784
Investment in lease assets		45,289	-
Total current assets		396,200	265,307
Non-current assets			
Other financial assets		70,266	70,413
Investment in joint venture		2,525	3,121
Property, plant and equipment		252,991	253,152
Deferred tax assets		735	2,618
Goodwill	5	474,028	475,005
Intangible assets		371,868	368,797
Right of use assets		343,633	-
Investment in lease assets		336,935	-
Total non-current assets		1,852,981	1,173,106
Total assets		2,249,181	1,438,413
Liabilities			
Current liabilities			
Trade and other payables		269,686	188,608
Contract liabilities		2,998	3,051
Lease liabilities		99,305	-
Borrowings	6	-	5,373
Other financial liabilities		12,389	12,360
Current tax liabilities		10,514	25,944
Provisions		11,549	11,136
Total current liabilities		406,441	246,472
Non-current liabilities			
Contract liabilities		14,934	15,645
Lease liabilities		635,002	-
Borrowings	6	621,344	646,076
Other financial liabilities		97,591	114,146
Deferred tax liabilities		62,399	60,088
Provisions		9,964	9,979
Total non-current liabilities		1,441,234	845,934
Total liabilities		1,847,675	1,092,406
Net assets		401,506	346,007
Equity			
Issued capital	7	235,420	206,218
Reserves		(50,140)	(57,271)
Retained earnings		216,226	197,060
Total equity		401,506	346,007

The above statement should be read in conjunction with the accompanying notes. The 29 December 2019 period include the impact of AASB16 *Leases*, whilst the 30 June 2019 period was prepared under the previous lease accounting standard; refer to note 1 for details of the nature and effect of the implementation of this new accounting standard.



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 29 DECEMBER 2019

	Issued capital \$'000	Hedging reserve \$'000	Foreign currency translation reserve \$'000	Other reserve \$'000	Retained earnings \$'000	Non- controlling interests \$'000	Total \$'000
Balance at 01 July 2018	192,808	(3,945)	17,206	(89,632)	191,227	-	307,664
Changes in accounting policies	-	-	-	-	(13,955)	(17)	(13,972)
Restated equity at 02 July 2018	192,808	(3,945)	17,206	(89,632)	177,272	(17)	293,692
Profit for the period	-	-	-	-	53,318	(470)	52,848
Other comprehensive income	-	(3,900)	18,638	-	-	560	15,298
Total comprehensive income	-	(3,900)	18,638	-	53,318	90	68,146
Non-controlling interests	-	-	-	-	-	(5,878)	(5,878)
Issue of employee share options	9,096	-	-	-	-	-	9,096
Share options trust	-	-	-	(1,070)	-	-	(1,070)
Recognition of share-based payments	-	-	-	911	-	-	911
Non-controlling interest put option	-	-	-	2,655	-	5,805	8,460
Payment of dividends	-	-	-	-	(42,431)	-	(42,431)
Balance at 30 December 2018	201,904	(7,845)	35,844	(87,136)	188,159	-	330,926
Balance at 01 July 2019	206,218	(6,714)	42,861	(93,418)	197,060	-	346,007
Changes in accounting policies	-	-	-	-	(4,768)	(18)	(4,786)
Restated equity at 01 July 2019	206,218	(6,714)	42,861	(93,418)	192,292	(18)	341,221
Profit for the period	-	-	-	-	69,219	1,768	70,987
Other comprehensive income	-	2,719	(5,078)	-	-	(552)	(2,911)
Total comprehensive income	-	2,719	(5,078)	-	69,219	1,216	68,076
Non-controlling interests	-	-	-	-	-	828	828
Issue of employee share options	29,202	-	-	-	-	-	29,202
Share options trust	-	-	-	889	-	-	889
Recognition of share-based payments	-	-	-	(3,910)	-	-	(3,910)
Non-controlling interest put option	-	-	-	12,511	-	(2,026)	10,485
Payment of dividends	-	-	-	-	(45,285)	-	(45,285)
Balance at 29 December 2019	235,420	(3,995)	37,783	(83,928)	216,226	-	401,506

The above statement should be read in conjunction with the accompanying notes. The 29 December 2019 period includes the impact of AASB 16 *Leases*, whilst the 30 December 2018 period results were prepared under the previous lease accounting standard; refer to note 1 for the nature and effect of the implementation of this new accounting standard.



