DP Eurasia N.V.

Annual Report and Accounts 2019

About us

DP Eurasia N.V. ("DP Eurasia" or the "Company") is the exclusive master franchisee of the Domino's Pizza brand in Turkey, Russia, Azerbaijan and Georgia.

Domino's Pizza is one of the most successful fast-food brands worldwide and a global leader in home delivery.

Visit us online at
www.dpeurasia.com

What's inside

Overview

2 At a glance
4 Highlights
5 Key financial figures

Management report

6 Chairman's statement
7 Competitive advantages
8 Vision and strategy
10 Message from the CEO
11 Key events
12 Business model
14 People
18 Product
20 Digital
22 Strategic review
28 Management report
32 Remuneration report
35 Directors' remuneration policy
44 Annual remuneration report
50 Board
52 Leadership team
53 Board attendance and composition
54 Corporate governance report
64 How we manage risk
75 Board declaration
76 Shares and shareholders

Group financial statements

80 Consolidated statement of comprehensive income
81 Consolidated statement of financial position
82 Consolidated statement of changes in equity
83 Consolidated statement of cash flows
84 Notes to the consolidated financial statements

Company financial statements

128 Company income statement
129 Company balance sheet
130 Notes to the Company financial statements

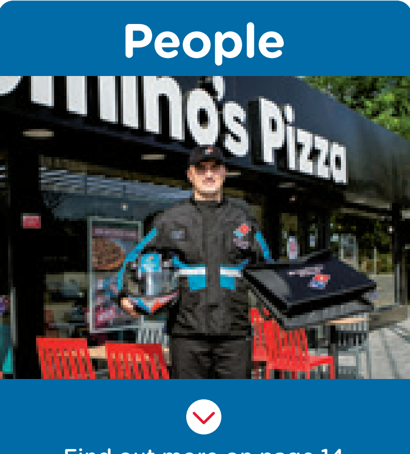
Other information

134 Independent auditor's report

Additional information

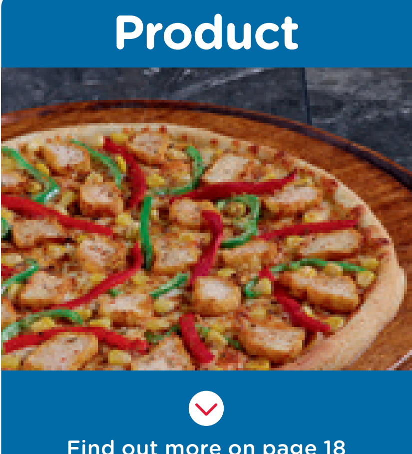
144 Contacts
144 Glossary

People



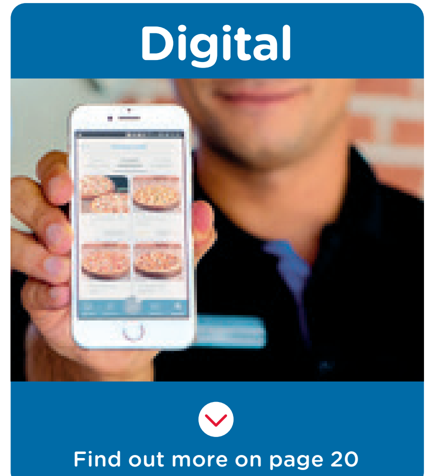
Find out more on page 14

Product



Find out more on page 18

Digital



Find out more on page 20

At a glance

Domino's Pizza is one of the most successful fast-food brands and an international leader in home delivery with global retail sales of over USD 14.3 billion in 2019. DP Eurasia is the fifth-largest master franchisee of the Domino's Pizza brand owned by Domino's Pizza Inc.

TRY 1.4 billion system sales

765 stores across 4 countries

68% franchised store mix

70% of delivery online

DP Eurasia together with its subsidiaries (the "Group") offers pizza delivery and takeaway/eat-in facilities at its 765 stores (as at 31 December 2019) across four countries (550 in Turkey, 203 in Russia, eight in Azerbaijan and four in Georgia).

The Group operates through its corporate stores and franchised stores (together, its "system stores"). As of 31 December 2019, 32% of the Group's system stores were corporate stores, principally located in densely populated cities, and 68% were franchised stores. The corporate stores serve as a platform to develop best practices that the Group subsequently deploys in its franchised stores.

Since 2010, the Group has rapidly expanded, opening (on a net basis) an average of approximately 70 system stores per year (from 2011 to 2019). As at 31 December 2019, the Group operated 765 system stores, of which 521 were franchised. The Group intends to continue to rapidly expand its store network in the future.

The Group has adapted the Domino's Pizza globally proven business model to its local markets. The Group has a centralised supply and procurement function, owning and operating seven commissaries which manufacture pizza dough and supply its system stores.

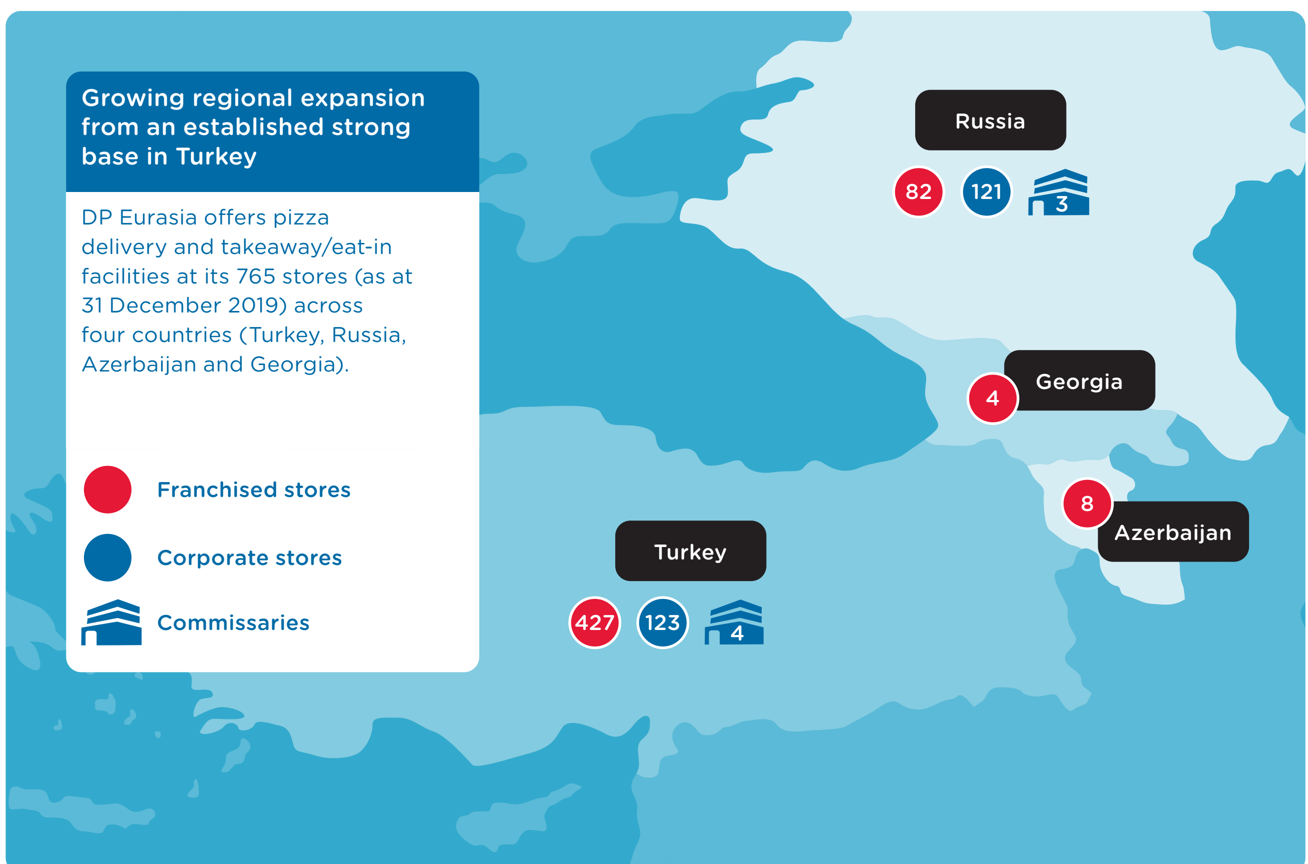
The Group offers consumers high quality, freshly made pizzas, which it tailors to local tastes, at attractive prices, delivered within 30 minutes of ordering. It also offers complementary products, side dishes such as chicken, and desserts, some of which have been developed by the Group's innovation centre in Istanbul and subsequently adopted by other master franchisees of Domino's Pizza around the world.

Our history

Founded in 1996 by our Chief Executive Officer, Aslan Saranga, the Group became the master franchisee of Domino's Pizza in Turkey, expanding rapidly, with its 100th store opening in Istanbul in 2008.

In 2012, the Group was awarded the exclusive master franchise of the Domino's System for Russia, and in 2015, the Group opened its first franchised stores in Azerbaijan and Georgia. In 2017, the Group listed on the premium segment of the London Stock Exchange. The Group today is the largest pizza delivery company in Turkey and the third-largest in Russia, in terms of number of stores.

Where we operate



Our vision

Vision

The Group's vision is to be an international leader in the areas in which it operates by utilising the best market practices and continually innovating to provide excellent services to both customers and the community.

Mission

The Group's mission is to create value for shareholders and respect the community in a socially responsible way.

Values

Underpinning the Group's ethical principles and business conduct are its core values of **ambition, integrity, cohesion** and **team spirit**.

Highlights

Financial highlights

- Group revenue up 14.4% and system sales up 21.8%, driven by like-for-like growth and store openings
  - Turkish systems sales growth of 14.9%
  - Russian system sales growth of 34.8% (17.5% based on RUB)
- Adjusted EBITDA (excl. IFRS 16) up 12.6% to TRY 124.5 million (2018: TRY 110.6 million)
- Adjusted net income (excl. IFRS 16) of TRY 3.2 million versus an adjusted net loss of TRY 7.1 million in 2018

Operational highlights

- 41 new stores were added over the last twelve months, bringing the total number to 765
- Group online system sales[7] growth of 39.8%
  - Turkish online system sales[7] growth of 33.5%
  - Russian online system sales[7] growth of 49.0% (29.9% based on RUB)
- Turkey and Russia continue to leverage online ordering; share of delivery system sales reached 70% for the year (2018: 61%)
- Management appointments completed in Russia and strategies to improve performance are already being implemented

(1) System sales are sales generated by the Group's corporate and franchised stores to external customers and do not represent revenue of the Group.

(2) Like-for-like growth is a comparison of sales between two periods that compares system sales of existing system stores. The Group's system stores that are included in like-for-like system sales comparisons are those that have operated for at least 52 weeks preceding the beginning of the first month of the period used in the like-for-like comparisons for a certain reporting period, assuming the relevant system store has not subsequently closed or been "split" (which involves the Group opening an additional store within the same map of an existing store or in an overlapping area).

(3) EBITDA, adjusted EBITDA and non-recurring and non-trade income/expenses are not defined by IFRS. These items are determined by the principles defined by the Group management and comprise income/expenses which are assumed by the Group management to not be part of the normal course of business and are non-trading items. These items which are not defined by IFRS are disclosed by the Group management separately for a better understanding and measurement of the sustainable performance of the Group. Please refer to Note 3 in the consolidated financial statements for a reconciliation of these items with IFRS.

(4) Adjusted net income is not defined by IFRS. Adjusted net income excludes income and expenses which are not part of the normal course of business and are non-recurring items. Management uses this measurement basis to focus on core trading activities of the business segments and to assist it in evaluating underlying business performance. Please refer to Note 3 in the consolidated financial statements for a reconciliation of this item with IFRS.

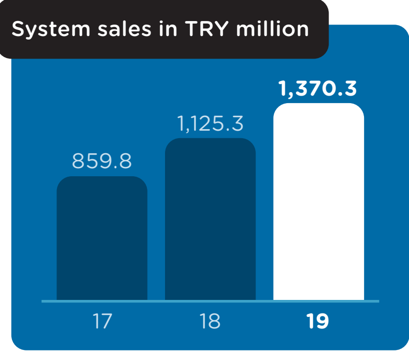
(5) Net debt and adjusted net debt are not defined by IFRS. Adjusted net debt includes cash deposits used as a loan guarantee and cash paid, but not collected during the non-working day at the year end. Management uses these numbers to focus on net debt including deposits not otherwise considered cash and cash equivalents under IFRS. Please refer to Note 18 in the consolidated financial statements for a reconciliation of these items with IFRS.

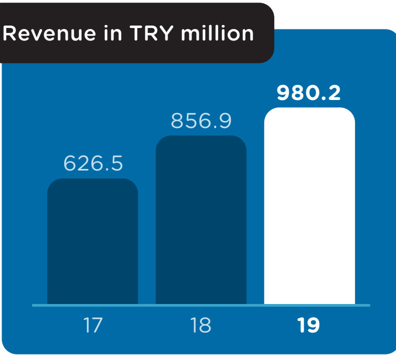
(6) Delivery system sales are system sales of the Group generated through the Group's delivery distribution channel.

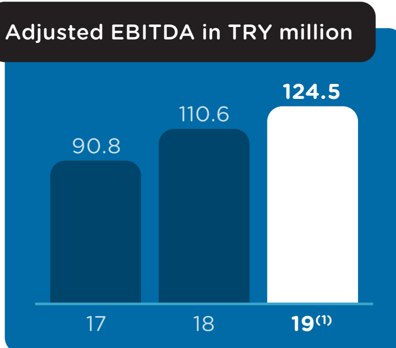
(7) Online system sales are system sales of the Group generated through its online ordering channel.

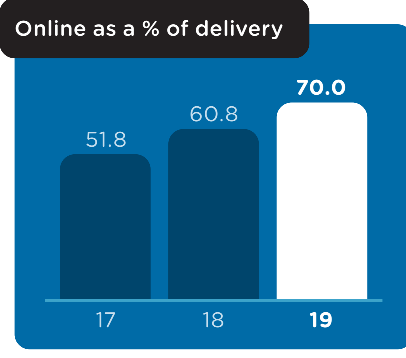
(8) Group like-for-like growth is a weighted average of the country like-for-like growths based on store numbers as described in Note (2) above.

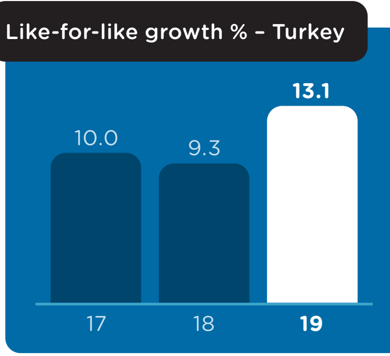
Key financial figures

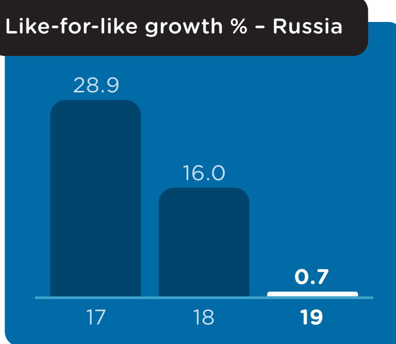












(1) Excluding IFRS 16.

For the year ended 31 December (in millions of TRY, unless otherwise indicated)	2019	2018	Change
Number of stores	**765**	724	41
Group system sales[1]			
Group	**1,370.3**	1,125.3	21.8%
Turkey	**845.7**	736.1	14.9%
Russia	**503.3**	373.5	34.8%
Azerbaijan & Georgia	**21.2**	15.7	34.8%
Group system sales like-for-like growth[2]			
Group[8]	**10.7%**	10.3%	
Turkey	**13.1%**	9.3%	
Russia (based on RUB)	**0.7%**	16.0%	
Group revenue	**980.2**	856.9	14.4%
Group adjusted EBITDA[3] (excl. IFRS 16)	**124.5**	110.6	12.6%
Group adjusted net income[4] (excl. IFRS 16)	**2.9**	(7.1)	n.m.
Group adjusted net debt[5] (excl. IFRS 16)	**226.5**	154.6	
Group adjusted EBITDA[3]	**189.8**	110.6	n.m.
Group adjusted net loss[4]	**(6.3)**	(7.1)	n.m.
Turkey adjusted EBITDA[3]	**134.6**	96.5	n.m.
Turkey adjusted EBITDA[3] (excl. IFRS 16)	**108.7**	96.5	12.6%
Russia adjusted EBITDA[3]	**63.9**	23.9	n.m.
Russia adjusted EBITDA[3] (excl. IFRS 16)	**24.5**	23.9	2.7%

Chairman's statement

Peter Williams
Chairman

> DP Eurasia continues to make a difference through its mission to become a tech company selling pizza.

I am about to start my fourth year as Chairman of DP Eurasia N.V and it is my pleasure to present the results for the year ended 31 December 2019.

In a period where the Group faced some challenges in Russia, the resilience of the Group was demonstrated by another year of solid growth. The Board is committed to developing the business by continuing to invest in people, technology and products.

Financial results

The strength of our business model and the Domino's brand underpins our robust financial results in 2019. Adjusted EBITDA increased by 12.6% to TRY 124.5 million, driven by revenue growth of 14.4% to TRY 980.2 million. We opened 41 stores across the Group in 2019, bringing the total store count by the year end to 765.

Our focus

Innovation, in respect of both our products and technology, continues to be the main driver of our strong performance with significant revenue increases in both of our markets. Online ordering as a percentage of delivery has reached 70%, an increase of more than nine percentage points from 2018 with the Russian business exceeding 80%.

In 2019 the Group focused on maintaining Domino's unique local cultural elements and integrating them with new technology-driven business needs. DP Eurasia continues to make a difference through its mission to become a tech company selling pizza.

Corporate governance

We continue to strive for transparency for shareholders and other stakeholders, with a view to maintaining and enhancing our corporate culture and governance framework. The corporate governance report set out on pages 54 to 63 provides details on how we are continuing to foster an environment of entrepreneurial leadership and innovation in a framework of responsible governance and risk management.

People

These results are a tribute to the ongoing dedication and commitment of Aslan and his teams during the past year. I would like to thank Aslan and all of our employees and franchisees for their valuable contribution and determination to succeed.

Outlook

The Board has been closely monitoring the Group's strategy as well as the financial and operational performance throughout the year. Issues with Russian regional franchisees have been successfully resolved, with the Group negotiating the acquisition of a majority of the stores in the regions.

We believe that with a sound management team and with committed franchisees, the Group is in a solid position to continue its growth strategy. We thank you for your trust and commitment in the months and years ahead.