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 29 DECEMBER 2019

	Note	29 December 2019 \$'000	30 December 2018 \$'000
Cash flows from operating activities			
Receipts from customers		947,052	763,470
Payments to suppliers and employees		(770,970)	(651,616)
Interest received		4,612	2,472
Interest and other finance costs		(9,187)	(6,129)
Income taxes paid		(38,126)	(25,280)
Net cash generated from operating activities	8	133,381	82,917
Cash flows from investing activities			
Proceeds from franchisees		22,027	13,812
Payments for intangible assets		(17,712)	(14,987)
Payments for property, plant and equipment		(47,244)	(35,846)
Proceeds from sale of non-current assets		6,644	5,052
Acquisition of stores net of cash		(12,937)	(13,904)
Acquisition of subsidiaries		(1,500)	(650)
Net cash inflow on investment in joint ventures		75	150
Net cash used in investing activities		(50,647)	(46,373)
Cash flows from financing activities			
Proceeds from issues of equity securities		24,744	6,890
Contributions from non-controlling interests		1,419	-
Proceeds from borrowings		94,028	128,957
Repayment of borrowings		(102,876)	(130,900)
Payments for establishment of borrowings		(20)	(62)
Payments of finance leases		-	(3,807)
Receipts from subleases		21,990	-
Lease principal payments		(50,033)	-
Dividends paid		(45,285)	(42,431)
Net cash used from financing activities		(56,033)	(41,353)
Net (decrease)/increase in cash and cash equivalents		26,701	(4,809)
Cash and cash equivalents at the beginning of the period		101,404	75,996
Effects of exchange rate changes on the balance of cash held in foreign currencies		(1,236)	2,634
Cash and cash equivalents at the end of the period		126,869	73,821

The above Statement should be read with in conjunction with the accompanying notes. The 29 December 2019 period results include the impact of AASB 16 *Leases*, whilst the 30 December 2018 period results were prepared under the previous lease accounting standard; refer to note 1 for the nature and effect of the implementation of this new accounting standard.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

Domino's Pizza Enterprises Limited ("the Company") is a Company domiciled in Australia. The financial report for the half-year ending 29 December 2019 comprises the condensed consolidated financial statements of the Company and its controlled entities (together referred to as the "consolidated entity" or "Group"). The annual financial report of the consolidated entity as at and for the year ended 30 June 2019 is available on request from the Company's registered office at Level 1, KSD1 485 Kingsford Smith Drive, Hamilton Qld 4007 or at www.dominos.com.au.

STATEMENT OF COMPLIANCE

The half-year financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the annual financial report of the consolidated entity for the financial year ended 30 June 2019 and public announcements made by the Company.

BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a Company of the kind referred to in *ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the half-year condensed consolidated financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2019 annual financial report for the financial year ended 30 June 2019, except for the impact of the Standards and Interpretations described below and any new accounting policies adopted by the consolidated entity during the period. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

BASIS OF GOING CONCERN

The financial statements have been prepared on the basis that the Group will continue as a going concern. The Group has a net current liability position of \$10.2 million at 29 December 2019 (30 June 2019: net current asset position \$18.9 million) which is due to the implementation of AASB 16 *Leases*, which increased the net current liability position by \$47.8 million.

The Directors have concluded that there are reasonable grounds to believe that the going concern basis is appropriate, and that assets are likely to be realised, and liabilities are likely to be discharged, at the amounts recognised in the financial statements in the ordinary course of business.

APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2019, except for the adoption of new standards effective as of 01 July 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

The Group applies, for the first time, AASB 16 *Leases*. As required by IAS 34, the nature and effect of these changes are disclosed below.

AASB 16 LEASES- APPLIED FROM 01 JULY 2019

AASB 16 *Leases* ("AASB 16") replaces AASB 117 *Leases* for annual periods beginning on or after 01 July 2019, resulting in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases has been removed in respect of lessees. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short term and low-value leases. The accounting for lessors has not significantly changed.

IMPACT OF ADOPTION

The Group has adopted AASB 16 from 1 July 2019.



1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 16 introduces new or amended requirements with respect to lease accounting. The impact of the adoption of AASB 16 on the Group's consolidated financial statements is described below.

The Group has applied AASB 16 using the cumulative catch-up approach which:

- requires the Group to recognise the cumulative effect of initially applying AASB 16 as an adjustment to the opening balance of retained earnings at the date of initial application; and
- does not permit restatement of comparatives, which continue to be presented under AASB 117 and IFRIC 4.