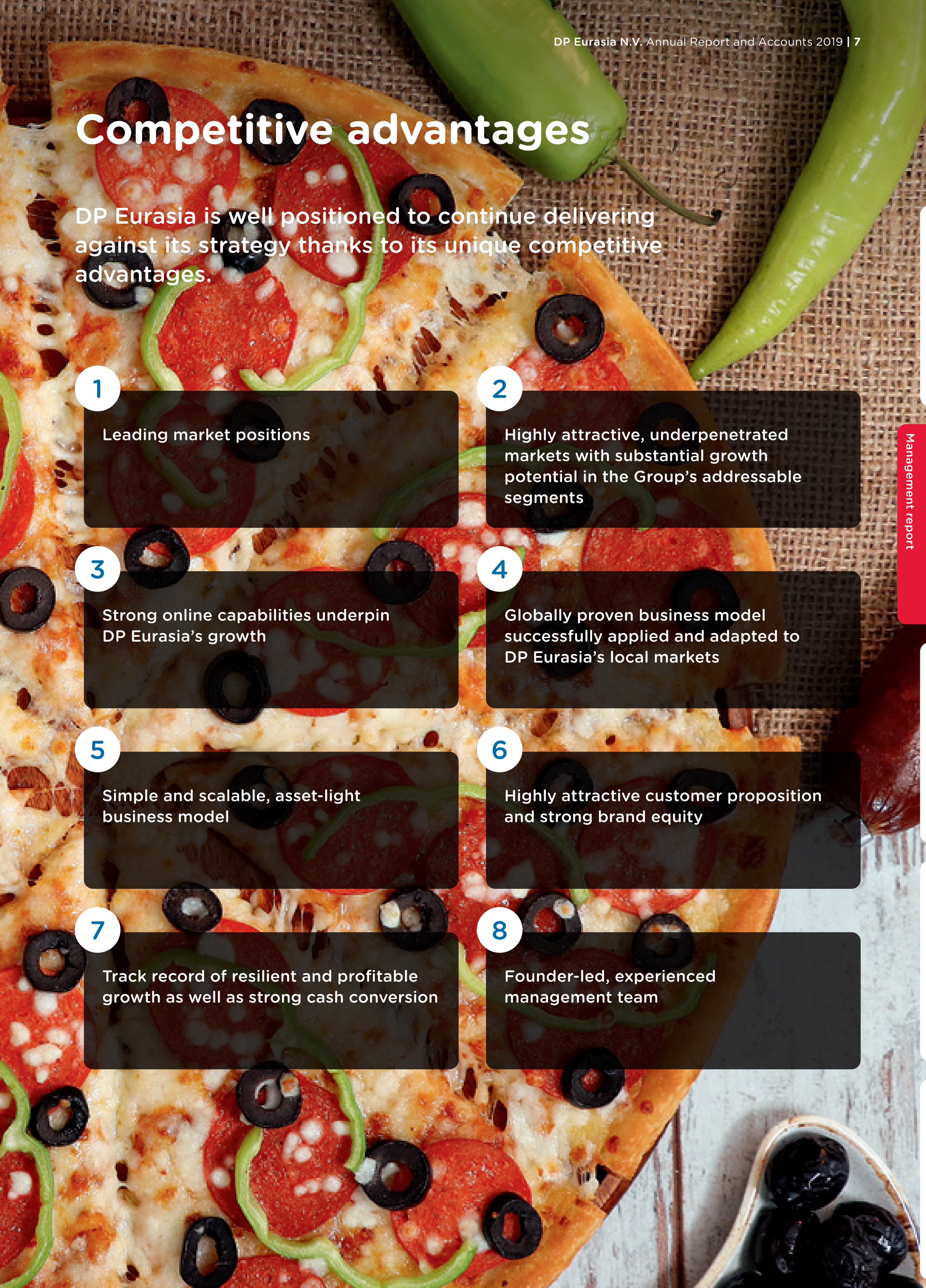
At the time of writing, events continue to unfold in regards to coronavirus (Covid-19) and it is currently unclear as to the impact on the Group and its business. For the time being, the Group has been following the guidance issued by the relevant local Governments and has put appropriate protections in place.

Peter Williams
Chairman

26 March 2020

Competitive advantages

DP Eurasia is well positioned to continue delivering against its strategy thanks to its unique competitive advantages.



1. Leading market positions
2. Highly attractive, underpenetrated markets with substantial growth potential in the Group's addressable segments
3. Strong online capabilities underpin DP Eurasia's growth
4. Globally proven business model successfully applied and adapted to DP Eurasia's local markets
5. Simple and scalable, asset-light business model
6. Highly attractive customer proposition and strong brand equity
7. Track record of resilient and profitable growth as well as strong cash conversion
8. Founder-led, experienced management team

Vision and strategy

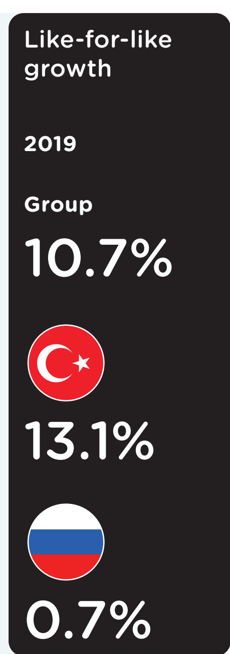
DP Eurasia has a simple and scalable, asset-light business model, offering globally recognised pizza products at a range of price points, adapted to local tastes.

DP Eurasia's strategy for growth is focused around four main pillars:

Focus on innovation and online ordering to drive like-for-like growth

As the online channel becomes more prominent in the Group's sales mix and continues to drive like-for-like growth, the Group's ordering channel strategy is focused on development of proprietary online ordering platforms for delivery and takeaway.

The Group's online delivery system sales as a percentage of delivery system sales has reached 70%, with Russia exceeding 80% in 2019.



Store network growth

The Group plans to capitalise on its strong market positions in its existing markets, where it believes there is significant capacity for further Domino's Pizza store locations. It intends to open new corporate and franchised stores, including "splits" of existing stores where demand supports further profitable growth. The Group evaluates its store locations from the perspective of potential sales, level of competition, number of households and GDP per capita. By pursuing its "castle" strategy, the Group is able to rapidly roll out clusters of complementary corporate and franchised stores, establishing greater area coverage, fulfilling its 30-minute delivery guarantee and building strong local brand awareness.

New stores

2019

+41

Leveraging scale advantage to further improve profitability

The Group believes that the operating leverage in its business in Turkey can create further value as the store and online footprint continues to increase. The nationwide scale of the Group's operations reinforces brand awareness, making Domino's Pizza a household name in Turkish fast food, thereby further driving sales and the system stores' contribution to the Group's national advertising initiatives.

In Russia, the Group expects to extract similar value from the operating leverage as the Group plans to continue to grow the franchise part of the business and increase the overall scale of the system.

Adjusted EBITDA (excluding IFRS 16) as a % of system sales

2019

12.5% (↓0.3%)

4.9% (↓1.5%)

Potential for further international expansion

While the Group's current focus is on the development of the business in its current markets, the Group may consider acquiring other master franchise licences and expanding to territories currently unpenetrated by the Domino's System.

Such international expansion is a discretionary strategy that the Group will consider and pursue on an opportunistic basis should valuations prove attractive.

Message from the CEO

Aslan Saranga
Chief Executive Officer

On behalf of the Board, I am pleased to report another year of solid growth in 2019.

On behalf of the Board, I am pleased to report another year of solid growth in 2019. We continued to grow our store portfolio, adding 41 stores during 2019 and reaching a total of 765 stores across our four countries of operations.

The Turkish business performed strongly in 2019 despite macro headwinds and posted a rising performance in each successive quarter. Due to the recovery in macro parameters, the strong momentum has continued in Turkey into Q1 2020.

In Russia, we successfully resolved certain issues with regional franchisees by acquiring and converting their stores to corporate stores. The challenge in Russia in terms of like-for-like growth in 2019 was mainly attributable to record advertising spend by online aggregators fighting for market dominance and increasing delivery fast food competition through the aggregators.

We have completed the appointment of our Russian management team and launched a new marketing strategy in Russia with effect from the end of February to address the new market dynamics.

We continue to focus on product innovation to drive growth; a key element of the Group's success achieved to date. Following our introduction of the co-branded KitKat® chocolate pizza and "Dürümos" wrap, we introduced four additional types of oven-baked sandwiches in Turkey. We have relaunched the wrap and the pizza Quadro (rectangular pizza) at attractive entry-level prices in Russia. Additionally, we will start trialling the loyalty programme in Russia during 2020.

Digital continues to drive our business forward with significant growth achieved in two of our markets. Online ordering as a percentage of delivery has reached 70% across the Group, an increase of more than nine percentage points from 2018, with the Russian business exceeding 80%.

The Board is closely monitoring the potential impact of the COVID-19 pandemic on the Group, particularly with regard to the wellbeing of our colleagues and customers. It has a comprehensive contingency plan in place and will further update the financial market in due course.

Aslan Saranga
Chief Executive Officer

26 March 2020

Key events

Our achievements in 2019 included opening 41 new stores, reaching the 550th store milestone in Turkey and the 200th store milestone in Russia.

January 2019
- KitKat® chocolate pizza launch (Turkey)
- GPS Tracker launch (Turkey)

February 2019
- Enhanced website and apps launch (Russia)

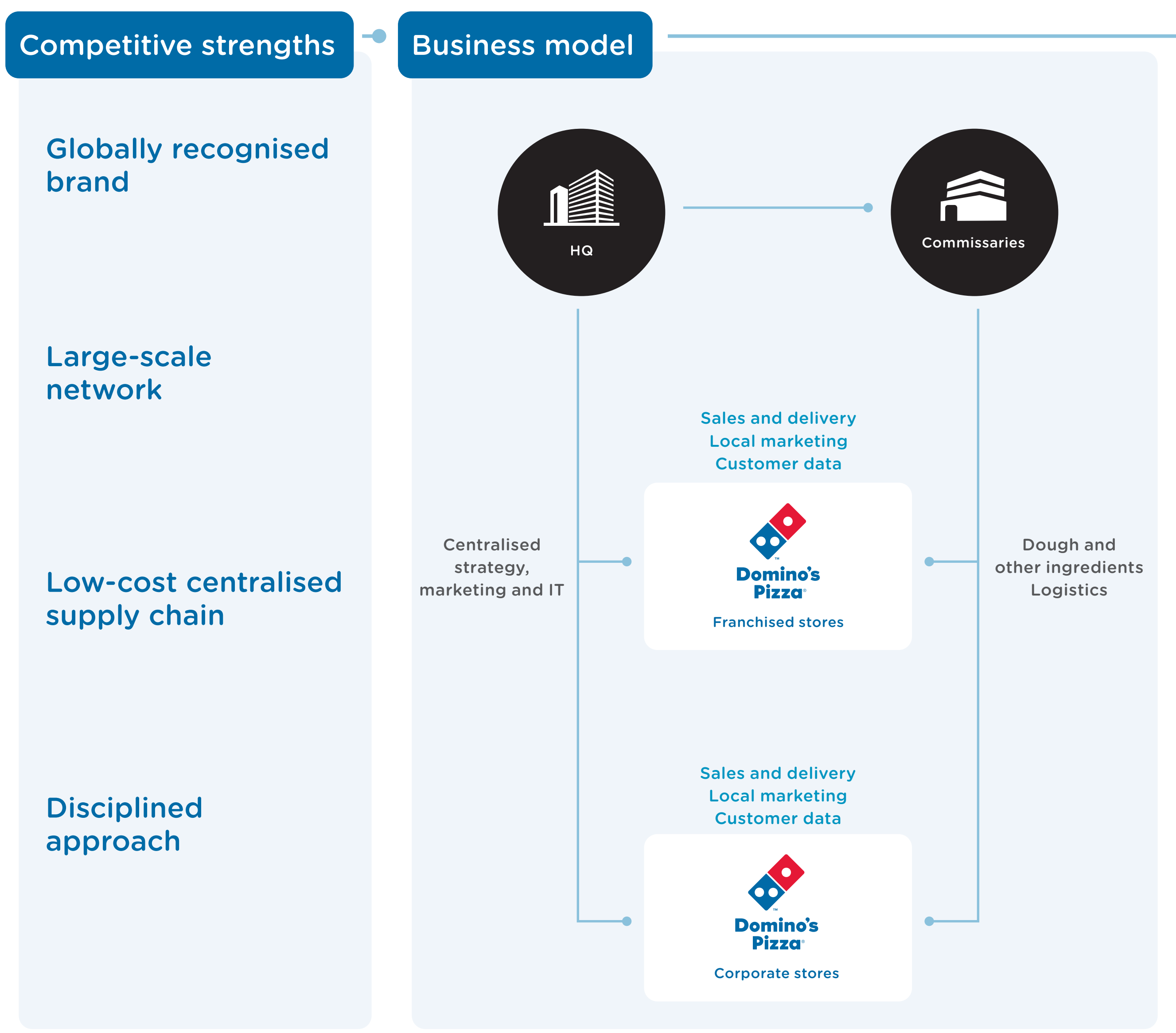
April 2019
- Pineapple pizza launch (Russia)

September 2019
- Dürümos wrap launch (Turkey)

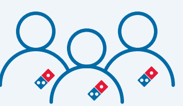
December 2019
- 200th store (Russia)
- 550th store (Turkey)

Business model

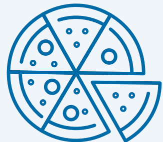
Our asset-light and scalable business model allows for continuous investment in our people, our product and our digital platforms, delivering value to all our stakeholders.



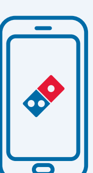
Strategic pillars



People
See pages 14 to 17



Product
See pages 18 and 19



Digital
See pages 20 and 21

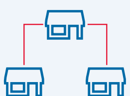
Stakeholders

Customers

Employees

Shareholders

Community



Franchisees

Suppliers

Underpinned by our culture

Ambition
The Group is committed to improving and demonstrating an eagerness to develop to overcome new challenges in order to contribute to its growth.

Integrity
The Group is dedicated to choosing the path which strengthens its principles of honesty, truth, loyalty, rectitude and justice in the daily conduct of all workers.

Cohesion
The Group aims to guarantee that the ambitious goals it sets are achieved through the contribution of all business units.

Team spirit
The Group operates globally in culturally diverse contexts and encourages, amongst all workers, a sense of belonging, respect for differences, loyalty and reciprocity.

People

In 2019, whilst continuing to grow, the Group focused on keeping Domino's unique cultural elements alive.

In 2019, whilst continuing to grow, the Group focused on keeping Domino's unique cultural elements alive and integrating them with its new technology-driven business needs. DP Eurasia continues to make a difference through its objective to "become a tech company selling pizza".

Grow together

DP Eurasia is proud of the opportunities available to its people, employees can have flexible part-time jobs or full-time careers and, thanks to our internally developed training programmes, the opportunity to climb the career ladder is open to all employees. The aspiration to have one's own store in the future is present at every level of the organisation, we are proud of the fact that six homegrown franchisees realised their dreams by taking ownership of their stores in 2019.

The technology department was restructured in 2019 to align with the Group's business needs. This brought new people practices for a young, tech-savvy population, recruitment methods, career steps and compensation practices were redesigned with respect to the needs of technical professionals.

The Group has different development programmes for different target groups of employees, based on technical necessities, personal assessments and specific business needs. Integrated programmes covering a mix of disciplines (e-learning, webinars, classroom and on-the-job training, exams, lectures, etc.) are provided to ensure core values and processes are effectively communicated irrespective of geography. All career and project-based training is delivered in-house using internal trainers. In 2019, 788 managers were trained via these programmes.

In 2019, the Group started a long-term Leadership Development Programme named "Be the Best" in Turkey. Leadership attributes were redefined within this programme in accordance with the Group's future vision and strategies. In order to equip managers with leadership skills, middle and senior management were selected to undertake a range of activities (online modules/discussions, in-class training, group coaching sessions, with regular feedback including 360-degree assessment of defined skills).

The programme is continuing in 2020 and a similar version is being held in Russia to transmit our leadership culture throughout the Group.

Live together

The Domino's experience is not just about working at DP Eurasia. Each employee experiences key milestones of their lives whilst at the Group. To create the feeling of being a member of a big family, several cultural activities are organised during the year.

To ensure all employees are informed of business performance and objectives the Group uses a variety of internal communication methods including corporate intranet, workshops, newsletters, CEO announcements, videos and e-mail. A variety of corporate events were held in 2019, such as monthly restaurant managers' meetings and our annual Rally event.

At DP Eurasia, all new employees go through an onboarding process called Pizza Prep School to learn about the Company and its culture. In 2019, the Pizza Prep School was strengthened with the participation of senior management at each event.

DP Eurasia employees are passionate about making pizza. The Fastest Pizza Maker competition is an annual event of great importance, where the top performers are selected to represent their local team in regional and global Domino's competitions. The motto "Sell more pizza, have more fun" is evident at all levels throughout the organisation.

People continued

DP Eurasia continues to make a difference with its leading industry standards and strong cultural values, enhanced with a workforce engagement programme in 2019.

Live together continued

Franchisees are integral to DP Eurasia. Because of the important role they play in the system, they must complete an "Onboarding for New Franchisees" programme. The current training programme was updated to ensure franchisees get the necessary information to become winning partners in the Domino's System. Whilst the number of franchises continues to grow, the Group simultaneously employs an enriched communications system including roadshows, newsletters, videos and e-mails, to keep channels open between the headquarters and the franchisees.

Celebrate together

The Domino's Pizza Rally is one of the largest and most important of our corporate events. The Rally, held across the network, is an opportunity to inspire franchisees and colleagues with spectacular opening shows, surprise stage performances, and guest speakers, and also to communicate our annual strategy.

Recognition of significant individual contributions to the Group's development forms the basis of the rewards strategy. Extraordinary accomplishments such as strong sales performances, operational excellence, high customer service scores, and managers who support and encourage others are recognised. 121 awards were given in 2019, and four award winners from Russia visited the Domino's Rally in Turkey for the first time.

Franchisee recognition is equally important as employee recognition, so Gold Franny awards are presented at every local Rally. In 2019, twelve franchisees won the award, having been judged on criteria such as sales growth, store openings and operational performance.

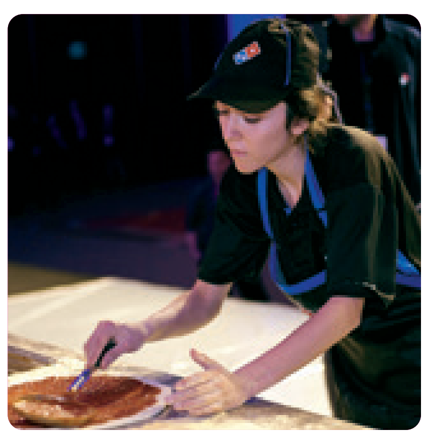
The Group attaches importance to employees' loyalty and happiness, organising various events to this end. Feedback is collected and used to generate deliverable actions, improving the performance and wellbeing of employees. As such, in 2019, employee satisfaction scores increased in Turkey and were maintained in Russia.

Human rights

There is no discrimination on the basis of gender, colour, ethnicity, religion or disability and the Group provides equal opportunities in all areas of work including employment, wage policy and career development. These rights are recognised in our Code of Conduct.

Labour safety and working conditions

The Group aims to create a comfortable working environment for employees through an integrated safety programme, which continuously monitors and improves labour conditions and accelerates efforts to upgrade work processes. Health and Safety Committee meetings are held regularly; all cases are reviewed and precautions are suggested to further reduce risk.



Workforce engagement

The Group has incorporated different ways to engage with its workforce. Some ways are country specific and a certain approach may not be appropriate for all locations. It is intended to engage with all employees but for certain activities, different people are invited every year to learn different perspectives, or only a certain target group will be invited. The feedback received helps the Group to better understand the visions, standpoints and comments on the Group's human resource policy and the general business operations to take this into account when developing or amending policies and future decision-making.

Below is an overview of the different activities enrolled to engage with the Group's employees and franchisees:

- 'Employee Engagement Surveys': these surveys are carried out by a third party company to understand employees' thoughts on different elements that are key to create a great place to work and determine workplace satisfaction including Company culture, remuneration policy, HR practices and environment;
- councils: regular meetings including multiple departments. These meetings are organised around a specific subject such as Operational Development or Product Development. Councils discuss current practices, improvement areas and new innovations. Franchisees are also invited to these Councils. These meetings are a great opportunity to hear different voices from all over the organisation and empower employees to improve business processes;
- regular employee meetings: monthly meetings with all restaurant managers to update them on new developments and to receive their feedback on the operational calendar;
- quarterly top ten restaurant employee meetings: lunches with high-performing restaurants together with management to celebrate success and to receive suggestions on marketing, people practices and operational plans;
- regular employee meetings: breakfast meetings with each HQ department. Although these breakfasts were initially instigated to improve the bonds of trust between HR and the other departments, it is also another informal way to hear the voices of individual employees or the input or concerns of a certain department;
- Job Security and Safety Committee meetings: bi-monthly meetings in which representatives from certain store are invited to understand and receive their opinion about the current safety practices in place;
- HR business partner observations: regular activity in which dedicated partners spend time with employees in one to one interviews. Their observations are shared with the senior management;
- feedback surveys: sent after every activity to understand satisfaction and get ideas for the next event;
- focus groups: organised for specific subjects when needed and regularly necessary, to analyse before developing training content;
- franchisee roadshows: carried out four times in 2019 in Turkey with the participation of different departments to visit franchisees in their own stores; and
- new franchisee onboarding: annual activity where new franchisees are made familiar to the Domino's culture.

Additionally, a formal suggestion system will be developed in 2020. This system will reward employees when sharing suggestions in different categories that actually prove to be beneficial to business practices or the organisation in general. A special committee will judge all ideas and the winners will be announced periodically.

Board involvement

The input received is channelled by the HR department and regular employee engagement updates are provided by the HR Director at Remuneration Committee meetings. The Remuneration Committee considers it an ongoing process to build on activities already in place, and to decide whether to introduce further methods to improve workforce engagement. Current practices show that there is ongoing communication with employees throughout the year. Every year, an annual communication calendar is released to foster both vertical and horizontal communication. It is important to have continuity in the engagement with the workforce because of the fact that the Group continuously welcomes new employees. By showing that the Group values the input and feedback of the employees and by creating and sustaining a strong link between the Board, management and individual expectations, the employees feel valued, which in itself increases engagement.

Product

The Group's store menu offers globally recognised pizza products, which are strategically tailored to local tastes.

The Group's store menu offers globally recognised pizza products, which are tailored to local tastes. It also offers complementary products such as oven-baked sandwiches, wraps, chicken, other side dishes and desserts – some of which have been developed by the Group's innovation centre in Istanbul and subsequently adopted by other master franchisees of Domino's Pizza around the world.

In 2019, the Group's new product innovations started with a value priced pizza – named Süperos, which achieved 30% pizza mix and 81% overall liking for the first four weeks in Turkey. Following that, the Chicken Pizza was launched in order to increase variety and to reach the chicken-lovers subsegment via addressing consumers' innovation expectations. In order not to lower the price level of the pizza category, the Group accelerated alternative product innovations at entry price levels. To take share from the growing wrap market in Turkey, the Group added three different wraps (three cheese, mixed ingredient, chicken) which were tailored to local tastes and named "Dürümos". Dürümos reached 10% of Turkish system sales, and it was the first time that a non-pizza product reached that mix level. Moreover, the oven-baked sandwich line was also extended by launching four new varieties such as three cheese, sausage and potato, tuna and mixed ingredients. To meet consumer needs in the side item category, the Group launched a chocolate pizza with KitKat® and also updated its salad and potato wedges offering.

The Group maintains a focused menu in all of the countries in which it operates, which is designed to present a value-based, attractive and high-quality offering to customers, while simplifying and expediting the order-taking and food preparation processes. The Group believes that its focused menu creates a strong identity for its products among consumers, as well as improving operating efficiency and maintaining food quality and consistency. The Group's system stores purchase their ingredients (such as pizza dough, sauces and toppings), their supplies (such as beverages) and their materials (such as pizza boxes, menus and uniforms) from the Group's commissaries (other than in Azerbaijan and Georgia, where the Group sometimes approves locally sourced substitutes).

Thus, the Group seeks to centralise the supply of key ingredients, which gives its products a consistent taste and presentation across all geographies.

The Group adapts its product offering to the various cultures and consumption patterns in the different countries in which it is present. For example, pork products are not used in the system stores in Azerbaijan and Turkey.

The Group believes that its disciplined approach to product innovation is a key differentiator from its competitors and is based on:

- an understanding of customer preferences based on data from the Group's customer relationship management ("CRM") database, direct customer questionnaires in stores and market research;
- strict food cost and ingredient planning in creating new recipes; and
- in-store pilot testing for four to eight weeks before rollout across the system stores.

The Group's system stores offer a variety of side dishes (which use the same oven equipment as pizzas) which expands its total offering and contributes to increased average ticket price. The Group offers soft drinks from Coca-Cola Company brands in Turkey, Georgia and Azerbaijan and PepsiCo brands in Russia. The Group's dessert selection features items such as mosaic cakes (which are chocolate bites), chocolate pizza with KitKat® and a chocolate soufflé product – another Group innovation which has been adopted in other territories within the worldwide Domino's System.

Digital

A key differentiator for the Group is its proprietary online ordering platforms.

DP Eurasia's online capabilities and platform present many tangible benefits, including ease of ordering, higher order frequency, reduced in-store labour cost and increased consumer loyalty and brand awareness.

The Group's online approach is to use a single back-end platform for each country in which it operates, thereby driving sales centrally to its stores. Therefore, the digital solutions development process was centralised in Turkey to develop in-house multi-tenant applications with multi-lingual ability, including responsive desktop/mobile website functionality with design trends, striving to offer a superior user experience for all its countries of operation. The new websites for Turkey and Russia were launched in September 2018 and the first quarter of 2019, respectively.

The Group aims to increase online sales as a proportion of system sales. By growing the volume of orders placed through its online platform, growth in system sales and franchisees' results are expected to become less reliant on the initiatives of the franchisees, enabling them to focus on the operational aspects of their role and allow the Group greater control over features such as pricing and sales across its system stores. Orders placed using the Group's online platform have a higher customer ordering frequency than orders placed offline, mainly due to the convenience associated with the ease of ordering online and more targeted marketing initiatives. The Group's online platform also provides "push" opportunities, both through in-app and web-based browser notifications. These targeted advertising initiatives are more effective than traditional advertising given the impulsive nature of the offering and are less costly to implement and quicker to roll out than the Group's traditional national marketing campaigns.

There are initiatives that the Group has implemented to support its online strategy:

GPS tracker

The GPS system project, "Sıcak Takip" ("Hot Pursuit" in English) was born to use the delivery fleet efficiently and to improve customer satisfaction. "Sıcak Takip" shows the location of drivers and orders to the customers on digital channels. This system is a first in the fast-food delivery sector in Turkey. "Sıcak Takip" was launched in January 2019 at all stores with three main KPIs – efficiency, customer engagement and safety of drivers – by developing customer experience, real-time monitoring and reporting applications.

Loyalty strategy

The Group started a loyalty programme in Turkey for delivery via only its mobile apps at the end of 2017 and has since extended this to the websites in February 2018. The Group will start trialling the loyalty programme in Russia during 2020.

Information technology

The monitoring infrastructure has been set up and the system was established for effective monitoring of all platforms so that all security and performance actions are taken quickly and tracked. The Group improved its security measures on platforms such as the SAP ecosystem and Azure Cloud. Russian Azure Cloud was implemented in 2019.

Apps

iOS and Android app shares increased compared to last year due to more effective marketing campaigns and the loyalty programme. Occasional campaigns such as Black Friday, New Year's and Domino's Turkey Pizza Days positively affected digital channels' performance and increased conversion rates.

The Group uses the Domino's PULSE™ point-of-sale system in all of its system stores. This computerised management information system assists in improving store operating efficiencies, for example, by streamlining the process for taking orders and inventory management. It also provides the Group with timely access to financial data and reduces administrative time and expense at the store level. The Group has desktop and mobile-based access to data for monitoring and analysing store performance daily and on a real-time basis.

The Group owns all its online ordering platforms and related software, namely its website-based and mobile-based platforms, including its mobile applications and website optimised for mobile devices.

The Group also maintains a CRM database, in line with data protection requirements, in which it has more than five million active customers (defined as customers who have placed an order with a system store within the last twelve months). The Group initiated a two-year cybersecurity programme with Deloitte Turkey Cyber Risk Services in order to protect the sensitive information that it acquires in the function of its operations. The Group's cybersecurity programme aims to protect the Group's systems and personal data in Turkey against internal and external cyber risks and covers the headquarters, corporate stores and commissaries. As part of the programme, the Group has focused on training personnel, identifying data inventory, defining security roles and responsibility, investing in data loss prevention tools, implementing security information and event management technology, establishing a Turkish security operations centre and the implementation of an identity management process to set roles and manage all access rights.

Strategic review

DP Eurasia achieved strong operational growth in the year, with a further 41 stores added to the store portfolio.

System sales (in millions of TRY, unless otherwise indicated)	For the year ended 31 December 2019	2018	Change
Group system sales[1]			
Group	**1,370.3**	1,125.3	21.8%
Turkey	**845.7**	736.1	14.9%
Russia	**503.3**	373.5	34.8%
Azerbaijan & Georgia	**21.2**	15.7	34.8%
Group system sales like-for-like growth[2]			
Group[8]	**10.7%**	10.3%	
Turkey	**13.1%**	9.3%	
Russia (based on RUB)	**0.7%**	16.0%	

	As at 31 December 2019			2018		
Store count	**Corporate**	**Franchised**	**Total**	Corporate	Franchised	Total
Turkey	**123**	**427**	**550**	137	398	535
Russia	**121**	**82**	**203**	101	78	179
Azerbaijan	**—**	**8**	**8**	—	6	6
Georgia	**—**	**4**	**4**	—	4	4
Total	**244**	**521**	**765**	238	486	724

DP Eurasia achieved strong operational growth in the year, with a further 41 stores added to the store portfolio. The Group increased its system sales by 21.8% year-on-year, driven by a combination of like-for-like sales growth and store openings.

The Turkish operations' system sales, representing 62% of Group system sales, increased by 14.9%. Despite the slow start to the year due to the lingering effects of the 2018 macro volatility, the Group achieved 13.1% like-for-like growth in Turkey, mainly attributable to the strategies that were undertaken in sales and marketing. The "Dürümos" wrap launch, celebrity endorsed advertising campaigns and cluster-based pricing combined with the rapidly improving macroeconomic parameters in the second half of the year drove growth. As a result of the volatile situation in the first half of the year, a total of 17 stores were opened in the Turkish segment. Active management and optimisation of the Turkish estate, which is ordinary course of business for the Group, continued in 2019. 26 stores were transferred from corporate to franchisee ownership, with an additional eight transfers in the opposite direction.

The Russian operations' system sales, representing 37% of Group system sales, increased by 34.8% (17.5% based on RUB). This increase was driven primarily by store openings. The Russian operations achieved like-for-like sales growth of 0.7% for the year, with growth affected by the increased competition especially in terms of aggregators and fast food players that are supported by them. The Group intends to replicate the success it had turning around like-for-like growth in Turkey in early 2019 by deploying similar strategies in Russia in 2020, including celebrity endorsed advertising campaigns and cluster-based pricing. The regional franchisee disagreements were resolved with the Group acquiring a majority of the stores in the regions. A total of 22 stores were acquired in Russia during 2019, while the Group continued its refranchising efforts with 20 stores transferred from corporate to franchisee ownership. Russian franchised stores amounted to 82, representing 40% of the Russian store portfolio.

Delivery channel mix and online like-for-like growth

The following table shows the Group's delivery system sales, analysed by ordering channel and by the Group's two largest countries in which it operates, as a percentage of delivery system sales:

	For the year ended 31 December					
	2019			2018		
	Turkey	Russia	Total	Turkey	Russia	Total
Store	**32.0%**	**18.0%**	**27.8%**	42.4%	23.9%	37.1%
Online						
– Group's online platform	**28.5%**	**80.5%**	**47.0%**	30.2%	76.1%	44.7%
– Aggregator	**35.7%**	**1.5%**	**22.8%**	24.2%	—	16.1%
– Total online	**64.2%**	**82.0%**	**69.9%**	54.4%	76.1%	60.8%
Call centre	**3.8%**	**—**	**2.3%**	3.1%	—	2.1%
Total(6)	**100%**	**100%**	**100%**	100%	100%	100%

Strategic review continued

The following table shows the Group's online like-for-like growth[2], analysed by the Group's two largest countries in which it operates:

	For the year ended 31 December	
	2019	2018
Group online system sales like-for-like growth[2,7]		
Group[8]	**29.3%**	35.4%
Turkey	**32.6%**	33.7%
Russia (based on RUB)	**15.4%**	43.5%

The Group's like-for-like growth continues to be driven mainly by the performance of its online ordering platforms. Online delivery system sales as a share of delivery system sales reached 70% for the year, which represents a 9.1 percentage point increase on a year-on-year basis.

In Turkey, online system sales like-for-like growth for the period was 32.6%, as a result of which online delivery system sales as a share of delivery system sales reached 64.2% for the period, a 9.8 percentage point increase from a year ago, aided also by an increase in volumes through the aggregator.

In Russia, online system sales like-for-like growth for the period was 15.4%, as a result of which online delivery system sales as a share of delivery system sales reached 82.0% for the period, a 5.9 percentage point increase from a year ago.

Online system sales continued to outpace the overall system sales growth at 39.8% for the Group. Turkish online system sales grew by 33.5%, while Russian online system sales grew by 49.0% (29.9% based on RUB).

Financial review

	For the year ended 31 December		
(in millions of TRY)	**2019**	2018	Change
Revenue	**980.2**	856.9	14.4%
Cost of sales (excl. IFRS 16)	**(645.7)**	(566.3)	14.0%
Gross profit (excl. IFRS 16)	**334.5**	290.6	15.1%
General administrative expenses (excl. IFRS 16)	**(154.0)**	(136.1)	13.1%
Marketing and selling expenses	**(137.0)**	(104.3)	31.4%
Other operating expenses, net (excl. IFRS 16)	**15.1**	3.1	385.9%
Operating profit (excl. IFRS 16)	**58.5**	53.3	9.8%
Foreign exchange (losses)/gains (excl. IFRS 16)	**6.8**	(18.8)	n.m.
Financial income (excl. IFRS 16)	**2.4**	5.5	(57.0)%
Financial expense (excl. IFRS 16)	**(49.3)**	(43.9)	12.4%
(Loss)/Profit before income tax (excl. IFRS 16)	**18.4**	(3.9)	n.m.
Tax expense (excl. IFRS 16)	**(14.8)**	(7.2)	105.1%
(Loss)/Profit after tax (excl. IFRS 16)	**3.6**	(11.1)	n.m.
Group adjusted EBITDA[3] (excl. IFRS 16)	**124.5**	110.6	12.6%
Group adjusted net income[4] (excl. IFRS 16)	**2.9**	(7.1)	n.m.
Group adjusted net debt[5] (excl. IFRS 16)	**226.5**	154.6	
Group adjusted EBITDA[3]	**189.8**	110.6	n.m.
Group adjusted net loss[4]	**(6.3)**	(7.1)	n.m.
Turkey adjusted EBITDA[3]	**134.6**	96.5	n.m.
Turkey adjusted EBITDA[3] (excl. IFRS 16)	**108.7**	96.5	12.6%
Russia adjusted EBITDA[3]	**63.9**	23.9	n.m.
Russia adjusted EBITDA[3] (excl. IFRS 16)	**24.5**	23.9	2.7%

Revenue

Group revenue grew by 14.4% to TRY 980.2 million. Turkish segment revenue grew by 15.4% to TRY 559.3 million, while Russian segment revenue grew by 13.1% to reach TRY 420.9 million.

Adjusted EBITDA

The Board maintains that adjusted EBITDA is the most relevant indicator of the Group's profitability at this stage of its development. The Group has adopted IFRS 16 from 1 January 2019 but has not restated comparatives for the 2018 reporting period; as permitted under the specific transition provisions in the standard, the Group has applied the modified retrospective method for adoption. As such, the Board believes that analysing the adjusted EBITDA (excluding IFRS 16) serves as a better comparative for the prior period.

The Group's adjusted EBITDA (excluding IFRS 16) grew by 12.6% to TRY 124.5 million. Adjusted EBITDA (excluding IFRS 16) for the Turkish segment, which includes the Azerbaijani and Georgian businesses, was TRY 108.7 million, a year-on-year increase of 12.6%, and adjusted EBITDA (excluding IFRS 16) for the Russian segment was TRY 24.5 million, a year-on-year increase of 2.7% (a decrease of 10.3% based on RUB). Additionally, costs relating to our Dutch corporate expenses (excluding those that relate to our initial public offering) reduced adjusted EBITDA by TRY 8.7 million in 2019. The comparable adverse effect of this item was TRY 9.8 million in 2018.

In 2019, the Group's adjusted EBITDA (excluding IFRS 16) margin as a percentage of system sales was 9.1% compared to 9.8% in 2018. The main reasons for the decrease were the reduction in the Russian segment margin and the mix effect associated with the Russia segment becoming a larger part of the business.

Adjusted EBITDA (excluding IFRS 16) margin as a percentage of system sales for the Turkish segment (including Azerbaijan and Georgia) recorded an immaterial decrease to 12.5% from 12.8% as the Group was successful in preserving margins.

The Russian segment margin decreased to 4.9% from 6.4%. The main reason for the decrease is the lower like-for-like growth in Russia due to increased competition and the longer than expected ramp up times in regional stores. The Group changed its beverage supplier in Q3 2019 and began testing on one of the aggregator platforms in Q4 2019, where it is generating incremental sales. The Board continues to remain confident in the medium- and long-term potential of the Russian market for DP Eurasia.

Adjusted net income

For the year ended 31 December 2019, adjusted net income (excluding IFRS 16) was TRY 2.9 million. The increased financial expenses (excluding IFRS 16) were offset by the increase in operating profit (excluding IFRS 16). The increase in tax expense (excluding IFRS 16) was more than offset by the increase in foreign exchange gains (excluding IFRS 16), resulting in a positive adjusted net income (excluding IFRS 16). Despite not having any hard currency denominated loans, the Group recorded a foreign exchange gain of TRY 6.8 million due to the intragroup loans made from Turkey to Russia versus a foreign exchange loss of TRY 18.8 million in the previous year.

Strategic review continued

Capital expenditure and cash conversion

The Group incurred TRY 106.8 million of capital expenditure in 2019. The Turkish segment capital expenditure was TRY 37.2 million and the Russian segment capital expenditures amounted to TRY 69.6 million (RUB 800 million). The Russian segment capital expenditure was higher than previous guidance due to the acquisition of franchised stores in the regions.

Cash conversion, defined as (adjusted EBITDA (excluding IFRS 16)- capital expenditure)/adjusted EBITDA (excluding IFRS 16)) for the period was 14.2% (2018: 28.5%) for the Group and 65.8% (2018: 61.9%) for the Turkish segment. The Russian segment had negative cash conversion as it is in a period of rapid expansion relative to its size.

Adjusted net debt and leverage

Excluding the impact of IFRS 16, the Group's adjusted net debt at 31 December 2019 was TRY 226.5 million. Following the refinancing of its Euro denominated loans in Russia with a Rouble denominated bank facility in 2018, the Group does not carry any hard currency denominated loans on its balance sheet. In 2019, the Group switched a portion of its Rouble denominated bank loans to Turkish Lira denominated bank loans to align the currency of its bank loans more closely with the currency breakdown of its EBITDA. As a result, at 31 December 2019, 52% of the Group's bank borrowings were denominated in Turkish Liras, compared to 13% a year ago, while the remainder is denominated in Roubles.

The Group continues its prudent and conservative approach to debt and its leverage ratio (defined as adjusted net debt (excluding IFRS 16)/adjusted EBITDA (excluding IFRS 16)) was 1.8x as at 31 December 2019 (2018: 1.4x).

The main reasons for the increase in the Group's indebtedness were the unusually high interest rates in Turkey during the first three quarters of 2019, RUB's appreciation against the TRY and the extra capital expenditure incurred for the acquisition of the regional franchised stores. Currently, more than 90% of the Group's Turkish Lira denominated bank loans have fixed interest rates for 2020 as the Group looks to take advantage of the relatively lower interest rates currently available.