Impact of the new definition of a lease

The Group applies the definition of a lease and related guidance set out in AASB 16 to all lease contracts entered into or changed on or after 1 July 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of AASB 16, the Group has carried out an implementation project. The project has shown that the new definition in AASB 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases, with reasonably similar characteristics;
- The exclusion of initial direct cost for the measurement of the right-of-use asset at the date of initial application;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application; and
- For leases of low-value assets (which includes tablets and, laptops computers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. This expense is presented within 'other expenses' in profit or loss.

Group's leasing activities and how these are accounted for

The Group leases various properties, trucks and cars. Lease contracts are typically made for fixed periods of 3 to 10 years. The Group's leases may have extension options as noted below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Domino's Occupied-Operated Properties, Trucks and Cars

Leasehold properties occupied by the Group are primarily Group operated Domino's branded stores, warehouses and offices. For these properties, the balance sheet has been adjusted to recognise a right of use asset and associated liability. Leased trucks and cars are primarily Group branded vehicles utilised by Domino's branded stores. The financial liability is measured at the net present value of future payments under the lease, including optional renewal periods, where the Group has assessed that the probability of exercising the renewal is reasonably certain.

On transition, the right of use asset has been measured, on a lease by lease basis, at either (a) the value of lease liability adjusted for any prepaid or accrued lease payments; or (b) present value of committed lease payment since commencement of the lease term (this approach resulted in an adjustment to opening retained earnings).

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

In the income statement, net rental expense has been replaced by interest and straight-line depreciation expense (previously operating leases were an expense within occupancy costs). As the lease liability is carried at the present value, an interest expense will arise over the duration of the lease term. This impacts the Group's earnings before interest and tax ('EBIT'), which is a key measure used by the business. The principal component of lease payments has been reclassified in the current period in the statement of cash flows from operating to financing activities.

The Group has elected to use the exemptions in the standard on lease contracts for which the underlying asset is of low value and if the lease term is less than 12 months.

The right of use assets are depreciated on a straight-line basis over the lease term; which is inclusive of extension option periods where the Group is reasonably certain the lease term will be extended. The lease terms range from 1 to 10 years for equipment (trucks and cars) leases and 2 to 25 years for property leases.



1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Former finance leases

For leases that were classified as finance leases applying AASB 117, the carrying amount of the leased assets and obligations under finance leases measured applying AASB 117 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments.

Subleases Arrangements

The Group has a portfolio of long-term (greater than one year) 'back-to-back' property leases which secure competitive store locations on behalf of franchisees. Cash flows under these arrangements substantially offset each other.

For back-to-back leases, the adoption of AASB 16 has resulted in the recognition of a financial asset and financial liability, representing the present value of future cash flows receivable on the subleases and payable on the head lease respectively. Both categories of financial instruments generate interest income and expense, which materially offset within the income statement.

The financial assets recognised in relation to back-to-back leases have been recognised as "Investment in lease assets" in the Statement of Financial Position. The receipts from these back-to-back leases are included in "Receipts from subleases" in the Statement of Cash Flows within the financing activities. Lease payments are now classified within financing activities which were previously in operating cash flows.

The recoverability of the financial assets is assessed at each reporting date.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options held by the Group (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Group.

Financial impact of initial application of AASB 16

The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 July 2019 is 0.97%.

The following table shows the operating lease commitments disclosed applying AASB 117 at 30 June 2019, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

	\$'000
Operating lease commitments as at 30 June 2019	423,914
(Less): Discounted using incremental borrowing rate	(12,534)
(Less): Short-term and low-value assets recognised on straight line basis	(2,434)
(Less): Non-lease components	(15,864)
Add: Former finance leases reclassified from borrowings to lease liabilities	16,632
Add: Adjustments as result of a different treatment of extension and termination options	321,385
Lease liability recognised as at 01 July 2019	731,099



1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The change in accounting policy affected the following items in the balance sheet on 01 July 2019:

Extract - Consolidated Statement of Financial Position - 01 July 2019 **\$'000**

Property, plant and equipment	(16,655)
Right of use assets	337,453
Investment in lease assets	385,679
Deferred tax assets	2,021
Total assets	708,498
Borrowings	(16,632)
Other financial liabilities	(1,183)
Lease liabilities	731,099
Total liabilities	713,284
Reserves	(18)
Retained earnings	(4,768)
Total equity	(4,786)

Set out below are the amounts by which the Group's results are affected for period ending 29 December 2019 as a result of the adoption of AASB 16. The adoption of AASB 16 did not have a material impact on the Group's net profit after tax or other comprehensive income. The first column shows amounts prepared under AASB 117, had AASB 16 not been adopted and the second column shows the amount under AASB 16, which the Group has adopted.

Impact on the Group's results for the period ending 29 December 2019

	Prepared under AASB 117 \$'000	Prepared under AASB 16 \$'000	Impact \$'000
EBITDA	145,291	171,007	25,716
Depreciation and amortisation expense	(36,112)	(61,049)	(24,937)
EBIT	109,179	109,958	779
Finance income	-	2,383	2,383
Finance costs	(6,308)	(9,727)	(3,419)
Profit before tax	102,871	102,614	(257)
Income tax expense	(31,711)	(31,627)	84
Profit for the period from continuing operations	71,160	70,987	(173)



1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact on the Group's Statement of Financial Position as at 29 December 2019

	Prepared under AASB 117 \$'000	Prepared under AASB 16 \$'000	Impact \$'000
Investment in lease assets	-	45,289	45,289
Total current assets	350,911	396,200	45,289
Property, plant and equipment	271,819	252,991	(18,828)
Deferred tax assets	405	735	330
Right of use asset	-	343,633	343,633
Investment in lease assets	-	336,935	336,935
Total non-current assets	1,190,911	1,852,981	662,070
Total assets	1,541,822	2,249,181	707,359
Borrowings	6,194	-	(6,194)
Other financial liabilities	12,440	12,389	(51)
Lease liabilities	-	99,305	99,305
Total current liabilities	313,381	406,441	93,060
Borrowings	634,268	621,344	(12,924)
Other financial liabilities	98,537	97,591	(946)
Provisions	10,090	9,964	(126)
Deferred tax liabilities	64,503	62,399	(2,104)
Lease liabilities	-	635,002	635,002
Total non-current liabilities	822,332	1,441,234	618,902
Total liabilities	1,135,713	1,847,675	711,962
Net assets	406,109	401,506	(4,603)
Reserves	(50,132)	(50,140)	(8)
Retained earnings	220,821	216,226	(4,595)
Total equity	406,109	401,506	(4,603)



2 SEGMENT INFORMATION

The consolidated entity has identified its operating segments on the basis of internal reports about components of the consolidated entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Information reported to the consolidated entity's Chief Executive Officer for the purpose of resource allocation and assessment of performance is specifically focused on the geographical location the consolidated entity operates in. The consolidated entity's reportable segments under AASB 8 are therefore as follows:

- Australia/New Zealand ("ANZ")
- Europe
- Japan

Information regarding these segments is presented below. The accounting policies of the reportable segments are the same as the consolidated entity's accounting policies. The following is an analysis of the revenue and results by reportable operating segment for the periods under review:

	Half-year ended 29 December 2019				
	ANZ \$'000	Europe \$'000	Japan \$'000	Unallocated ¹ \$'000	Total \$'000
Continuing operations					
Revenue	343,103	280,979	281,671	-	905,753
EBITDA	75,744	48,654	53,193	(6,584)	171,007
Depreciation & amortisation	(18,768)	(15,951)	(26,330)	-	(61,049)
EBIT	56,976	32,703	26,863	(6,584)	109,958
Net finance costs					(7,344)
Net profit before tax					102,614

	Half-year ended 30 December 2018				
	ANZ \$'000	Europe \$'000	Japan \$'000	Unallocated ¹ \$'000	Total \$'000
Continuing operations					
Revenue	205,985	263,822	232,234	-	702,041
EBITDA	59,338	25,922	31,612	(5,108)	111,764
Depreciation & amortisation	(11,781)	(8,132)	(9,244)	-	(29,157)
EBIT	47,557	17,790	22,368	(5,108)	82,607
Net finance costs					(6,694)
Net profit before tax					75,913

¹During the period the Group has changed the structure of the internal organisation through the introduction of a "Unallocated" segment. The Unallocated segment represents corporate costs associated with the management and oversight of global functions which are shared by all the jurisdictions in which the Group operates. The Group has restated the comparative segment information.

The revenue reported above represents revenue generated from external customers and franchisees. There were no inter-segment sales during the period.

Segment net profit before tax represents the profit earned by each segment using the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.