Current trading

System sales growth and like-for-like growth for the first two months of 2020 were as follows:

Group system sales growth[1]	For the two months ended 29 Feb 2020
Group	**21.7%**
Turkey	**26.1%**
Russia	**14.2%**
Azerbaijan and Georgia	**40.5%**
Group system sales like-for-like growth[2]	
Group[8]	**13.9%**
Turkey	**21.2%**
Russia (based on RUB)	**(10.4)%**

The robust like-for-like growth in Turkey experienced in Q4'2019 has continued into the current year. The Group is focused on addressing the issues and challenges in Russia, including appointing new management and adopting a new marketing strategy. In Russia, the Group's advertising spend was materially higher in the first half of 2019 compared to its budgeted advertising expenses for the same period in 2020, as management is budgeting a flatter profile of advertising through the current year, and plans to use celebrity endorsement, a different channel mix, and simpler, price-led advertisements. This year will be a year of transition in Russia in which the Group will focus on getting the new team established and strengthening the operating model, whilst also adapting its strategic approach.

Outlook

Whilst the Group remains comfortable with its medium-term financial guidance, the Board is mindful of the considerable current uncertainty surrounding the spread of the COVID-19 outbreak and its impact on the business and wider economy in the countries in which the Group operates. Therefore, the Board is not in a position to provide meaningful guidance on the likely financial and operating results for the current year.

The Board believes that certain features of the Group's business may help it withstand the adverse impact of the pandemic including the essential nature of food services to consumers, its focus on delivery to customers, the growing reluctance of customers to leave their homes to dine out or buy groceries for fear of contracting the virus, and the affordable nature of the product at a time when domestic budgets may be under pressure. In the year to date, the pandemic has had a relatively small impact on the business with the exception of a reduction in dine in business in our Turkish restaurants (although our delivery and take out operations continue as normal).

There is no indication whether governmental measures will have an effect in preventing a further spread of the disease around the world and therefore the duration of the pandemic. If the pandemic and its impact on the business last for a protracted period, it is likely to have a more detrimental effect on the financial performance of the Group. The Group has taken proactive measures to ensure that its customers and employees continue to be safe and has established an internal task force to ensure that the supply chain is managed, critical inventory is available, and restaurants remain adequately staffed. The Group appreciates that the Turkish government has indicated its preparedness to support companies and encourage banks to maintain access to credit facilities so as to assist the corporate sector manage through the crisis and maintain employment.

The Board is closely monitoring the potential impact of the pandemic on the Group, particularly with regard to the wellbeing of our colleagues and customers, has a comprehensive contingency plan in place and will further update the financial market in due course.

The Russia plan

The Group is implementing a detailed plan to address the challenges in the Russian market and continues to take proactive steps, including:

- hiring a new management team comprising CEO, COO and CFO;
- making long term improvements to product, service and technology and further investment in the brand;
- adopting a new marketing strategy making use of celebrity endorsement, cluster-based pricing, different channel mix, and simpler, price-led advertisements;
- launching new products at entry level pricing;
- creating regional castles – starting with the Krasnodar area in the south;
- expanding the use of corporate stores as well as franchise stores on to the aggregator platform; and
- cost cutting measures.

Notes

(1) System sales are sales generated by the Group's corporate and franchised stores to external customers and do not represent revenue of the Group.

(2) Like-for-like growth is a comparison of sales between two periods that compares system sales of existing system stores. The Group's system stores that are included in like-for-like system sales comparisons are those that have operated for at least 52 weeks preceding the beginning of the first month of the period used in the like-for-like comparisons for a certain reporting period, assuming the relevant system store has not subsequently closed or been "split" (which involves the Group opening an additional store within the same map of an existing store or in an overlapping area).

(3) EBITDA, adjusted EBITDA and non-recurring and non-trade income/expenses are not defined by IFRS. These items are determined by the principles defined by the Group management and comprise income/expenses which are assumed by the Group management to not be part of the normal course of business and are non-trading items. These items which are not defined by IFRS are disclosed by the Group management separately for a better understanding and measurement of the sustainable performance of the Group. Please refer to Note 3 in the consolidated financial statements for a reconciliation of these items with IFRS.

(4) Adjusted net income is not defined by IFRS. Adjusted net income excludes income and expenses which are not part of the normal course of business and are non-recurring items. Management uses this measurement basis to focus on core trading activities of the business segments and to assist it in evaluating underlying business performance. Please refer to Note 3 in the consolidated financial statements for a reconciliation of this item with IFRS.

(5) Net debt and adjusted net debt are not defined by IFRS. Adjusted net debt includes cash deposits used as a loan guarantee and cash paid, but not collected during the non-working day at the year end. Management uses these numbers to focus on net debt including deposits not otherwise considered cash and cash equivalents under IFRS. Please refer to Note 18 in the consolidated financial statements for a reconciliation of these items with IFRS.

(6) Delivery system sales are system sales of the Group generated through the Group's delivery distribution channel.

(7) Online system sales are system sales of the Group generated through its online ordering channel.

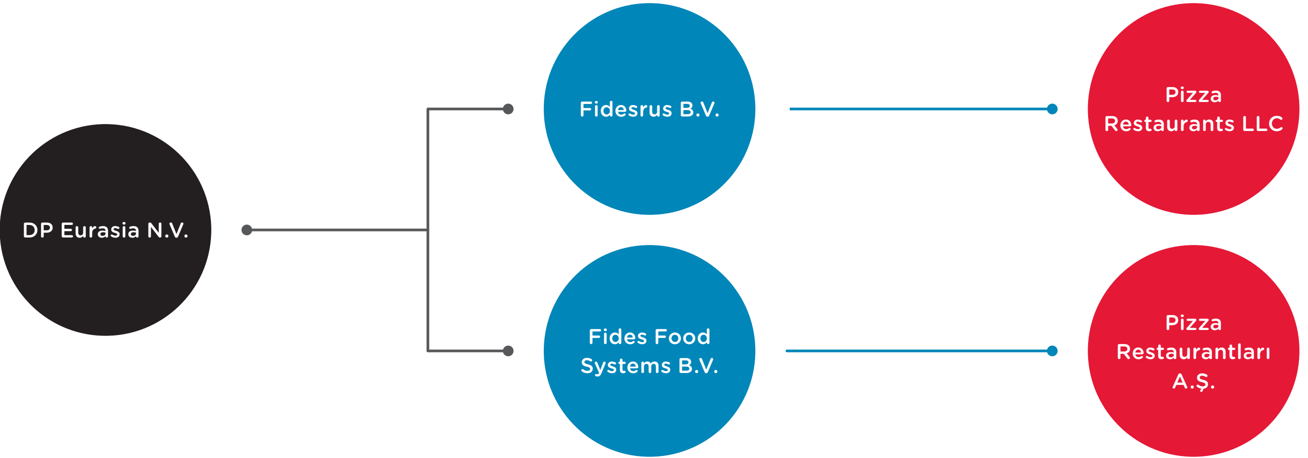
(8) Group like-for-like growth is a weighted average of the country like-for-like growths based on store numbers as described in Note (2) above.

Management report

DP Eurasia is committed to conducting all of its business and relationships with dedication, professionalism and integrity.

The business ethics of the Group are based on compliance with criteria which promote the values, culture and management model of DP Eurasia, encouraging respect for individuals and their rights.

Structure



Group and subsidiaries

The Group's organisation and nature of activities

DP Eurasia N.V. is a limited liability company *(naamloze vennootschap)* incorporated under the laws of the Netherlands on 18 October 2016. The principal activity of DP Eurasia consists of acting as a holding company.

DP Eurasia operates corporate stores and franchised stores in Turkey and Russia, including provision of technical support, control and consultancy services to the franchisees.

As at 31 December 2019, the Group operated 765 stores (521 franchised stores, including eight in Azerbaijan and four in Georgia, and 244 corporate stores).

Subsidiaries

DP Eurasia has a total of four fully owned subsidiaries. The entities included in the scope of the consolidated financial information and nature of their business are as follows:

Subsidiaries	2019 Effective ownership (%)	2018 Effective ownership (%)	Registered country	Nature of business
Pizza Restaurantları A.Ş. ("Domino's Turkey")	**100**	100	Turkey	Food delivery
Pizza Restaurants LLC ("Domino's Russia")	**100**	100	Russia	Food delivery
Fidesrus B.V. ("Fidesrus")	**100**	100	The Netherlands	Investment company
Fides Food Systems B.V. ("Fides Food")	**100**	100	The Netherlands	Investment company

Management report continued

Markets

Turkey

The Group was founded in Turkey, with its first store opening in Istanbul in 1996. Since then the Group has expanded rapidly, opening its 100th store in Istanbul in 2008. The Group is the largest pizza delivery company in Turkey in terms of system sales and number of stores. As at 31 December 2019, based on the Group's data on competition, the Group's store network in Turkey was more than four times larger than the next largest chained competitor in the pizza sub-segment, and larger than the next seven chained pizza competitors combined, with 550 stores.

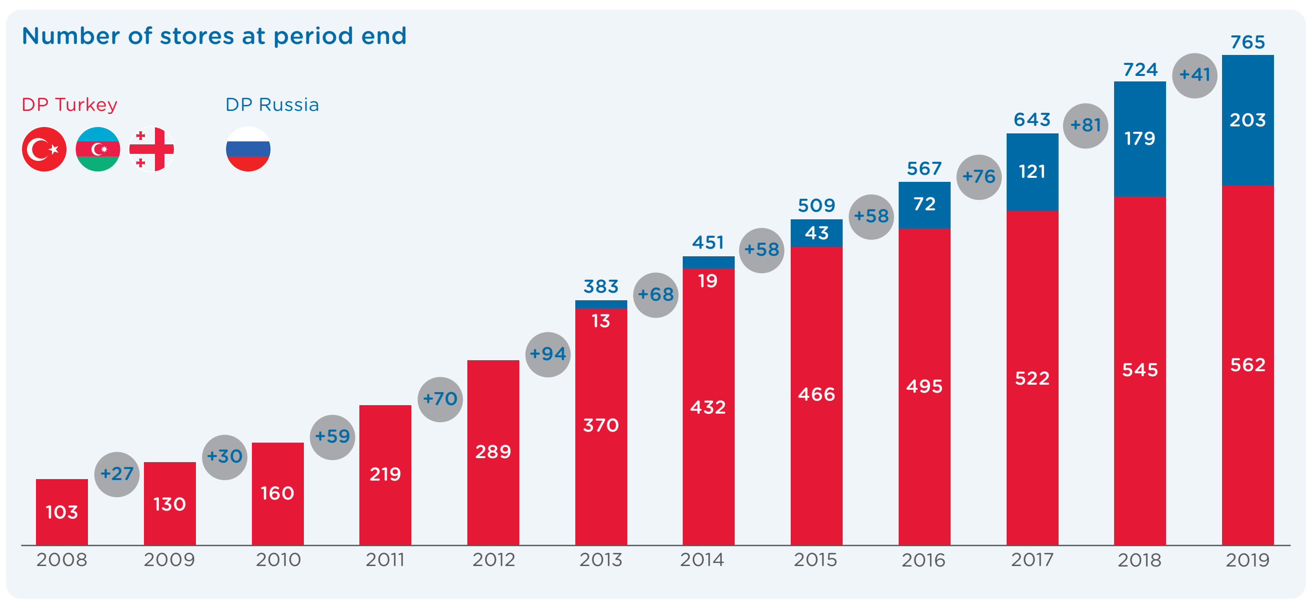
Russia

Russia is the Group's second largest market. The Group has improved its market position since acquiring the exclusive master franchise rights in 2012. As at 31 December 2019, based on the Group's data on competition the Group had the third-largest store network in the chained pizza sub-segment in Russia with 203 stores, representing a more than ten times increase in the number of its stores since 2014. In Moscow and the Greater Moscow region, the Group estimates that it was the largest player by number of stores as at 31 December 2019. The Group started to expand outside of Greater Moscow in December 2017.

Azerbaijan and Georgia

The Group was granted the exclusive master franchise of the Domino's System for Azerbaijan and Georgia and has since gone on to open eight and four stores, respectively.

Store growth



Environmental Sustainability and Food Safety

Food safety

Food safety is an integral part of the Group's business.

As part of the food safety model, our Supply Chain Centres (commissaries) are certified on food safety.

- In Russia, the Moscow commissary and stores are certified to HACCP[1] (Hazard Analysis and Critical Control Point).
- In Turkey, all four commissaries are certified to ISO 22000[2].

The Group's commissaries are annually audited by Domino's Pizza International in terms of quality, food safety and occupational health and safety. The results of the 2019 commissary audits were over 92% in compliance in Russia (4 stars) and over 96% in compliance in Turkey (5 stars) with Domino's Pizza International standards.

The Group has been auditing the stores in terms of operational evaluation, food safety and health and safety requirements. Moreover, as of 2019, Domino's Pizza International and the Group have started to conduct Food Safety Evaluation Audits in the stores to monitor compliance with food safety requirements.

Environment and energy

The Group continuously works on energy efficiency and environmental projects to support sustainability activities.

Annually, in Domino's Pizza Turkey, energy efficiency KPIs are set and monitored on a monthly basis by the Supply Chain Centre management team. For each equipment or infrastructure investment, energy efficiency is one of the main drivers in the project approval process. Supply Chain Centres are fully compliant with regulations and we are working with environmental consultants to ensure "zero environmental issue" for all sites.

Projects in energy efficiency and production waste reduction

- **Fast bake upgrade for pizza ovens –** 95% of ovens used in stores have been upgraded with a fast bake finger system which is engineered specifically for the Turkish market, alongside a menu to decrease pizza baking time by 30%. As a result, energy consumption decreased by 2kW of electricity and 3.4m^3 of gas per store per day, which equates to a reduction in up to 380,000kW of electricity and 648,000m^3 of gas per year.
- **Production efficiency projects** have reduced production waste by 5.9% in 2019 versus 2018 and 9.4% in 2018 versus 2017.
- **Waste water treatment –** on-site waste water treatment has been installed in the Gebze Supply Chain Centre and active since 2019. Waste water conditions are fully compliant with municipality requirements for discharge.
- **Energy efficiency automation in stores –** pilot application has been started in ten stores for minimising energy consumption during off-periods.
- **Recycling of packaging material –** all waste packaging materials derived from warehouse and picking operations are sent to licensed recycling companies. Contaminated packaging is sent to a specialised hazardous waste treatment company to be recycled.
- **System for reduction in mileage –** routing is centrally managed in each Supply Chain Centre to optimise the distance covered by our delivery fleet. For the cold chain truck fleet, dynamic routing software has been used to maximise truck utilisation and reduce fuel consumption since 2015. All orders are consolidated, and loads are simulated in the system before being sent to warehouse teams. Routes change every day for maximum efficiency according to demand fluctuations and changing store locations (if any). Truck fill rates are monitored for Supply Chain Centres to eliminate inefficient deliveries on a monthly basis. A specific online GPS tracking system is used to ensure trucks are on the route determined by the routing system.
- **Plastic bag usage –** plastic bag usage in stores reduced by 56% as a result of a revised retail packaging policy in the Turkey market.

2020 sustainability plans

Domino's Pizza Turkey is planning to implement the following project:

- Water discharge from clean water filtration units in Supply Chain Centres is planned to be accumulated in clean water tanks and will be used in site cleaning. As per the project plan, recycled water is expected to decrease water consumption by 4.5%.

(1) HACCP is an internationally recognised system for reducing the risk of safety hazards in food.

(2) ISO 22000 is a food safety management system.

Remuneration report

Statement from the Chairman of the Remuneration Committee

Dear Shareholder

Our Directors' Remuneration Policy (the "Policy") was approved at the 2018 Annual General Meeting ("AGM") and, as it continues to operate as intended, the Remuneration Policy will remain in use until our 2021 AGM. All payments to Directors during 2019 were consistent with the Remuneration Policy.

In this remuneration report, we provide details of how we implemented the Remuneration Policy in 2019 and how we intend to do so in 2020. We have highlighted below some of the key decisions that the Remuneration Committee has made during the past year.

Remuneration principles

Implementation of the Policy is designed with the following principles in mind:

- **alignment with strategy –** consistent with our growth strategy, growth in EBITDA is the key measure currently used in our variable remuneration plans;
- **complement our mission of delivering sustainable long-term value for shareholders –** share awards granted under the LTIP are a key part of the remuneration package for our senior executive team. Additionally, the Chief Executive Officer's commitment to retain at least 5,000,000 shares during the current Remuneration Policy ensures his direct alignment to the goal of delivering sustainable long-term value; and/or
- **deliver remuneration levels that are justifiable to internal and external stakeholders –** the Board is acutely conscious of the importance of there being support for senior executive remuneration levels from employees, shareholders and society more widely. Accordingly, remuneration decisions include a consideration of factors including internal pay ratios and scenario analyses as well as feedback received from stakeholders.

2019 pay decisions

Executive Directors' remuneration for 2019 is set out in the Total Remuneration table on page 45. As the performance period for the first LTIP award granted post IPO does not end until 2020, the Chief Executive Officer's variable remuneration for 2019 consists only of annual bonus.

As disclosed in the 2018 Annual Report, our original intention was that the Chief Executive Officer's 2019 annual bonus should be wholly determined by Group EBITDA performance. As previously disclosed, the General Manager of Russian Operations resigned during 2019, with the Chief Executive Officer taking temporary control of Russian operations. In light of this change, the Remuneration Committee resolved that the structure of the Chief Executive Officer's 2019 annual bonus should be amended to better align with his revised responsibilities and strategic priorities for the year. This revised structure involved 75% of the bonus (up to 60% of salary) being determined by Group EBITDA performance with the remaining 25% of the bonus (up to 20% of salary) based on the successful resolution of critical issues relating to franchisee management.

Despite the challenges faced, especially in Russia, it has been another successful year, with double-digit growth in Group revenue, adjusted EBITDA and system sales from a combination of like-for-like growth and store openings. Issues with Russian regional franchisees have been successfully resolved with the Group negotiating the acquisition of a majority of stores in the region. The resulting bonus payout to the Chief Executive Officer is 32.6% of salary (further details of which are set out on page 46) which the Remuneration Committee felt was a fair reflection of overall performance during the year.

Implementation of the Remuneration Policy in 2020

Our strategy in 2020 will be to continue to place emphasis on innovation and online growth, store growth, increased profitability and international expansion on an opportunistic basis.

The Chief Executive Officer's remuneration framework remains broadly unchanged in 2020 with the only alterations being a reversion to the annual bonus being based wholly on Group EBITDA, consistent with Group strategy, and a salary adjustment. His 2019 salary comprised an amount of TRY 2,137,235 paid by the Turkish business and a separate amount of EUR 25,000 paid by the Dutch holding company. The element of salary paid in Turkish Lira has been reviewed by reference to the salary settlement for other employees based in Turkey and Turkish inflation. Following this review, the element of the Chief Executive Officer's salary paid in Turkish Lira for 2020 will be TRY 2,393,703 – an increase of 12% compared to an average increase for other Turkish employees of 12%. The element of salary paid in Euro remains unchanged. We would highlight that, due primarily to the depreciation of the Turkish Lira, the Chief Executive's 2020 salary is currently worth 4% less in Pound Sterling than his current salary was when set at the start of 2019.

The Remuneration Committee carefully considered, and sought shareholder feedback on, the 2020 LTIP award to be granted to the Company's management team. We are aware that shareholder guidance encourages a reduction in the size of an LTIP award following a share price fall of the nature that the Company has recently experienced. However, we are also conscious that neither of the two LTIP awards granted since the IPO are expected to deliver much value to management (a consequence of the stretching EBITDA targets attached to the awards and the share price reduction) and therefore provide limited incentivisation.

Remuneration report continued

Implementation of the Remuneration Policy in 2020 continued

The Remuneration Committee's view is that it is critical that management remain properly incentivised to improve the financial performance of the business. This position is supported by the Board members appointed by our largest shareholder (Turkish Private Equity Fund II L.P.) given the macroeconomic headwinds experienced since the first half of 2019. We will therefore award the Chief Executive Officer a 2020 LTIP award over shares worth 100% of salary (compared to his previous LTIP awards over shares worth 150% of salary (May 2018) and 100% of salary (May 2019)). Notwithstanding the share price fall, the Remuneration Committee believes that this award level remains appropriate because vesting will continue to be subject to stretching EBITDA targets and also because the other elements of the Chief Executive Officer's remuneration package are modest for a UK listed company.