2 SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the consolidated entity's assets by reportable operating segment:

	29 December 2019 \$'000	30 June 2019 \$'000
Continuing operations		
ANZ	612,411	295,821
Europe	772,307	564,705
Japan	864,463	577,887
Total segment assets	2,249,181	1,438,413
Unallocated assets	-	-
Total assets	2,249,181	1,438,413

The following is an analysis of the consolidated entity's liabilities by reportable operating segment:

	29 December 2019 \$'000	30 June 2019 \$'000
Continuing operations		
ANZ	(863,817)	(546,966)
Europe	(424,847)	(255,758)
Japan	(559,011)	(289,682)
Total segment liabilities	(1,847,675)	(1,092,406)
Unallocated liabilities	-	-
Total liabilities	(1,847,675)	(1,092,406)



3 REVENUE

Revenue is recognised when performance obligations under the relevant customer contracts are completed. Performance obligations may be completed at a point in time or over time.

In the following table, revenue is disaggregated by type and timing of revenue recognition. No single customer amounts to 10% or more of the Group's total external revenue.

The below table provides the timing of revenue recognition:

	Half-year ended 29 December 2019			
	ANZ \$'000	Europe \$'000	Japan \$'000	Total \$'000
Revenue type				
Revenue from sale of goods	232,220	198,757	254,166	685,143
Revenue from rendering of services ¹	109,398	82,038	26,945	218,381
Interest revenue	1,485	184	560	2,229
Total	343,103	280,979	281,671	905,753
Timing of revenue recognition				
At a point in time	252,634	203,964	257,373	713,971
Over time	90,469	77,015	24,298	191,782
Total	343,103	280,979	281,671	905,753

	Half-year ended 30 December 2018			
	ANZ \$'000	Europe \$'000	Japan \$'000	Total \$'000
Revenue type				
Revenue from the sale of goods	67,932	185,198	210,657	463,787
Revenue from rendering of services ¹	136,671	78,472	20,639	235,782
Interest revenue	1,382	152	938	2,472
Total	205,985	263,822	232,234	702,041
Timing of revenue recognition				
At a point in time	118,444	193,372	212,837	524,653
Over time	87,541	70,450	19,397	177,388
Total	205,985	263,822	232,234	702,041

¹Revenue for the rendering of services relates to franchise royalties, franchise service fees and supplier fees.



4 DIVIDENDS

	29 December 2019 \$'000	30 December 2018 \$'000
Recognised amounts		
Fully franked dividend for full year ended 30 June 2019: 52.8 cents (1 July 2018: partially franked 49.7 cents)	45,285	42,431
Unrecognised amounts		
Interim fully franked dividend for the half-year ended 29 December 2019: 66.7 cents (30 December 2018: partially franked 62.7 cents)	57,532	53,632

On 18 February 2020, the directors declared a fully franked interim dividend of 66.7 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2020, to be paid to shareholders on 13 March 2020. The dividend will be paid to all shareholders on the Register of Members on 26 February 2020. The total estimated dividend to be paid is \$57.5 million.

5 GOODWILL

	29 December 2019 \$'000	30 June 2019 \$'000
Gross carrying amount		
Cost	474,028	475,005
Accumulated amortisation and impairment	-	-
Net carrying amount	474,028	475,005
Movement		
Net carrying amount at the beginning of the year	475,005	428,804
Acquisitions of Domino's Pizza stores and other businesses	7,807	29,213
Disposals and write-offs	(2,374)	(7,591)
Other including foreign exchange movement	(6,410)	24,579
Net carrying amount at the end of the period	474,028	475,005

6 BORROWINGS

	29 December 2019 \$'000	30 June 2019 \$'000
Unsecured		
Bank loans	584,628	599,031
Loans from other entities	36,716	35,786
Finance lease liabilities ¹	-	16,632
	621,344	651,449
Current	-	5,373
Non-current	621,344	646,076
Total borrowings	621,344	651,449

¹ The balance at 29 December 2019 includes the impact of AASB 16 *Leases*, whilst the 30 June 2019 balance was prepared under the previous lease accounting standards; refer to note 1 for the nature and effect of the implementation of this new accounting standard.



7 ISSUED CAPITAL

	29 December 2019 \$'000	30 June 2019 \$'000
86,238,290 fully paid ordinary shares (30 June 2019: 85,634,040)	235,420	206,218

	29 December 2019		30 June 2019	
	Number of shares '000	Share capital \$'000	Number of shares '000	Share capital \$'000
Fully paid ordinary shares				
Balance at beginning of financial year	85,634	206,218	85,368	192,808
Shares issued:				
Issue of shares under executive share option plan	604	29,202	248	12,617
Issue of share capital for acquisition of businesses	-	-	18	793
Balance at the end of the period	86,238	235,420	85,634	206,218

TERMS AND CONDITIONS OF THE ESOP

The Company must not issue any shares or grant any option under this plan if, immediately after the issue or grant, the sum of the total number of unissued shares over which options, rights or other options (which remain outstanding) have been granted under this plan and any other consolidated entity employee incentive scheme would exceed 7.5% of the total number of shares on issue on a fully diluted basis at the time of the proposed issue or grant.