There is no change salary adjustment to the Company Secretary's remuneration arrangements for 2020.

Compliance with the UK Corporate Governance Code

As a Dutch incorporated company, our remuneration practices, disclosure and governance are compliant with Dutch law and the Dutch Corporate Governance Code. However, we recognise that many of our shareholders are UK-based and, accordingly, we also aim to comply with UK best practice. Following the introduction of the 2018 version of the UK Code, the Remuneration Committee has considered its implications for DP Eurasia's remuneration arrangements.

- **Release period for LTIP awards –** LTIP awards currently vest on the third anniversary of grant. The Non-Executive Directors considered whether future awards should be subject to an additional two-year holding period after vesting, as stated in the UK Code. Given the requirement under our Remuneration Policy for the Chief Executive Officer to hold at least 5,000,000 shares (based on our share price as at 31 December 2019, this represents a holding worth more than 8.9 times his salary), the Non-Executive Directors concluded he is already firmly aligned with other long-term shareholders and that it was unnecessary to add a further layer of alignment in the form of a holding period.
- **Post-employment shareholding guideline –** under our current Remuneration Policy, LTIP awards for a 'good leaver' would normally be released on the normal vesting date with no acceleration. This ensures alignment of the interests of senior executives following termination of their employment and the interests of other shareholders. As practice in this area continues to evolve, the Remuneration Committee will review this approach when the Remuneration Policy is next put forward for a formal shareholder vote at the 2021 AGM.
- **Pension provision –** consistent with the UK Code, the Chief Executive Officer receives the same level of pension provision as our Turkish and Russian employees (zero). The Company Secretary is our only Dutch employee and receives a remuneration package comprising salary and pension/benefits and no variable remuneration. The Remuneration Committee is satisfied that this arrangement remains appropriate for this particular role and that her absolute level of annual pension provision (€35,400) is not excessive, being lower quartile for an Executive Director of a UK listed company.

Our remuneration practices are consistent with the principles of provision 40 of the UK Code.

Changes to LTIP rules

As outlined in our notice of the 2020 AGM, we will seek shareholder approval to make a number of changes that will more closely align the rules of the LTIP and the ADBP with standard UK practice. None of the changes require any change to the Remuneration Policy. We have discussed these proposed changes with our major shareholders.

Summary

We value all feedback from shareholders and look forward to receiving your support at the forthcoming AGM, where there will be an advisory vote on our annual remuneration report (pages 44 to 49), so shareholders have a formal opportunity to provide their feedback on our remuneration practices.

Tom Singer
Chairman of the Remuneration Committee

26 March 2020

Directors' remuneration policy

DP Eurasia's Directors' remuneration policy was approved at the 2018 AGM with over 97% support from shareholders.

DP Eurasia's Directors' remuneration policy (the "Remuneration Policy")

It is intended that the remuneration policy will apply for three years, although the Board may seek approval for a new Remuneration Policy at an earlier point, if it is considered appropriate.

Remuneration principles

The aim of DP Eurasia is to attract, retain and motivate the best talent to help ensure continued growth and success in the listed company environment.

The Remuneration Policy aims to align the interests of the Executive Directors to the long-term interests of shareholders and supports a high-performance culture with appropriate reward for superior performance without creating incentives that will encourage excessive risk taking or unsustainable performance. The Remuneration Policy also sets out the remuneration structure of the Non-Executive Directors.

In accordance with Dutch corporate governance, the remuneration of:

- the Executive Directors shall be determined by the Non-Executive Directors with due observance of the Remuneration Policy; and
- the Non-Executive Directors shall be determined by the General Meeting upon a proposal by the Board with due observance of the Remuneration Policy,

each at a level that is considered by the Remuneration Committee to be appropriate for the size and nature of the business, in order to ensure that the policies and remuneration structure are appropriate for the listed company environment.

The Remuneration Committee will review annually the remuneration arrangements for the Executive Directors and key senior employees by taking into consideration:

- business strategy over the period;
- overall corporate performance;
- market conditions affecting the Group;
- the recruitment market and the remuneration of the overall employee population;
- changing practice in the markets where the Group competes for talent;
- the pay ratios within the Group; and
- the views of institutional shareholders and their representative bodies.

Remuneration components

The remuneration structure for the Executive Directors can consist of: (a) base salary; (b) benefits; (c) pension; (d) annual and deferred bonus; and (e) long-term incentives. To support this aim, the Board has adopted two incentive plans: the annual and deferred bonus plan (the "ADBP") and the long-term incentive plan (the "LTIP"). The remuneration structure of the Non-Executive Directors will consist of a fixed fee.

Directors' remuneration policy continued

Remuneration Policy table for Executive Directors

<table>
<tr><th>Component</th><th>Purpose and link to strategy</th><th>Operation</th></tr>
<tr><td>Base salary</td><td>Core element of remuneration set at a level to attract and retain Executive Directors with the experience and expertise needed to develop and implement DP Eurasia's long-term strategy.</td><td>An Executive Director's base salary is set on appointment and reviewed annually or when there is a change in position or responsibility.
When determining an appropriate level of salary, the Non-Executive Directors consider:
• the individual Executive Director's role, experience and performance;
• the general operational performance of the Group and individual performance (if applicable);
• the economic environment and the sustainable development of the Group;
• remuneration structures in companies that are comparable in terms of business activities, complexity and size;
• any change in scope, role and responsibilities; and
• remuneration practices within DP Eurasia.
Individuals recruited or promoted to the Board may, on occasion, have their salaries set below the targeted policy level until they become established in their role. In such cases, subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved.</td></tr>
<tr><td>Benefits</td><td>To provide market-competitive benefits.</td><td>Benefits are role specific and take into account local market practice.
The Executive Directors are eligible to receive benefits (or an equivalent cash allowance) including private health cover, medical disability insurance, life assurance, education, communication and IT allowances, mobility allowance or a company car.
Executive Directors are entitled to reimbursement of reasonable expenses.
The Non-Executive Directors recognise the need to maintain suitable flexibility in the benefits provided to ensure they support the objective of attracting and retaining high-calibre personnel. Additional benefits may therefore be offered, such as reasonable tax advice/support, relocation allowances on recruitment and other reasonable costs incurred by an individual in relation to their appointment.</td></tr>
<tr><td>Pension</td><td>To provide market-competitive retirement benefits.</td><td>Executive Directors are eligible to receive a contribution to their personal pension arrangements or direct to their pension plans.
Alternatively, Executive Directors may receive a cash allowance in lieu of pension.</td></tr>
<tr><td>LTIP</td><td>To link reward to the achievement of long-term performance and strategic objectives of DP Eurasia and to retain Executive Directors</td><td>The Executive Directors may receive LTIP awards which will usually be made in the form of a contingent award of shares or nil-cost options (and may also be granted as share options or settled in cash).
Vesting of the award is dependent on the achievement of performance targets, typically measured over a three-year period.
The Non-Executive Directors have the discretion to apply a holding period of two years post-vesting.
An additional payment (in the form of cash or shares) may be made in respect of vested shares to reflect the value of dividends which would have been paid on those shares during the period since award (this payment may assume that dividends had been reinvested in DP Eurasia shares on a cumulative basis).</td></tr>
</table>

Maximum	Performance framework

To avoid setting the expectations of Executive Directors and other employees, there is no overall maximum salary for Executive Directors under the Remuneration Policy.
Any increase in salaries will be determined by the Non-Executive Directors, taking into account the factors stated in this table and the following principles:
• salary increases for Executive Directors will typically be in line with the average salary increase (in percentage of salary terms) for other permanent employees in the country in which the Executive Director is resident;
• increases may be made above this in certain circumstances, such as:
  • progression within the role;
  • increase in scope and responsibility of the role;
  • increase in experience where an individual has been recruited on a lower salary initially; and
  • increase in size and complexity of the Group.
	None

There is no overall maximum level, but benefits are set at an appropriate level for the specific nature of the role and depend on the annual cost of providing individual benefits.	None
The Chief Executive Officer receives no pension provision and the Company Secretary receives a cash allowance of 36% of base salary. For any future Executive Director appointment, pension provision would be capped at 20% of base salary. This limit would also apply if the current Chief Executive Officer were to receive pension provision.	None
Normal maximum value of 100% of annual base salary based on the market value at the date of grant. In exceptional circumstances, an award worth up to 150% of annual base salary may be granted.	Vesting of LTIP awards is dependent on the achievement of key financial, strategic and/or operational measures determined by the Non-Executive Directors ahead of each award. For achieving a “threshold” level of performance against a performance measure, no more than 25% of the award will vest. Vesting then increases on a sliding scale to 100% for achieving a stretching maximum performance target.

Directors' remuneration policy continued

Remuneration Policy table for Executive Directors continued

Component	Purpose and link to strategy	Operation
Annual and deferred bonus ("ADBP")	To link reward to the achievement of key business objectives of DP Eurasia for the year.	The Executive Directors may participate in the ADBP, which is reviewed annually to ensure bonus opportunity, performance measures and targets and objectives remain appropriate. The Non-Executive Directors determine the level of bonus to be awarded at their discretion, taking into account the extent to which the targets have been met and overall business and personal performance. The Non-Executive Directors have discretion to deliver part of the annual bonus in shares, which will usually be deferred for three years. Deferred awards are usually granted in the form of a contingent award of shares or nil-cost options (and may also be settled in cash). An additional payment (in the form of cash or shares) may be made in respect of shares which vest under deferred awards to reflect the value of dividends which would have been paid on those shares during the deferral period (this payment may assume that dividends had been reinvested in DP Eurasia shares on a cumulative basis).
Shareholding guideline	To provide long-term alignment with shareholder interests.	For the duration of this Remuneration Policy, the current Chief Executive Officer will be required to retain a minimum of 5,000,000 shares.

Fee arrangements for Non-Executive Directors

Purpose and link to strategy	Operation
Provides a level of fees to support recruitment and retention of high calibre Non-Executive Directors with the necessary experience to advise and assist with establishing and monitoring DP Eurasia's strategic objectives.	Shareholder approval was taken at the 2018 AGM for a fee structure that will apply to all Non-Executive Directors. The Chairman of the Board will receive an all-inclusive fee. Other Non-Executive Directors, apart from representatives of Fides Food Systems, will receive a basic Board fee and an additional fee for acting as the Senior Independent Director or for chairmanship of a Board Committee. Expenses incurred by the Non-Executive Directors reasonably required for the performance of their duties may be reimbursed. Non-Executive Directors do not participate in any variable remuneration arrangements and will not be awarded remuneration in the form of shares and/or rights to shares.

Maximum	Performance framework
The maximum annual bonus potential is 80% of base salary. Levels of bonus payout for achieving threshold and on-target performance will be set each year by the Non-Executive Directors taking into account the degree of stretch in the performance targets.	The bonus is based on performance assessed over one year using appropriate financial and strategic performance measures that are closely aligned with DP Eurasia's strategy and the creation of value for shareholders. The majority of the bonus will be determined by measure(s) of financial performance.
Not applicable	Not applicable

Maximum
Fees are set at an appropriate level that is market competitive and reflective of the responsibilities and time commitment associated with specific roles.

Directors' remuneration policy continued

Discretion

Non-Executive Directors will operate the ADBP and LTIP according to their respective rules, including flexibility in a number of regards. These include:

- when to make awards and payments;
- how to determine the size of an award or a payment, or when and how much of an award should vest;
- who receives an award or payment;
- how to deal with a change of control or restructuring of the Group;
- whether a participant is a good/bad leaver for incentive plan purposes, and whether and what proportion of awards vest and timing of delivery;
- how and whether an award (or an award of shares outlined in this Remuneration Policy that is yet to be granted) may be adjusted in certain circumstances (e.g. rights issues, corporate restructuring, events and special dividends); and
- what the weighting, measures and targets should be for the ADBP and LTIP from year to year.

If an event occurs which causes the Non-Executive Directors to determine that a performance condition is no longer appropriate, the Non-Executive Directors have discretion under the rules of the ADBP and LTIP to substitute or vary that performance condition in such manner as is reasonable in the circumstances and produces a fairer measure of performance that is not materially less difficult to satisfy than if the event had not occurred.

The Non-Executive Directors may make minor amendments to the Remuneration Policy (for regulatory, exchange control, tax or administrative purposes, or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Legacy awards

The Non-Executive Directors reserve the right to make any remuneration payments notwithstanding that they are not in line with this Remuneration Policy where the terms of the payment were agreed: (i) before this Remuneration Policy came into effect, provided that the terms of the payment were consistent with the approved Remuneration Policy at the time they were agreed; or (ii) at a time when the relevant individual was not an Executive Director of DP Eurasia and, in the opinion of the Non-Executive Directors, the payment was not in consideration for the individual becoming an Executive Director of DP Eurasia. For these purposes, "payments" includes the Non-Executive Directors satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Choice of performance measures and approach to target setting

Non-Executive Directors set performance metrics under both the ADBP and the LTIP which are clearly aligned to DP Eurasia's strategy and are usually part of its KPIs. Any personal objective performance measures within the ADBP are also directly linked to key strategic objectives.

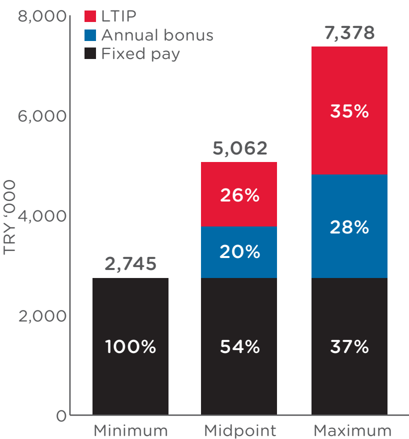
Targets are set at the start of each performance period by the Non-Executive Directors taking into account relevant internal and external reference points and are designed to be appropriately stretching.

Remuneration scenarios

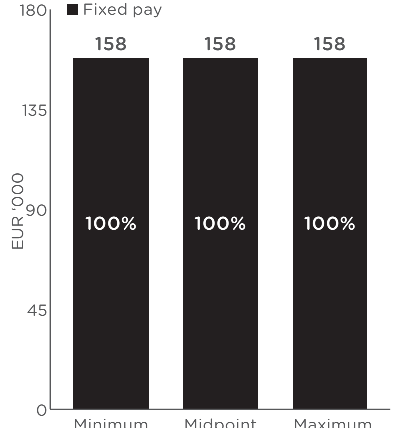
The charts below show hypothetical values of the remuneration package for the current Executive Directors in the Remuneration Policy under three assumed performance scenarios.

The Remuneration Committee regularly reviews the impact of different performance scenarios on the potential reward opportunity and payouts to be received by Executive Directors and the alignment of these with long-term value creation for shareholders. The Remuneration Committee believes that the level of remuneration that can be delivered in the various scenarios is appropriate for the level of performance delivered and the value that would be delivered to shareholders.

Aslan Saranga



Frederieke Slot



Assumptions

Fixed pay

- Salary: as at 1 January 2020: Aslan Saranga TRY 2,393,703 plus EUR 25,000; Frederieke Slot EUR 100,000.
- Pension: Frederieke Slot 36% of base salary.
- Benefits: estimate based on 2019 reported taxable benefits.

Variable pay

- ADBP: maximum of 80% of base salary for Aslan Saranga (assumed half of maximum paid as midpoint); Frederieke Slot will not participate in the ADBP in 2020.
- LTIP: maximum award of 100% of base salary for Aslan Saranga; (assumed half of maximum vests as midpoint); Frederieke Slot will not receive an LTIP award in 2020.
- No share price growth or dividend accrual considered.

New appointments

In the event of appointing a new Executive Director to the Board, the Non-Executive Directors will generally align their remuneration package with the Remuneration Policy table set out in this Remuneration Policy. Where appropriate, the Non-Executive Directors may apply their discretion in the following regards:

- ADBP – in the first year of employment, different performance measures and targets may be set to those of the other Executive Directors, depending on the timing and scope of any appointment. In order to facilitate the recruitment, the Non-Executive Directors may deem it necessary to guarantee a level of bonus, in compensation for any bonus forgone at their previous employer. This guarantee will be limited to the bonus in relation to the first year of employment;
- LTIP – in the first year of employment, different performance measures and targets may be set for the LTIP to those of the other Executive Directors, depending on the timing and scope of any appointment;
- buy-out awards – to potentially facilitate the recruitment through the buy-out of existing awards and compensation arrangements that are forfeited on cessation of employment from their previous employer, the Non-Executive Directors will retain the ability to make a one-off buy-out award. In doing so, the Non-Executive Directors will take account of all relevant factors, including any performance conditions attached to incentive awards, the likelihood of those conditions being met, the proportion of the vesting/performance period remaining and the form of the award (e.g. cash or shares). The overriding principle will be that any replacement buy-out award should be of comparable commercial value to the compensation which has been forfeited. Shareholders will be informed of any such payments at the time of appointment;
- in the case of internal appointments or appointments following the Group's acquisition of or merger with another company or business, any variable pay element or legacy arrangements in respect of the prior role would normally be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment; and
- in the event that a Non-Executive Director is required to temporarily take on the role of an Executive Director, their remuneration may include any of the elements listed in the Remuneration Policy table for Executive Directors.

In the event of the appointment of a new Non-Executive Director, their fee will be set in accordance with the fee arrangements for Non-Executive Directors as approved by the General Meeting.

Malus and clawback

Pursuant to Dutch law and best practice UK corporate governance, the Non-Executive Directors have the right to reduce payments that are not yet paid out and to reclaim payments pertaining to these events that have already been paid out.

The Non-Executive Directors may furthermore adjust the variable remuneration to an appropriate level if payment thereof is unacceptable according to the requirements of reasonableness and fairness.

The ADBP and the LTIP include best practice malus and clawback provisions. Malus is the adjustment of unpaid bonus and deferred share awards under the ADBP and outstanding LTIP awards. The adjustment may result in the value being reduced to nil. Clawback is the recovery of payments or vested awards under the ADBP and vested LTIP awards. Malus and clawback can be enacted as a result of the occurrence of the following events:

- discovery of a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group company;
- the assessment of any performance condition or condition in respect of an ADBP and LTIP award was based on error, or inaccurate or misleading information;
- the discovery that any information used to determine the cash payment under the ADBP or the number of shares subject to an ADBP or LTIP award was based on error, or inaccurate or misleading information;
- action or conduct of a participant which amounts to fraud or gross misconduct; or
- events or the behaviour of a participant have led to the censure of a Group company by a regulatory authority or have had a significant detrimental impact on the reputation of any Group company provided that the Board is satisfied that the relevant participant was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to the participant.

Clawback may apply to all or part of a participant's award and may be affected, among other means, by requiring the transfer of shares, payment of cash or reduction of awards or bonuses.

Directors' remuneration policy continued

Payment for loss of office

Executive Directors will, under their contract, not normally be entitled to be paid a severance payment upon termination that exceeds one year's annual base salary (the fixed remuneration) in the preceding financial year. No contractual severance payment will be awarded in the event of seriously culpable or negligent behaviour on the part of the Executive Director. Aslan Saranga's contract provides for an additional compensation payment of one year's annual base salary payable only in the event that termination of his employment is due to him being unable to work because of a health condition. This is a legacy clause in Mr Saranga's Turkish contract which will not be replicated in any future Executive Director's contract.

Where a contract is to be terminated, the Non-Executive Directors will determine such mitigation (if required) as they consider fair and reasonable in each case. The Non-Executive Directors reserve the right to make additional payments where such payments are made in good faith in discharge of an existing statutory or legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment. Any such payments may include, but are not limited to, paying statutory severance compensation, any fees for outplacement assistance and/or the Executive Director's legal and/or professional advice fees in connection with his or her cessation of office or employment. Payment would also be made for any outstanding vacation days unused at the date of cessation of employment.

The incentive schemes, the ADBP and the LTIP, are subject to standard good/bad leaver terms. A good leaver reason is defined as cessation in the following circumstances: death, ill-health, injury or disability, retirement, redundancy, employing company ceasing to be a Group company, transfer of employment to a company which is not a Group company or at the discretion of the Non-Executive Directors.