Fully diluted basis means the number of shares which would be on issue if all those securities of the Company which are capable of being converted into shares, were converted into shares. If the number of shares into which the securities are capable of being converted cannot be calculated at the relevant time, those shares will be disregarded.

During the half-year ended 29 December 2019, a total of 297,000 share options over ordinary shares were issued under the ESOP, which had a fair value at grant date of \$11.79 per share option. These options vest once conditions are met, which are based on results of the following 3 financial years.

During the half-year ended 29 December 2019, a total of 604,250 options were exercised, increasing share capital by \$29.2 million.



8 NOTE TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit for the period to net cash flows from operating activities:

	Note	29 December 2019 \$'000	30 December 2018 \$'000
Profit for the period		70,987	52,848
Profit on sale of non-current assets		(11,224)	(5,774)
Equity settled share-based payments		548	3,116
Depreciation and amortisation		61,049	29,157
Share of associate entities net (profit)/loss		162	292
Other		(980)	1,657
Amortisation of loan establishment costs		540	566
Net cash provided by operating activities before changes in assets and liabilities		121,082	81,862
Movement in working capital			
(Increase)/decrease in assets:			
Trade and other receivables		(52,405)	(9,620)
Inventory		(9,683)	(6,295)
Other current assets		416	2,261
Increase/(decrease) in liabilities:			
Trade and other payables		80,986	17,575
Provisions		517	915
Deferred tax balances		5,793	(1,404)
Current tax assets and liabilities		(13,325)	(2,377)
Net cash from operating activities		133,381	82,917

Included in the movement of other financial assets are non-cash transactions of \$19.0 million (31 December 2018: \$13.5 million) relating to loans to franchisees.

9 ACQUISITION OF BUSINESSES

During the year the Group acquired a number of Domino's pizza branded stores from former and current franchisees. The below provides a summary of these acquisitions during the year by segment:

	ANZ	Europe	Japan	Total
Number of stores acquired	9	14	7	30
	ANZ \$'000	Europe \$'000	Japan \$'000	Total \$'000
Fair value on acquisition				
Inventories	41	-	-	41
Property, plant & equipment	1,138	2,298	836	4,272
Intangible assets	-	817	-	817
Total identifiable assets	1,179	3,115	836	5,130
Cash consideration	4,450	7,651	836	12,937
Less fair value of net identifiable assets	(1,179)	(3,115)	(836)	(5,130)
Goodwill	3,271	4,536	-	7,807



10 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

	29 December 2019 \$'000	30 June 2019 \$'000
Guarantees - Franchisee Loans and Leases	12,454	10,470
Total guarantees	12,454	10,470

Included above are guarantees provided to third party financial institutions in relation to franchisee loans. This is a contingent liability representing the amounts guaranteed in respect of franchisees that would not, without the guarantee, have been granted the loans. The directors believe that if the guarantees are ever called on, the Company will be able to recover the amounts paid on disposal of the stores.

Included above are guarantees provided by the Company to third party financial institutions in relation to borrowings of the European subsidiaries.

OTHER

SPEED RABBIT PIZZA

There are various separate French legal proceedings by a competitor, Speed Rabbit Pizza (SRP) against subsidiary, Domino's Pizza France (DPF) (the main claim) and seven SRP franchisees against DPF and the relevant DPF franchisees (the **local claims**). The allegations are that DPF and its franchisees breached French laws governing payment time limitations and lending, thereby giving DPF and its franchisees an unfair competitive advantage. SRP claimed significant damages for impediment of the development of its franchise network, lost royalty income from SRP franchisees and harm to SRP's image. DPF and its franchisees denied liability and vigorously defended the claims.

On 7 July 2014 the Court at first instance handed down its decision in the main claim, as well as in five of the local claims. All of the claims of SRP and the relevant SRP franchisees were dismissed. SRP filed an appeal to these decisions in the Court of Appeal, which dismissed the appeal of SRP in the main claim on 25 October 2017 and the appeal of SRP and/or SRP franchisees in five local claims on 12 December 2018. SRP then filed an appeal from the decision in the main claim and in 2 local claims to the Cour de Cassation i.e. the French highest Court.