The table below provides a summary of the treatment of incentive remuneration in the event of cessation of employment or a change of control before awards vest or become exercisable (full details are contained in the ADBP and LTIP plan rules). Cessation of employment or a change of control during an award's holding period does not affect an individual's right to that award.

Plan	Treatment for good leaver	Treatment for any other leaver	Treatment on a change of control/ voluntary winding up/demerger
ADBP – cash bonus	Performance conditions will be measured at the bonus measurement date. Bonus will be pro-rated for the period worked during the financial year unless the Non-Executive Directors, at their discretion, determine otherwise.	No bonus payable in relation to year of cessation.	The Non-Executive Directors have discretion to determine the bonus taking into account such factors as they consider appropriate, including the extent to which any applicable performance conditions have been satisfied. Bonus will be pro-rated for the period of the financial year elapsed unless the Non-Executive Directors, at their discretion, determine otherwise.
ADBP – deferred share bonus and LTIP	Awards will usually vest on a time-apportioned basis on the normal vesting date subject to any relevant performance condition(s) measured over the full performance period. However, in the event of death, or at the Non-Executive Directors' discretion, awards may vest early taking into account such factors as they consider appropriate, including the extent to which any applicable performance conditions have been satisfied. The Non-Executive Directors have the discretion, acting fairly and reasonably, to dis-apply time apportionment.	Outstanding awards lapse.	The Non-Executive Directors have the discretion to determine the proportion of the award which vests taking into account, among other factors, the period of time the award has been held by the Executive Director and the extent to which any applicable performance conditions have been satisfied.

The Non-Executive Directors will apply discretion where there is an appropriate business case, which will be explained in full to shareholders. Payments in the event of a change of control will be subject to applicable law in force at the time of the change of control.

All Non-Executive Directors have an agreement with DP Eurasia ending at the end of the AGM in the third year following their appointment to the Board. No compensation is payable on termination, except for fees and expenses accrued to date.

Differences in remuneration between Executive Directors and other employees

The overall remuneration package for the Chief Executive Officer is structured so that the variable performance-related pay element forms a more significant portion compared to pay for other employees. This Remuneration Policy is to ensure there is a clear link between the individual and corporate performance achieved, the value this creates for shareholders and overall reward. The weighting of variable pay will vary based on the seniority of the individual, the role and specific responsibilities. Whilst annual bonuses are offered to a large number of employees, LTIP awards are targeted at individuals with roles that have the most influence on overall value creation.

Internal pay ratio 2019

The internal pay ratio between the average pay of DP Eurasia employees vis-à-vis the average pay of the CEO and all Executive Directors is calculated based on the average 2019 remuneration (base salary and bonus) of the Group vis-à-vis the 2019 base salary and bonus of the CEO and average base salary and bonus of all Executive Directors.

The pay ratio is 68:1 (2018: 65:1) for the CEO Aslan Saranga and 41:1 (2018: 39:1) for all Executive Directors.

For reference, the above pay ratio disclosure is for compliance with Dutch corporate governance. As DP Eurasia has no UK employees, the Board decided that it was inappropriate to also include the pay ratio disclosures set out in UK legislation (The Companies (Miscellaneous Reporting) Regulations 2018).

Consideration of conditions elsewhere in DP Eurasia

Although there is no active consultation with employees on matters relating to the Directors' remuneration, the Remuneration Committee and other Non-Executive Directors are kept informed of employee pay and employment conditions and this is factored into deliberations when setting the Remuneration Policy for Executive Directors. The Group-wide salary increase budget and the proposed increase for employees of such country within which the Executive Directors operate or reside, will be considered by the Non-Executive Directors when determining any basic salary increase for Executive Directors.

Consideration of shareholder views

DP Eurasia's major shareholder, Fides Food Systems Coöperatief U.A. ("Fides Food Systems"), have representatives at the Remuneration Committee; accordingly, the structure of this Remuneration Policy has been subject to significant consultation with them. In addition, this Remuneration Policy has been structured with regard to the views of major institutional shareholders and leading advisory bodies.

Annual remuneration report

The annual remuneration report sets out how DP Eurasia's Remuneration Policy (pages 35 to 43) will be implemented in 2020 and how the existing Remuneration Policy was implemented in 2019.

Implementation of the Remuneration Policy in 2020

Executive Directors

DP Eurasia has two Executive Directors: the Chief Executive Officer (Aslan Saranga) and the Company Secretary (Frederieke Slot). Aslan Saranga has a remuneration package comprising a mixture of fixed pay and variable pay; Frederieke Slot solely receives fixed pay.

As described in the Statement from the Chairman of the Remuneration Committee, the Remuneration Committee reviewed Aslan Saranga's remuneration taking into consideration economic conditions in Turkey. Frederieke Slot's remuneration will remain unchanged in 2020.

Base salary

	Base salary	
Executive Director	2020	2019
Aslan Saranga	TRY 2,393,703	TRY 2,137,235
	+EUR 25,000	+EUR 25,000
Frederieke Slot	EUR 100,000	EUR 100,000

Pension and benefits

Frederieke Slot, whose remuneration solely comprises fixed pay, receives a pension allowance worth 36% of base salary; Aslan Saranga receives no pension allowance. They will additionally both receive other benefits consistent with those received in 2019.

ADBP

In 2020, Aslan Saranga will be able to receive an annual cash bonus of up to 80% of salary based on Group adjusted EBITDA. Frederieke Slot will not participate in the ADBP in 2020.

The adjusted EBITDA targets are currently commercially sensitive. However, retrospective disclosure of the targets and performance against them will be provided in the next remuneration report to the extent that they do not remain commercially sensitive at that time.

The Remuneration Committee has discretion to override the formulaic outturn of the ADBP where such an approach is felt to be appropriate taking into account all relevant factors.

Clawback may be applied to a cash bonus up to three years from the determination of the bonus.

LTIP

As explained in the Statement from the Chairman of the Remuneration Committee, Aslan Saranga will receive a standard level of LTIP award (100% of salary) in 2020. Frederieke Slot will not receive an LTIP award in 2020.

The award will vest on the third anniversary of grant subject to adjusted EBITDA growth targets measured over the period 2020–22. The selection of stretching EBITDA targets is consistent with our strategic goal of delivering significant growth potential and long-term value creation.

	Cumulative adjusted EBITDA for 2020–22 (TRY m)	Proportion vesting
Threshold	456.3	0%
Maximum	510	100%

A sliding vesting scale will operate for performance between the threshold and maximum target.

The Remuneration Committee has discretion to override the formulaic outturn of the LTIP where such an approach is felt to be appropriate taking into account all relevant factors.

Malus and clawback may be applied to LTIP awards up to two years following the vesting date.

Non-Executive Directors

Non-Executive Director fees were determined by the General Meeting upon proposal of the Board. At the 2018 AGM, shareholders approved the fee table set out below which would be effective from 1 January 2018. There are no changes for 2020.

	Annual fee (GBP)
Chairman of the Board	150,000
Basic Non-Executive Director fee	47,500
Audit Committee Chairman additional fee	7,500
Remuneration Committee Chairman additional fee	7,500
Senior Independent Director additional fee	7,000

In addition, the Non-Executive Directors are reimbursed for expenses that are reasonably required for the performance of their duties.

No fee is paid to Seymur Tarı, İzzet Talu and Aksel Şahin.

Total remuneration

The following table sets out the total remuneration for Executive Directors and Non-Executive Directors for the years 2018 and 2019.

	Executive Directors		Non-Executive Directors				
Year ending 31 December 2019	Aslan Saranga	Frederieke Slot	Peter Williams	Tom Singer	Seymur Tari	İzzet Talu	Aksel Sahin
Base salary and fees (TRY)	2,295,945	634,840	1,083,930	502,221	—	—	—
Benefits (TRY)	171,479	146,013	—	—	—	—	—
Pension (TRY)	—	224,733	—	—	—	—	—
Total fixed remuneration (TRY)	**2,467,424**	**1,005,586**	**1,083,930**	**502,221**	**—**	**—**	**—**
Total fixed remuneration (%)	**77%**	**100%**	**100%**	**100%**	**—**	**—**	**—**
Annual bonus (TRY)	748,086	—	—	—	—	—	—
Long-term incentives (TRY)	—	—	—	—	—	—	—
Total variable remuneration (TRY)	**748,086**	**—**	**—**	**—**	**—**	**—**	**—**
Total variable remuneration (%)	**23%**	**—**	**—**	**—**	**—**	**—**	**—**
Total (TRY)	**3,215,510**	**1,005,586**	**1,083,930**	**502,221**	**—**	**—**	**—**
Total (local currency)	**₺3,215,510**	**€158,400**	**£150,000**	**£69,500**	**—**	**—**	**—**

	Executive Directors		Non-Executive Directors				
Year ending 31 December 2018	Aslan Saranga	Frederieke Slot	Peter Williams	Tom Singer	Seymur Tari	İzzet Talu	Aksel Sahin
Base salary and fees (TRY)	2,000,000	556,140	957,765	443,764	—	—	—
Benefits (TRY)	150,599	130,212	—	—	—	—	—
Pension (TRY)	—	200,414	—	—	—	—	—
Total fixed remuneration (TRY)	2,150,599	896,765	957,765	443,764	—	—	—
Total fixed remuneration (%)	73%	100%	100%	100%	—	—	—
Annual bonus (TRY)	778,667	—	—	—	—	—	—
Long-term incentives (TRY)	—	—	—	—	—	—	—
Total variable remuneration (TRY)	748,667	—	—	—	—	—	—
Total variable remuneration (%)	27%	—	—	—	—	—	—
Total (TRY)	2,929,266	896,765	957,765	443,764	—	—	—
Total (local currency)	₺2,929,266	€158,400	£150,000	£69,500	—	—	—

Annual remuneration report continued

Total remuneration continued

Notes to the table on page 45 – methodology

Base salary/fees

This represents the cash paid or receivable in respect of the financial year. In local currency, Frederieke Slot's salary is €100,000, Peter Williams' fee as Chairman is £150,000 and Tom Singer's fee is £69,500 (including additional fees for his positions as Senior Independent Director, Audit Committee Chairman and Remuneration Committee Chairman).

Executive CEO Aslan Saranga's salary consists of both salary and €25,000 management fee.

Benefits

This represents the taxable value of all benefits paid or receivable in respect of the relevant financial year. Aslan Saranga's benefits included private health cover and company car. Frederieke Slot's benefits included medical disability allowance, mobility allowance and education, communication and IT allowances.

Pension

Aslan Saranga receives no pension provision; Frederieke Slot receives a pension allowance worth 36% of base salary.

Annual bonus

This represents the total bonus payable for the relevant financial year under the ADBP.

Long-term incentive

This column relates to the value of LTIP awards whose performance period ends in the period under review. No LTIP awards have been vested to Executive Directors. As a result, this column has a zero figure in the table. Please note that the amount disclosed for the LTIP awards in note 15 of the financial statements is the expense recognised during the period in accordance with IFRS.

Local currency totals

Part of Aslan Saranga's remuneration and the whole of Frederieke Slot's remuneration are paid in Euros and Peter Williams and Tom Singer's remuneration is wholly paid in Pound Sterling. Total amounts received by each individual in local currency are recorded in the final column of the above table. In the other columns of the table, remuneration has been converted into Turkish Lira for consistency with the financial statements.

Additional disclosures in respect of the total remuneration table

Annual bonus

As disclosed in the 2018 Annual Report, our original intention was that Aslan Saranga's 2019 annual bonus should be wholly determined by adjusted Group EBITDA performance. As disclosed previously, the General Manager of Russian Operations resigned during 2019 with Aslan Saranga taking temporary control of Russian operations in addition to his CEO responsibilities. In light of this change, the Remuneration Committee resolved that the structure of Aslan Saranga's 2019 annual bonus should be amended to better align with his revised responsibilities and strategic priorities for the year. This revised structure involved 75% of the bonus (up to 60% of salary) being determined by adjusted Group EBITDA performance with the remaining 25% of the bonus (up to 20% of salary) based on the successful resolution of critical issues relating to franchisee management.

Following the performance assessment, Aslan Saranga received a cash bonus of 32.6% of base salary (TRY 748,086) out of a maximum opportunity of 80% of base salary which the Remuneration Committee felt was a fair reflection of Group and individual performance during the year. Details of the bonus are set out below.

Performance measure	Threshold performance	Maximum performance	Actual performance	% of salary payable
Group adjusted EBITDA (excluding IFRS 16)	TRY 111.7m	TRY 146.6m	TRY 119.3m[1]	13.1%
	Zero payout	60% of salary payout		

(1) The actual performance figure of TRY 119.3 million differs from the disclosed EBITDA of TRY 124.5 million. This is because the bonus targets and actual performance figures are shown on a comparable basis and stated after provision for full bonus payouts which exceeded actual bonus payouts.

Franchisee management

During 2019, the Group's franchisees in the regions of Russia outside of Greater Moscow raised issues related to the franchise agreements that they had signed with the Group. The Board decided that given the lack of operational skills and experience on the part of some franchise partners resulting in poor performance, it was necessary to acquire the relevant franchised stores. The negotiation process with the franchisees, led by Aslan Saranga, was lengthy and complex but ultimately the Group was able to successfully acquire the stores and, as a consequence mostly resolved the outstanding issues pertaining to them. Having assessed the considerable personal contribution of Aslan Saranga to this successful resolution of Russian franchisee management issues, the Remuneration Committee agreed an award of 19.5% of base salary to him in respect of this element of the bonus.

Payments to past Directors and payments for loss of office

There were no payments to past Directors nor payments for loss of office to Directors during the year ended 31 December 2019.

Statement of Directors' shareholdings and share interests

The tables below show the Directors' share ownership as at 31 December 2019.

For the duration of the Remuneration Policy, the Chief Executive Officer is required to retain a minimum of 5,000,000 shares. He is currently compliant with this requirement. As the Company Secretary does not currently participate in the ADBP or LTIP, she is not currently subject to a shareholding guideline.

Director	Shares owned outright at 31 Dec 2019 (number of shares)	Outstanding share awards granted under LTIP at 31 Dec 2019 (number of shares)
Aslan Saranga	8,106,310[1]	612,028
Frederieke Slot	–	–
Peter Williams	81,776	–
Tom Singer	50,000	–
Seymur Tarı	–	–
İzzet Talu	–	–
Aksel Şahin	–	–

(1) Aslan Saranga owns shares through his wholly owned entity Vision Lovemark Coöperatief U.A.

Between 31 December 2019 and the date of this report, there were no changes in the shareholdings outlined in the above table.

Additionally, on 3 May 2019, Aslan Saranga was granted an LTIP award which will vest in May 2022 subject to achievement of an EBITDA growth target. Full details of the award are set out below.

Aslan Saranga	Date of grant	Maximum number of shares	Face value[1] (TRY)	Face value (% of salary)	Performance condition	End of performance period
Conditional share award	3 May 2019	332,706	2,295,844	100%	0%–100% vests for cumulative adjusted EBITDA in 2019–2021 of TRY 434m –TRY 482m	31 Dec 2021

(1) The maximum number of shares that could be awarded has been calculated using the share price of GBP 0.88 (closing share price on 6 May 2019) and an exchange rate of GBP 1: TRY 7.8415 (6 May 2019) and excludes any additional shares that may be awarded in relation to dividends accruing during the vesting period.

Annual remuneration report continued

Performance graph and Chief Executive Officer remuneration table

The chart compares the total shareholder return ("TSR") performance of DP Eurasia during the period since the IPO to the FTSE All-Share Index. This index has been chosen because it is a recognised equity market index of which DP Eurasia is a member.

DP Eurasia's total shareholder return compared to total shareholder return of the FTSE All-Share Index since the IPO on 3 July 2017

The table below shows the total remuneration payable to the Chief Executive Officer as a percentage of the maximum opportunity.

	Year ended 31 Dec 2017	Year ended 31 Dec 2018	**Year ended 31 Dec 2019**
Chief Executive Officer total remuneration (TRY)	2,344,322	2,929,266	**3,215,510**
ADBP payout (% of maximum)	67%	49%	**41%**
LTIP vesting	n/a (no award vested during 2017)	n/a (no award vested during 2018)	**n/a (no award vested during 2019)**

Percentage change in remuneration of the Chief Executive Officer

The table below illustrates the percentage change in annual salary, benefits and bonus between 2018 and 2019 for the Chief Executive Officer and the average for all other Turkish headquarters employees. This analysis provides a comparison between employees whose remuneration has been determined subject to a common economic environment. All figures relate to movement in remuneration expressed in Turkish Lira.

	Salary change (2017 to 2018)	**Salary change (2018 to 2019)**	Benefits change (2017 to 2018)	**Benefits change (2018 to 2019)**	Annual bonus change (2017 to 2018)	**Annual bonus change (2018 to 2019)**
Chief Executive Officer	38%	**15%**	28%	**14%**	0%	**-4%**
Average for all Turkish headquarters employees	15%	**22%**	33%	**15%**	12%	**-7%**

Notes to the table:

- this table consists of last two years' data since DP Eurasia only listed in 2017;
- the Chief Executive Officer's salary was adjusted, post IPO, to the appropriate level for UK-listed Small Cap company benchmarks;
- as explained in this report, the Chief Executive Officer's annual bonus is based on Group adjusted EBITDA and successful resolution of critical issues relating to franchisee management in Russia; and
- all other Turkish employees will benefit from a structured performance management system: bonus earned is affected by both business performance of the Company (measured by six KPIs) and success rates against individual targets. Company performance directly impacts the bonus amount to be distributed; above or below target realisation will increase or decrease the bonus pool accordingly.

Details of the internal pay ratio for 2019 are on page 43.

Relative importance of the spend on pay

The table below illustrates the total expenditure on pay for all of the Group's employees compared to dividends payable to shareholders in respect of the year ending 31 December 2019. A 2018 comparative figure is also provided.

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Total staff costs (further details are provided in Note 5 to the consolidated financial statements (page 105))	**TRY 204.1m**	TRY 193.3m
Total dividends	**–**	–

Consideration by Directors of matters relating to Directors' remuneration

The Remuneration Committee is responsible for reviewing and making recommendations to the Board regarding the Remuneration Policy and for reviewing compliance with the Remuneration Policy. During the year ending 31 December 2019, the Remuneration Committee consisted of Tom Singer (Chairman) and Peter Williams. The Remuneration Committee met on three occasions during the period between 1 January 2019 and 31 December 2019.

Workforce engagement

DP Eurasia's approach to investing in, and engaging the workforce is explained in the People section of this report on page 17.

The Remuneration Committee was also updated for Company-wide salary increases and levels of annual bonus for the general employee population so that they can compare the Executive Directors' total remuneration with the wider workforce.

Internal advice

The Chief Executive Officer, the Chief Executive Officer of Russian Operations, the Human Resources Director and representatives of Fides Food Systems (Seymur Tarı, İzzet Talu and Aksel Şahin) joined Remuneration Committee meetings to provide valuable input. The Company Secretary acted as secretary to the Remuneration Committee. No individual was present when their own remuneration was being discussed.

External advice

Following the IPO, Deloitte LLP was appointed by DP Eurasia to provide advice on executive remuneration matters and it continued to do so during 2018 and 2019. The Remuneration Committee received independent and objective advice from Deloitte, principally on the preparation of the remuneration report and on the queries raised by the Remuneration Committee Chairman. Deloitte also joined Remuneration Committee meetings by phone. In addition, Deloitte assisted DP Eurasia during the year with the UK Corporate Governance Code changes. Deloitte was paid £14,750 in fees during the period ending 31 December 2019 for these services to the Remuneration Committee (charged on a time plus expense basis). Deloitte is a founding member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Remuneration Committee is satisfied that the Deloitte engagement partner and advisory team that provide remuneration advice to the Committee, do not have any connections with DP Eurasia or individual Directors that may impair their independence.

External Board appointments

Executive Directors are normally entitled to accept external appointments outside DP Eurasia with the consent of the Non-Executive Directors. Any fees received may be retained by the Executive Director. As at the date of this report, none of the Executive Directors held an external appointment for which they received a fee.

Shareholder voting on remuneration report resolutions

	Votes for	Votes against	Votes withheld
Approval of the Annual Report on Remuneration			
2019 AGM	**118,525,669 (99.6%)**	**489,341 (0.4%)**	**0**
Approval of the Directors' Remuneration Policy			
2018 AGM	120,581,673 (97.6%)	2,926,837 (2.4%)	1,130,312

On behalf of the Board

Tom Singer
Chairman of Remuneration Committee

26 March 2020

Board

The Board aims to represent all stakeholders and to provide leadership and control in order to ensure the growth and development of a successful business.

Peter Williams

AC RC SAC

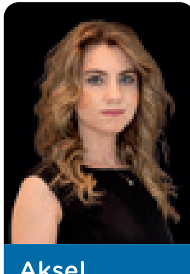
Chairman and Independent Non-Executive Director
Year of birth: 1953
Nationality: British
Initial appointment: July 2017

Mr Williams has spent over 30 years in both executive and non-executive positions in consumer-facing businesses comprising retail, leisure, media and consumer products. Mr Williams also serves as Chairman of the following companies: Mister Spex (an online eyewear retailer based in Berlin), U and I Group plc (a property regeneration company) and Superdry plc (a fashion retailer). In 2019, Mr Williams stepped down as senior independent director at Rightmove plc (a UK property portal) and as Chairman of boohoo.com plc (an online fashion retailer). For eight years to December 2013, he was the senior independent director at ASOS plc (an online fashion retailer). Previous to this, for 13 years up to 2004, Mr Williams served as chief financial officer and then as chief executive of Selfridges. Amongst others, Mr Williams has served on the boards of Cineworld Group plc, Blacks Leisure Group plc and JJB Sports plc. He is also a chartered accountant and has a bachelors degree in Mathematics from Bristol University.

Aslan Saranga

Chief Executive Officer and Executive Director
Year of birth: 1969
Nationality: Turkish
Initial appointment: June 2017

Mr Saranga is the Chief Executive Officer, having been appointed as the founding chief executive officer of the exclusive master franchisee of the Domino's System in Turkey on its inception in 1996. He also serves as the Chief Executive Officer of the Turkish Operations as well as the Chairman of the Domino's Russia Board of Directors. He currently sits as a board member of the Food Retailers Association, a leading industry group in Turkey, and is a member of Domino's Pizza General Management Council, which is comprised of the CEOs of the top ten countries in the global Domino's Pizza network. Mr Saranga has a masters degree in Finance from the University of Istanbul.



Aksel Şahin

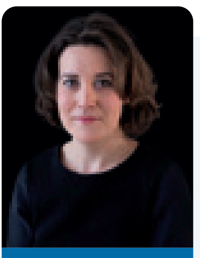
Non-Executive Director
Year of birth: 1980
Nationality: Turkish
Initial appointment: June 2017

Ms Şahin was appointed a Non-Executive Director in June 2017. She served as a Non-Executive Director of the Russian subsidiaries of the Group between 2012 and June 2017. She is currently a principal (which is the equivalent of an investment director) at Turkven. She was formerly with Koç Holding in Istanbul focusing on mergers and acquisitions and portfolio strategy in the energy sector. Ms Sahin serves on the board of Elif Plastik. Ms Şahin has an MBA from Harvard Business School and a degree in Economics from Koç University.

AC Audit Committee

RC Remuneration Committee

SAC Selection and Appointment Committee



Frederieke Slot

Company Secretary and Executive Director
Year of birth: 1982
Nationality: Dutch
Initial appointment: July 2017

Ms Slot served as senior legal counsel of USG People between 2014 and 2017 (a large HR service provider that was listed on the Amsterdam Stock Exchange until June 2016). She spent the early part of her career as an attorney-at-law with various large Dutch law firms advising on restructuring, mergers and acquisitions and advising national and international companies on a wide range of strategic legal issues, corporate governance matters and legal and regulatory responsibilities. Ms Slot has a degree in Law from the University of Leiden.

Seymur Tarı

Non-Executive Director
Year of birth: 1969
Nationality: Turkish
Initial appointment: June 2017

Mr Tarı was appointed a Non-Executive Director in June 2017. He served as the Chairman of the Turkish subsidiaries of the Group between 2010 and June 2017. He has served as the chief executive officer of Turkven since 2000. Mr Tarı was formerly with McKinsey & Company in Istanbul focusing on corporate portfolio strategy and at Caterpillar Inc. in Geneva as a product manager with responsibility for the EMEA and CIS regions. Mr Tari also serves as the Vice-Chair on the boards of Mavi, Elif Plastik, Medical Park, Flo and Koton. He has an MBA from INSEAD and a masters degree in Mechanical Engineering and Robotics from ETH Zurich.

İzzet Talu

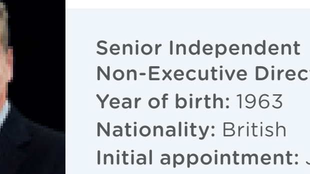
SAC

Non-Executive Director
Year of birth: 1975
Nationality: Turkish
Initial appointment: June 2017

Mr Talu was appointed a Non-Executive Director in June 2017. He served as a Non-Executive Director of the Turkish subsidiaries of the Group between 2010 and June 2017 and of the Russian subsidiaries of the Group between 2012 and May 2017. Mr Talu serves as a principal (which is the equivalent of an investment director) at Turkven. Prior to joining Turkven in 2008, he worked at UBS and Creditanstalt Investment Bank, where he was involved in numerous mergers and acquisitions and equity capital market transactions. Mr Talu holds an MBA from RSM Erasmus University and a bachelors degree in Business Administration from Koç University.

Thomas Singer

AC
RC
SAC



Senior Independent Non-Executive Director
Year of birth: 1963
Nationality: British
Initial appointment: July 2017

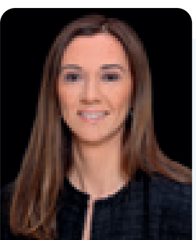
Mr Singer also serves as a non-executive director of Mediclinic International plc (an international private healthcare services group). Mr Singer served as the chief financial officer of onefinestay (a registered trademark of Lifealike Limited) between 2015 and 2016 (a home rentals business), as well as InterContinental Hotels Group PLC between 2011 and 2013. Mr Singer has also been a group finance director at the international healthcare group BUPA, and chief operating officer and finance director of William Hill plc. He is a chartered accountant and spent the early part of his career in professional services with PricewaterhouseCoopers and McKinsey & Company working for international clients in the financial services, media and transportation sectors. Mr Singer has a degree in Economics & Accounting from the University of Bristol.

Leadership team

Aslan Saranga

Chief Executive Officer and Head of Leadership

See biography on page 50.



Neval Korucu Alpagut

Chief Financial Officer

Ms Alpagut became Chief Financial Officer in 2017. Since 2006 she has been, and continues to be, the Chief Financial Officer of the Turkish Operations. Prior to joining the Group in 2006, Ms Alpagut worked for ten years at Volkswagen Elektrik Sistemleri as a finance and accounting manager. Ms Alpagut has a degree in Business Administration from İstanbul University (Turkey).

Selim Kender

Chief Strategy Officer and Head of Investor Relations

Mr Kender joined the Group in 2017. Prior to this he acted as an adviser to the Group's Board of Directors in both Turkey and Russia. He also spent ten years at Turkven and spent five years at both NTL Inc. and CoreComm Limited concurrently, in corporate development and investor relation roles. Mr Kender has an MBA from Columbia Business School and a degree in Mechanical Engineering from the University of Texas.

Mustafa Özgül

Chief Executive Officer of Russian Operations

Mr Özgül was appointed as the Chief Executive Officer of Russian Operations in 2020. He served as the Chief Financial Officer of Russian Operations between 2014 and 2020. Prior to joining the Group, Mr Özgül worked for two years at Ramstore Kazakhstan LLC as its chief financial officer and for three years at Bechtel Inc. in Kazakhstan as its accounting and finance manager and seven years at Bechtel Inc. overall. Mr Özgül obtained a degree in Management from Istanbul Technical University (Turkey).

Kerem Ciritci

Chief Growth Officer

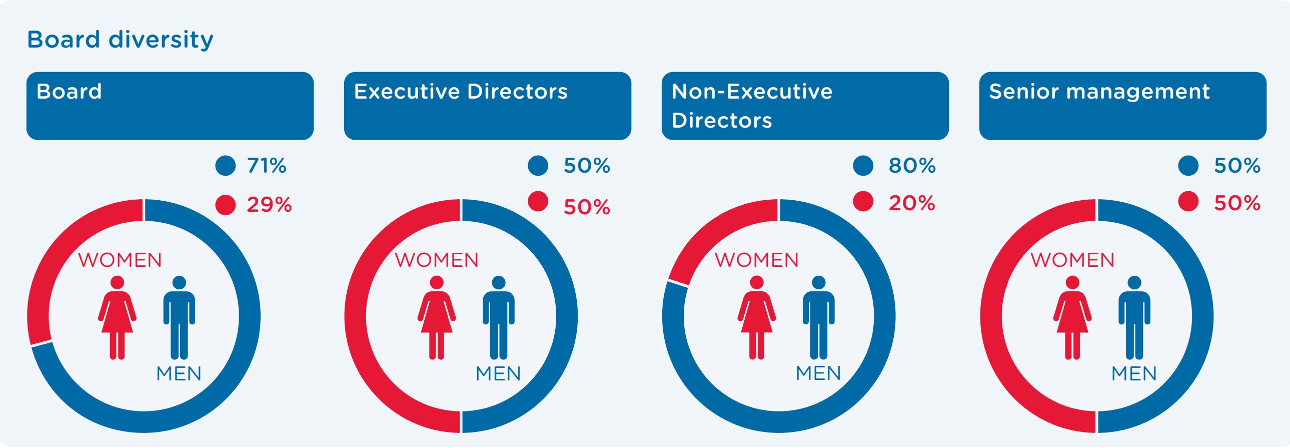
Mr Ciritci became Chief Growth Officer in 2018. Since 2010 he has been Business Development, Franchise Operations and International Development Director of the Turkish Operations. Prior to joining the Group in 2006, Mr Ciritci worked for Ritz Carlton and Alarko Tourism Group. Mr Ciritci has a degree in Tourism Administration from Boğaziçi University (Turkey).

Board attendance and composition

	Date of possible reappointment	Duration of unexpired term of appointment	Attendance at planned Board meetings	Attendance site visits	Attendance at meetings of the Audit and Remuneration Committees	Attendance at meetings of the Selection and Appointment Committee
Peter Williams	2020	2 months	5/5	3/3	10/10	2/2
Aslan Saranga	2020	2 months	5/5	3/3		
Frederieke Slot	2020	2 months	5/5	3/3		
Seymur Tari	2020	2 months	5/5	3/3		
Izzet Talu	2020	2 months	5/5	3/3		2/2
Aksel Şahin	2020	2 months	5/5	3/3		
Thomas Singer	2020	2 months	5/5	3/3	10/10	2/2

International experience

Board diversity



Directors' skills and experience

Skills/experience	Number of Directors
Retail	6/7
Remuneration/people	2/7
Finance	6/7
Marketing/brand	3/7
Product specific	4/7
Listed entity experience	3/7
Legal, governance and compliance	1/7
IT/digital	2/7
International markets	5/7

Corporate governance report

The Board is committed to maintaining a governance framework that is appropriate to the business, supports effective decision making and promotes decisions focused on the long-term success of the Group.

Corporate governance

DP Eurasia is a limited liability company incorporated under the laws of the Netherlands. DP Eurasia has a premium listing of ordinary shares on the London Stock Exchange. The Company has a one-tier Board structure.

The following sections explain how the Company applies the main provisions set out in the UK Corporate Governance Code and the Dutch Corporate Governance Code and have been prepared in line with the UK Listing Authority Listing Rules (the "Listing Rules").

This part of the Annual Report covers:

- the structure and role of the Board and its committees;
- relations with the Company's shareholders and the General Meeting;
- the reports of the Audit Committee, the Remuneration Committee and the Selection and Appointment Committee; and
- information that needs to be included pursuant to the Listing Rules, if not included in the consolidated financial statements, the remuneration report (payment for loss of office) and the shares and shareholders paragraph (Relationship Agreement and the controlling shareholder).

The Board

This section of the corporate governance report explains how the Board has fulfilled its duties and obligations during the year 2019.

Role and responsibilities

The Board is a one-tier board and the Directors have joint powers and responsibilities. The Directors share responsibility for all decisions, resolutions and acts of the Board and for the acts of each Director. Each Director has a duty towards the Company to properly perform the duties assigned to him or her. Furthermore, each Director has a duty to act in the interests of the Company and its business. Under Dutch law, the corporate interest extends to the interests of all corporate stakeholders, such as shareholders, creditors, employees and other stakeholders.

At any time, the Board, as a whole, is entitled to represent and act on behalf of the Company. Additionally, the Chief Executive Officer and another Executive Director acting jointly are authorised to represent and act on behalf of the Company. The majority of the Directors are Non-Executive Directors who essentially have a supervisory role.

The names and biographical details of the serving Directors, their role on the Board, their dates of appointment and their other major appointments can be found on pages 50 to 51.

The Board is responsible for the management, general affairs, strategy and operations of the Company. The Board may perform all acts necessary or useful for achieving the Company's corporate objectives, except for actions and resolutions expressly attributed to the General Meeting as a matter of Dutch law or pursuant to the Company's articles of association.

Appointment, dismissal and suspension

Pursuant to the Company's articles of association, the Board must consist of at least one Executive Director and one Non-Executive Director. The Board determines the total number of Directors. The General Meeting appoints, suspends and dismisses each Director. For so long as there is a controlling shareholder (for the purposes of the Listing Rules), the Board rules allow for the election or re-election of any independent Director to be approved by separate resolutions of: (i) the Company's shareholders; and (ii) the Company's shareholders excluding any controlling shareholder. If either of the resolutions is defeated, the Company may propose a further resolution to elect or re-elect the proposed independent Director, which (a) may be voted on within a period commencing 90 days and ending 120 days from the original vote, and (b) may be passed by a vote of the shareholders of the Company voting as a single class.

Each Executive Director may at any time be suspended by the Board.

The General Meeting determines the term of appointment for each Director, which may not end sooner than immediately after the AGM held in the first year after the year of the Director's appointment and not later than immediately after the AGM held in the fourth year after the year of the Director's appointment. The Board Rules provide that Directors will be appointed for no more than three years.

Board committees and roles

Shareholders
171 shareholders as at 31 December 2019

Board

Selection and Appointment Committee

The Selection and Appointment Committee assists and advises the Board and prepares the Board's decision-making. The Selection and Appointment Committee, among other things, focuses on: (a) drawing up selection criteria and appointment procedures for Directors; (b) periodically assessing the size and composition of the Board, and making a proposal for a composition profile of the Board; (c) periodically assessing the functioning of individual Directors, and reporting on this to the Board; (d) drawing up a plan for the succession of Directors; (e) making proposals for appointments and re-appointments; and (f) supervising the policy of the Board regarding the selection criteria and appointment procedures for senior management.

See Selection and Appointment Committee report on pages 58 and 59.

Audit Committee

The Audit Committee assists and advises the Board and prepares the decision-making of the Board on the supervision of the integrity and quality of the Company's audit, accounting and financial reporting processes and the effectiveness of the Company's internal risk management and control systems. Among other things, it focuses on monitoring the Board with regard to: (a) relations with, and compliance with recommendations and following up of comments by, the internal and external auditors; (b) the funding of the Company; and (c) the application of information and communication technology by the Company, including risks relating to cybersecurity.

See Audit Committee report on pages 57 and 58.

Remuneration Committee

The Remuneration Committee assists and advises the Board and prepares the Board's decision-making regarding the determination of remuneration of the Executive Directors, the proposed target for the LTIP and the review and monitoring of overall remuneration packages for senior management. The Remuneration Committee submits proposals to the Board concerning the remuneration of individual Directors and variable remuneration schemes for other employees. Such proposals are drawn up in accordance with the Remuneration Policy that has been adopted by the General Meeting and covers, in any event, the remuneration structure, the ratio between the fixed and variable components, the performance criteria used, the scenario analyses that are carried out and the pay ratios within the Company and its affiliated enterprise.

See Remuneration Committee report on page 58.

Executive team

Chief Executive Officer

- Chief Financial Officer
- Chief Strategy Officer and Head of IR
- Chief Growth Officer
- CEO Russia
- COO Russia
- CFO Russia
- Company Secretary

Corporate governance report continued

The Board continued

Appointment, dismissal and suspension continued

A Director's appointment may be renewed by the General Meetings, with due observance to the rules and regulations as applicable to the Company. A resolution of the General Meeting to appoint, suspend or dismiss a Director requires an absolute majority of the votes cast. The General Meeting can suspend or dismiss a Director at any time. Board resolutions to suspend or dismiss an Executive Director require an absolute majority of the votes cast.

Fides Food Systems will be able to nominate for appointment up to three Non-Executive Directors to the Board, for so long as it and its associates are entitled to exercise or to control the exercise of 10% or more of the votes able to be cast on all or substantially all General Meetings. More information relating to the nomination rights of Fides Food Systems can be found on pages 61 and 77.

Executive Directors

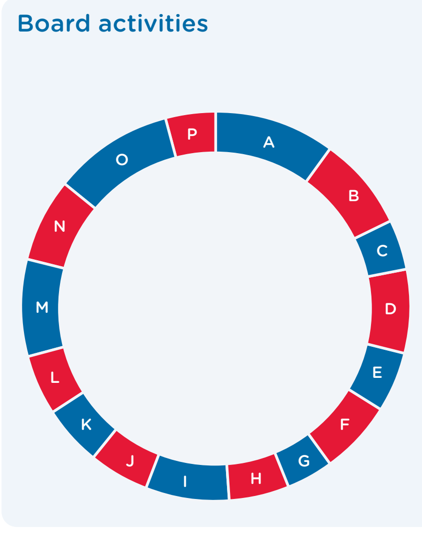
The Board has delegated the operational running of the Group to the Executive Directors with the exception of the following matters which are reserved for the full Board: structural and constitutional matters; corporate governance matters; dividend proposals; developing and approval of the overall strategy and decisions on managing the corporate portfolio; approval of the business plan and budget; oversight of the operational and financial performance of the business; review and approval of any publication by the Company of any information required by applicable laws and regulations; approval of significant transactions or arrangements in relation to mergers, acquisitions, joint ventures and disposals; approval of changes made to franchise agreements or other significant agreements; settlement of material litigation issues, significant financial injections and capital expenditures; and approval of material changes to pension liabilities.

Non-Executive Directors

The Non-Executive Directors share full responsibility for the execution of the Board's duties. Within this broad responsibility, the Non-Executive Directors are essentially supervising and advising the Board and management regarding the strategy, the implementation of the strategy and the principal risks associated with it and focus on the effectiveness of the Company's internal risk management and control systems and the integrity and quality of the financial reporting.

Further, the Non-Executive Directors scrutinise the performance of management in meeting the agreed goals and objectives and supervise the relations with shareholders. The Board acknowledges that it is important that the Non-Executive Directors develop an understanding of the views of major shareholders about the Company. In relation herewith, the Non-Executive Directors are regularly provided with analysts' updates and briefings and are invited to join meetings with major shareholders. In carrying out their duties, the Non-Executive Directors are guided by the Dutch Civil Code, the Dutch Corporate Governance Code, the UK Corporate Governance Code, the Company's articles of association, and the overall interests of the Group, its business and stakeholders.