The Cour de Cassation handed down its judgement on 15 January 2020 in the main claim which found errors of law in the Court of Appeal decision and set aside parts of the Court of Appeal's decision. The current status of the main claim is that the first instance decision stands and SRP is entitled to file a fresh appeal of that decision to the Court of Appeal. SRP has not yet filed any such appeal.

The Cour de cassation has not yet rendered its decision in the two above mentioned local claims.

For the sixth local claim, the Court found in favour of DPF at first instance on 27 September 2016, and SRP filed an appeal from this decision to the Court of Appeal. On 30 January 2018, the Court of Appeal dismissed the appeal of SRP in the sixth local claim. The two SRP franchisees filed an appeal from that decision to the Cour de Cassation which dismissed the appeal on 29 January 2020.

The seventh local claim has yet to be heard by the Court at first instance.

DPE denies all claims made and is vigorously defending the proceedings brought against it. DPE is confident of its legal and commercial position. Accordingly, no provision has been recognised as at 29 December 2019.



10 CONTINGENT LIABILITIES AND CONTINGENT ASSETS (CONTINUED)

OTHER (CONTINUED)

PIZZA SPRINT

In May 2016, proceedings were brought against Fra-Ma Pizz SAS and Pizza Center France SAS, the Pizza Sprint entities, by a number of former and current franchisees whom allege a significant imbalance in the rights and obligations by the franchisor. The alleged practices predated the acquisition of Pizza Sprint by the company, accordingly during the re-measurement period the company has adjusted the purchase price accounting to recognise a contingent liability and asset in relation to the above matter. A number of the claims by franchisees have been settled on a commercial basis.

The French Ministry for the Economy and Finance has also brought proceedings involving the same facts against Fra-Ma Pizz SAS, Pizza Center France SAS and Domino's Pizza France SAS. The claims are being defended. The franchisees have sought to have their proceedings joined to the proceedings brought by the Ministry, which DPF, Fra-Ma-Pizz SAS and Pizza Center France SAS have opposed. The decision handed down on this matter on 15 February 2018 has rejected this claim.

Hearing of the claims at the first instance has taken place on 24 June 2019 for all the Pizza Sprint proceedings (brought by the former and current franchisees and by the French Ministry for the Economy and Finance). The decision in the proceedings brought by the French Ministry for the Economy and Finance was handed down on 22 October 2019 and it did not impose any fine or financial charges on Fra-Ma Pizz SAS, Pizza Center France SAS or Domino's Pizza France. The Ministry for the Economy and Finance has filed an appeal from the decision. Five decisions in the proceedings brought by former and current franchisees were handed down on 3 December 2019 and the remaining decisions were handed down on 31 January 2020. Fra-Ma Pizz SAS and Domino's Pizza France SAS were ordered to pay a total amount of €3 million to certain Pizza Sprint franchisees. Appeals have been filed with the Paris Court of Appeal. The need to make the payment in each case has been suspended pending the outcome of the appeal.

CLASS ACTION

On 25 June 2019, Riley Gall, as the representative Applicant, commenced a representative proceeding (**class action**) against the Company in the Federal Court of Australia on behalf of Australian franchisee employees who were employed as delivery drivers or in-store workers between 24 June 2013 and 23 January 2018. The Company was formally served with the proceeding on 1 July 2019.

The Statement of Claim alleges, amongst other things, that Domino's misled its franchisees by advising them to pay delivery drivers and in-store workers under a series of industrial instruments and not the Fast Food Industry Award 2010. The Statement of Claim does not quantify the damages the claimants will seek in the proceedings for all or any part of the claim period.

The Company rejects the allegations and has been defending the action vigorously. A defence denying liability has been filed, and an application to have the Statement of Claim struck out has been listed for hearing on 20 April 2020.

The applicant's solicitors have not to date indicated how many franchisee employees are claiming damages as part of this representative proceeding. Accordingly, the Company remains unable to determine any potential obligation or financial impact arising from the damages claimed in the proceeding.

FRANCHISEE LITIGATION

On 20 December 2019, Fred White and his related franchisee companies (the **Applicants**) filed proceedings against the Company, Don Meij and a former Domino's executive (the **Respondents**) in the Federal Court of Australia (the **Proceedings**). The Company issued an Announcement to the ASX on 6 January 2020 and the Company was formally served with the Proceedings on 7 January 2020.

The Proceedings concern the profitability and trading performance of three stores owned by the Applicant franchisee companies in Western Australia, namely, the Balcatta, Tuart Hill and Mirrabooka stores. The Applicants allege that the splitting of the Balcatta store to create the Tuart Hill store in 2016 was the result of representations, decisions and practices alleged to have been made by one or more of the Respondents to Mr White of the Applicants. The Applicants allege that the Respondents' conduct caused the Applicants to suffer loss and damage. It is not possible to calculate the total alleged loss and damage from the Statement of Claim in its current form.

The Company rejects the allegations and is vigorously defending the Proceedings.



10 CONTINGENT LIABILITIES AND CONTINGENT ASSETS (CONTINUED)

OTHER (CONTINUED)

GENERAL CONTINGENCIES

As a global business, from time to time DPE is also subject to various claims and litigation from third parties during the ordinary course of its business. The directors of DPE have considered such matters which are or may be subject to claims or litigation at 29 December 2019 and unless specific provisions have been made are of the opinion that no material contingent liability for such claims of litigation exist. The group had no other material contingent assets or liabilities.

11 SUBSEQUENT EVENTS

DIVIDENDS

On 18 February 2020 the directors of Domino's Pizza Enterprises Limited declared an interim dividend on fully paid ordinary shares in respect of the year ended 28 June 2020. The total amount of dividend is estimated to be \$57.5 million, which represents a fully franked dividend of 66.7 cents per share. The dividend has not been recognised as a liability in the condensed consolidated financial statements for the half-year ended 29 December 2019.

12 FINANCIAL INSTRUMENTS

This note provides information about how the consolidated entity determines fair values of various financial assets and financial liabilities.

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table presents the Group's assets and liabilities measured and recognised at fair value at 29 December 2019.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
29 December 2019				
Recurring fair value measurements				
Financial assets				
Forward foreign exchange contracts	-	378	-	378
Total financial assets	-	378	-	378
Financial liabilities				
Interest rate swaps	-	1,441	-	1,441
Put option over non-controlling interest	-	-	76,196	76,196
Market access right	-	-	18,455	18,455
Contingent consideration	-	-	1,759	1,759
Total financial liabilities	-	1,441	96,410	97,851
30 June 2019				
Recurring fair value measurements				
Financial liabilities				
Interest rate swaps	-	2,349	-	2,349
Forward foreign exchange contracts	-	436	-	436
Put option over non-controlling interest	-	-	87,832	87,832
Market access right	-	-	19,859	19,859
Contingent consideration	-	-	2,806	2,806
Total financial liabilities	-	2,785	110,497	113,282

There have been no transfers between Level 1 and Level 2.

The only financial liabilities subsequently measured at fair value on Level 3 fair value measurement represent the fair value of the put option and market access right relating to the acquisition of Domino's Pizza Germany as well as contingent consideration relating to the acquisition of IPG Marketing Solutions Pty Ltd.

The opening balance for the put option liabilities was \$87.8 million and has a closing balance of \$76.2 million.

No gain or loss for the half-year relating to level 3 liabilities have been recognised in profit or loss.



12 FINANCIAL INSTRUMENTS (CONTINUED)

VALUATION TECHNIQUES USED TO DERIVE LEVEL 2 AND 3 FAIR VALUES

The fair values of the financial assets and financial liabilities included in the level 2 and 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties and long term revenue and profit growth rates.

The level 2 financial instruments have been valued using the discounted cash flow technique. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.

Specific valuation techniques used to value level 3 financial instruments include:

PUT OPTION OVER NON-CONTROLLING INTEREST

The valuation technique used is the unlevered price/earnings multiple which requires future earnings to be estimated. The significant unobservable inputs include adjusted unlevered price/earnings multiple and the put option is exercisable 4 years (January 2020) from date of the joint venture agreement (December 2015). The call option is exercisable 6 years (January 2022) from the date of the joint venture agreement. The earnings and margins are based on management's experience and knowledge of the market condition of the industry, with the higher earnings resulting in a higher fair value and the shorter the time period resulting in lower fair value.

MARKET ACCESS RIGHT

The valuation technique used is the income approach. In this approach the discounted cash flows were used to capture the future cost of the asset. The significant unobservable inputs include adjusted unlevered price/earnings multiple. The earnings and margins are based on management's experience and knowledge of the market conditions of the industry, with the higher the earnings the higher the fair value.

CONTINGENT CONSIDERATION IN A BUSINESS COMBINATION

Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration. The significant unobservable inputs include the projected gross margin based on management's experience and knowledge of market and industry conditions. Significant increase (decrease) in the gross profit would result in a higher (lower) fair value of the contingent consideration liability.