Board activities



	Activity	%
A	Strategy (financial and operational)	10%
B	Remuneration Policy and approach	8%
C	Investments, shareholder returns, and dividends	4%
D	Performance conditions and employee share scheme awards, including executive management oversight and performance	7%
E	Risk management and mitigation	5%
F	Budgeting	6%
G	Investor relations	4%
H	Compliance	5%
I	Key policies and governance arrangements	7%
J	Board composition	5%
K	Auditor reports, appointments and fees	5%
L	Going concern and viability statement	5%
M	Board evaluation	8%
N	Annual Report	7%
O	Trading updates and financial performance	10%
P	Innovation	4%

Each Non-Executive Director has committed to the Company that they are able to allocate sufficient time to the Company to discharge their responsibilities effectively. At the 2020 AGM, it is proposed that the current Executive and Non-Executive Directors will be reappointed. The Board has taken into account the other demands of the relevant Directors and has no concerns on their time commitment using the prior year as a reference point. Since the same Chairman and Director will be reappointed, an external search agency has not been used. Any additional appointments they are contemplating taking on are discussed with the Chairman in advance, including the likely time commitment and whether these could in any way constitute a conflict of interest.

Committees

The Company has established three committees: an Audit Committee, a Remuneration Committee and a Selection and Appointment Committee. These committees each have written terms of reference, and are currently composed as described below. The members of each of these three committees are appointed from among the Non-Executive Directors. From time to time, separate committees may be established by the Board to consider specific issues when the need arises. The Committees operate pursuant to the terms of reference approved by the Board in accordance with the law, the Dutch Code and the UK Code. The terms of reference were revised in January 2019 and further reviewed by each committee during the year. The committees' terms of reference are available on the Company's corporate governance website, including attendance at meetings in 2019, which can be found on page 53.

Audit Committee

The Audit Committee met seven times in 2019. In general, all meetings of the Audit Committee are attended by the CEO, the CFO, the Internal Audit and Risk Management Director and the external auditor. The Company Secretary attends meetings in her capacity as Secretary of the Audit Committee. At the end of each meeting, it was chosen to discuss matters without the management being present and there is regular dialogue with the audit partner. The Chief Strategy Officer and Head of Investor Relations joined the meetings during which the press releases regarding annual and half-year results were discussed.

Other members of the Board and senior management were invited when necessary or appropriate. The Audit Committee is chaired by Mr Singer and its other member is Mr Williams.

The UK Corporate Governance Code recommends that the Audit Committee has a minimum of two members, taking into account that the Company is seen as a smaller company and that all members of the Audit Committee be Non-Executive Directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement. The Dutch Corporate Governance Code requires that all members of the Audit Committee be Non-Executive Directors and that more than half of the members should be independent. The Board considers that the Company complies with the independence requirements of the UK Corporate Governance Code and the Dutch Corporate Governance Code as to the composition of the Audit Committee, because the Audit Committee comprises two independent Non-Executive Directors. The UK Corporate Governance Code also recommends that the Chairman of the Board should not be a member of the Audit Committee. The Company will not comply with this principle. More information on the accountability regarding this Best Practice Provision of the UK Corporate Governance Code can be found on page 61.

The Audit Committee's focus in 2019 was, among other things, on overseeing the integrity and quality of the Group's financial reporting, the effectiveness of the internal risk and control systems, the relevant 2019 tax matters and the implementation of the new IFRS standard 16. The Audit Committee reviewed the Company's annual and interim financial statements and related press releases, as well as the outcomes of the year-end audit.

The Audit Committee discussed relevant accounting principles and reviewed new accounting standards for lease accounting under IFRS 16 and the recoverability of deferred tax assets ("DTA") from carry forward tax losses of DP Russia.

Furthermore, the Audit Committee reviewed and approved the audit plans of the internal and external auditors, with a focus on scoping, materiality and key risks. The Audit Committee monitored the progress of the internal and external audit activities, including a review of observations identified as a result of the internal audit activities during the quarter, quarterly procedures performed by the external auditor and the audit performed at year end by the external auditor. The Audit Committee oversaw follow-up by management on the recommendations made by the internal and external audit reports.

The Audit Committee extensively discussed the effectiveness of the internal control framework. Each quarter, the agenda includes a discussion on current control topics, including internal audit findings and the external auditor's reflections on the control framework. These discussions guided management and internal audit to focus on the right priorities throughout the year and to build a relevant internal audit plan for 2020.

Corporate governance report continued

Audit Committee continued

The Audit Committee has provided advice to the Board on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's financial position and performance, business model and strategy. Each Director was also asked to provide this confirmation. When doing so, both the Audit Committee and the individual Directors were provided by management with a formal assessment of the key messages included in the Annual Report and Accounts. This assessment was designed to test the quality of reporting and to enable the Directors to satisfy themselves that the levels of disclosure were appropriate.

The Audit Committee has reviewed the independence, effectiveness and objectivity of the external auditor, PwC, and considers that PwC possesses the skill and experience required to fulfil its duties effectively and efficiently. The Audit Committee's review of the effectiveness of PwC as the external auditor is based on the interaction of the Audit Committee with PwC, discussions with the senior finance team, discussions with the lead audit partner and his team, robustness of the audit and the quality of reporting to the Audit Committee.

PwC has monitored its compliance with external standards, the PwC Global Independence Policy and DP Eurasia's independence policy with respect to services provided in 2019 and confirmed that it has been and is compliant with these independence requirements.

With respect to the external auditor's Board report about the 2019 financial year, the Audit Committee confirms that the Board report contained no significant items that need to be mentioned in this report.

DP Eurasia N.V. was incorporated on 18 October 2016 and listed its shares on the London Stock Exchange as of 3 July 2017. As a consequence, PricewaterhouseCoopers Accountants N.V. was appointed as the statutory auditor of the listed entity. Prior to the listing, PwC Turkey was already the statutory auditor of the consolidated financial information of all the operating entities since 31 December 2014. The shareholders reappointed PwC during the AGM on 29 May 2019.

The Audit Committee agrees the fees for the external auditor and has agreed strict rules regarding the provision of non-audit services by the external auditor. These include specific pre-approvals for proposed non-audit work.

Remuneration Committee

The Remuneration Committee is chaired by Mr Singer and its other member is Mr Williams. Members of the Remuneration Committee are appointed by the Board. The UK Corporate Governance Code recommends that all members of the Remuneration Committee be Non-Executive Directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement. The Dutch Corporate Governance Code requires that all members of the Remuneration Committee be Non-Executive Directors and that more than half of the members be independent. The Board considers that the Company complies with the requirements of the UK Corporate Governance Code and the Dutch Corporate Governance Code as to the composition of the Remuneration Committee because the Remuneration Committee comprises two independent Non-Executive Directors. In 2019, the Remuneration Committee met three times. The meetings of the Remuneration Committee were attended by the CEO and the Human Resources Director (by phone and in person) whenever necessary. The Company Secretary attends meetings in her capacity as Secretary of the Remuneration Committee. Other members of the Board and senior management were invited when necessary or appropriate. In the case of topics concerning the remuneration of the Chief Executive Officer, it was chosen to discuss these matters without the Chief Executive Officer being present. Further detail on remuneration of the Board can be found on pages 44 to 49 in the remuneration report, which includes a further explanation of the Remuneration Policy and the actual remuneration and relationship between remuneration and performance of the Executive Directors for 2019.

Selection and Appointment Committee

The Selection and Appointment Committee is chaired by Mr Williams and its other members are Messrs Singer and Talu. Members of the Selection and Appointment Committee are appointed by the Board. The UK Corporate Governance Code recommends that a majority of the Selection and Appointment Committee be Non-Executive Directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement, and the Dutch Corporate Governance Code requires that all members of the Selection and Appointment Committee be Non-Executive Directors and that more than half of the members be independent.

The Board considers that the Company complies with the requirements of the UK Corporate Governance Code and the requirements of the Dutch Corporate Governance Code as to the composition of the Selection and Appointment Committee because the Selection and Appointment Committee comprises two independent Non-Executive Directors and one non-independent Non-Executive Director.

The Selection and Appointment Committee met two times in 2019. The meetings of the Selection and Appointment Committee were attended by the Chief Executive Officer and the Company Secretary in her capacity as Secretary of the Selection and Appointment Committee.

The Selection and Appointment Committee discussed the possible succession planning of Executive Directors, Non-Executive Directors and the executives in Turkey and Russia. The Selection and Appointment Committee also discussed the Board's approach to its annual self-assessment on Board effectiveness and reviewed the performance of the Directors seeking re-election at the 2020 AGM.

The Board recognises its responsibility of having Directors with the appropriate balance of educational background, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively. The Board has a key role to protect shareholders' interests by ensuring that the Board and management are challenged, constructively and effectively, and it is important that they do so from a range of perspectives. Fortunately, our business is diverse and people are recruited regardless of their gender, nationality or possible other characteristics to make sure that people are recruited from the widest pool of talent.

Details of the Group-wide diversity data are shown on page 53.

Board effectiveness

Activities of the Board

A minimum of four face-to-face meetings are planned throughout the calendar year to consider, for example, the half-year and full-year results announcements of the Group and the strategy of the Group. Meetings of the Board are held in Amsterdam, with two to three site visits to Moscow and Istanbul a year. The Chairman sets the Board's agenda, ensures the Directors receive accurate, timely and clear information, and promotes effective relationships and open communication between the Executive and Non-Executive Directors.

These physical meetings were held in Amsterdam with all the Directors being present. Throughout the year, the Chairman and other Non-Executive Directors had regular contact with the Chief Executive Officer. None of the Non-Executive Directors were frequently absent. The table showing the attendance of Directors at Board meetings in 2019 can be found on page 53.

At each Board meeting and with respect to any proposed resolution submitted to the Board, each Director holds the right to cast one vote provided that such Director does not have a conflict of interest with respect to the proposed resolution. Where the articles of association or the Board Rules do not prescribe a larger majority, all resolutions submitted to a Board meeting may only be adopted by a majority of the votes cast in such a meeting. In the event of a tie, the proposed resolution will be deemed to have been rejected.

The meetings addressed routine commercial, operational and financial matters and focused on key resource levels and strategic implementation. As well as day-to-day matters, the Non-Executive Directors paid particular attention to the activities regarding investors.

Main matters discussed during the year's Board meetings:

- developing and approval of the overall strategy;
- progress on implementing the overall strategy;
- long-term value creation and the strategy for realisation;
- budget for 2020;
- oversight of the operational and financial performance of the business;
- review of risks and internal risk management and control systems;
- potential acquisition opportunities;
- investor relations activities;
- capital structure;
- significant human resources matters;
- major capital investments;
- the half-year results, including the announcement and investor presentations of these half-year results; and
- innovation.

Board evaluation

The Board is required to assess its own effectiveness. This is a healthy process for the Board as a whole, the committees, and the individual Directors. The evaluation operates on a three-year cycle, with two subsequent years of internal evaluations followed by one externally led evaluation. The Board decided that, since it had only been in function in full as of the IPO, it would assess its own functioning in 2018 for the first time. The 2019 internal valuation was performed by means of a questionnaire. The main conclusions of the evaluation were collectively discussed by the Board at its meeting in December.

The evaluation concluded that the Board felt its work and performance during the year had been positive; the Board is involved in major developments in the business in the right level of detail and at the right time, the Non-Executive Directors take an independent view of management and the time and the commitment of the Non-Executive Directors to fulfil their responsibilities are appreciated.

Corporate governance report continued

Board effectiveness continued

Board evaluation continued

Key points of attention resulting from the evaluation in 2019 included more specific and rigourous succession plans for senior roles, discussions on the profile, experience and composition of the Board, improving the effectiveness of discussions in the boardroom and the involvement of the Board in establishing the Company's appetite for risk in respect of its strategic aims.

Reflecting on the lessons learnt, the Board agreed, in particular, in the evaluation discussions:

- the Board agreed to pick one of the Board meeting dates that will be reserved for discussion on strategy; and to closely monitor the succession planning for key Board members and senior management to ensure that it is closely aligned to the Group's requirements and strategy.

The Board attaches great value to these evaluations. They ensure continuous focus on the quality of the activities, composition and functioning of the Board and its committees.

The internal control procedures are described in more detail on pages 64 and 65 of this report. The Board is of the opinion that these fulfil the needs of the Group.

Non-Executive Director meetings

The Non-Executive Directors meet as a group, without the Executive Directors present, to consider specific agenda items set by them at least once a year, including to review the performance of the Chairman, its committees and the Executive Directors. The Chairman, or in his absence the Senior Independent Director, chairs such meetings.

Composition of the Board

The composition of the Board, including the Non-Executive Directors, can be found on pages 50 and 51.

The Board has a diverse composition in terms of educational background, professional expertise, age and nationality. In this respect, DP Eurasia's ambition is to have a blend of industry knowledge and financial, legal, executive and non-executive expertise. The target for a balanced Board composition is a minimum of 30% female representatives. This target is currently met by DP Eurasia for the Executive Directors (50%), but not for the Non-Executive Directors (20%). DP Eurasia, however, regards the full Board as being well balanced (29%). The Selection and Appointment Committee will strive for a diverse composition in the process of appointing and reappointing members to the Board in the future. At the same time, necessary knowledge of the Company, franchise, digital retail and the Company's key market areas will stay as key appointment criteria. There have not been any changes to the Board during the past three years. However, in case a position becomes available, the Selection and Appointment Committee may use an external search agency to look for a suitable Director.

The Board endeavours to ensure that the composition of the Board is such that its members are able to act critically and independently of one another, the Executive Board and any particular interest.

The Board has determined that Messrs Williams and Singer are independent Non-Executive Directors within the meaning of the UK Corporate Governance Code and best practice provisions 2.1.8 and 2.1.9 (for Mr Williams only) of the Dutch Corporate Governance Code. Messrs Tari and Talu and Ms Sahin are appointed as Non-Executive Directors upon the nomination of Fides Food Systems, and are considered non-independent within the meaning of best practice provision 2.1.8 of the Dutch Corporate Governance Code.

Director induction

All the new Directors participated in an induction programme when they joined the Board. The Chairman ensures that ongoing training is provided for Directors by way of site visits and presentations.

Indemnification

The terms of the indemnification granted to the Directors are set out in the Company's articles of association. An excess Directors' and Officers' Liability and Corporate Reimbursement Insurance was in place for all Directors in 2019 and is currently in force.

Conflicts of interest

Any conflict of interest by a member of the Board shall immediately be reported to the Board. In the event that a Director is uncertain whether or not he has a conflict of interest, he may request the Chairman to have the Non-Executive Directors determine whether there is a conflict of interest. A Director may not participate in the deliberation and decision-making process if he or she has a conflict of interest. In 2019, no transactions were reported under which a Director had a conflict of interest which was of material significance to the Company or to the individual Director.

Insider dealing code

The Board has adopted a code of securities dealings in relation to the shares and a policy with respect to the entry into of transactions with persons related to the Group. The code is based on the rules of the EU Market Abuse Regulation and will apply to the Directors and other relevant employees of the Group. The policy is based on the mandatory provisions of the Listing Rules which apply to the Group.

Accountability: UK and Dutch Corporate Governance Codes

UK Corporate Governance Code

The Company complies with and, except in the case of any future deviation, subject to explanation thereof at the relevant time, intends to continue to comply with the relevant recommendations of the UK Corporate Governance Code. The UK Corporate Governance Code contains 18 main principles, which are expanded on in supporting principles and detailed provisions. Together, these set out the key components of effective Board practice and corporate governance, and we explain in this report how we have applied these during the year.

Fides Food Systems is the largest holder of shares in the Company and a subsidiary of Turkish Private Equity Fund II L.P. (“TPEF II”), the ultimate parent company. The Company will continue to represent a significant investment for Fides Food Systems.

The Board and Fides Food Systems are mindful of the need to consider the interests of the Company’s minority investors and the Group believes the composition of the Board and the committees, with the independent Chairman (being Mr Peter Williams) and the independent Non-Executive Director (being Mr Thomas Singer), will provide the appropriate corporate governance balance and the interests of both Fides Food Systems and minority shareholders.

Pursuant to the Relationship Agreement (see page 78), Fides Food Systems will be able to nominate three Non-Executive Directors to the Board for so long as it and its associates are entitled to exercise or to control the exercise of 30% or more of the votes able to be cast on all, or substantially all, matters at General Meetings; two Non-Executive Directors for so long as it and its associates are entitled to exercise or control the exercise of 20% or more; and one Non-Executive Director for so long as it and its associates are entitled to exercise or control the exercise of 10% or more. The first such appointees were Mr Seymur Tarı, Mr İzzet Talu and Ms Aksel Şahin. The UK Corporate Governance Code recommends that the board of directors of a company with a premium listing on the Official List of the FCA should appoint one of the non-executive directors to be the senior independent director to provide a sounding board for the chairman and to serve as an intermediary for the other directors when necessary. The senior independent director should be available to shareholders if they have concerns which contact through the normal channels of chairman or executive directors has failed to resolve or for which such contact is inappropriate. Mr Thomas Singer has been appointed as Senior Independent Director.

Corporate governance report continued

Accountability: UK and Dutch Corporate Governance Codes continued

UK Corporate Governance Code continued

The Board will follow the recommendation of the UK Corporate Governance Code that an Executive Director is expected to build up a shareholding worth 100% or a significant amount of their salary. Pursuant to the Remuneration Policy 2018–20, the Chief Executive Officer will be required to retain a minimum of 5,000,000 shares (based on the Group's share price as at 31 December 2019, this equates to a value of c.£2,620,000 million) subject to remaining as an employee.

The Company does not currently comply with the following principles and best practice provisions of the UK Corporate Governance Code:

Best practice provision 11 ("Independence of the Board")

The Company does not comply with best practice provision 11, which determines that at least half of the Board, excluding the Chairman, should be considered independent by the Board. As long as Fides Food Systems holds at least 30% of the shares, it shall have the right to nominate three of the five Non-Executive Directors, and the nominees do not need to be "independent".

The Company believes this deviation is justified by Fides Food Systems' shareholding in the Company since the IPO and the specific knowledge and experience of the business of the Company held by these Directors.

Best practice provision 18 ("Annual re-election of Directors")

The Company does not comply with best practice provision 18, which determines that all directors should be subject to annual re-election. At the annual General Meeting in 2018 the directors were reappointed for a period of two years, ending on the day of the annual General Meeting in 2020. The Company elected to honour this reappointment and schedule their reappointment for the annual General Meeting in 2020 since these reappointments were aligned with the agreed management agreements which will need to be renewed.

Best practice provision 24 ("Audit Committee")

The Company does not comply with best practice provision 24, which determines that the Chairman of the Board should not be a member of the Audit Committee. The Company believes that the members of the Audit Committee should be independent Non-Executive Directors with relevant recent financial experience and therefore believes it justified that Mr Williams remains as a member of the Audit Committee taking into account the size and resources of the Company and the right of Fides Food Systems to nominate three Non-Executive Directors.

Dutch Corporate Governance Code

The Dutch Corporate Governance Code, dated 8 December 2016, became effective on 1 January 2017 and has its statutory basis in Book 2 of the Dutch Civil Code. Dutch companies whose shares are listed on a regulated market (such as the London Stock Exchange) are required under Dutch law to disclose in their annual reports whether or not they apply the provisions of the Dutch Corporate Governance Code and, in the event that they do not apply a certain provision, to explain the reasons why. The Board has reviewed the Dutch Corporate Governance Code and supports the best practice provisions thereof.

Therefore, except: (i) where the Dutch Corporate Governance Code cannot be reconciled to the UK Corporate Governance Code; (ii) as noted below; or (iii) in the case of any future deviation, subject to explanation thereof at the relevant time, the Company intends to comply with the relevant best practice provisions of the Dutch Corporate Governance Code (publicly available at www.mccg.nl).

The Company will not comply with the following principles and best practice provisions of the Dutch Corporate Governance Code:

Best practice provision 2.1.7 ("Independence of the Supervisory Board")

The Company does not comply with best practice provision 2.1.7, which determines, inter alia, that more than half of the total number of Non-Executive Directors should meet the independence criteria as defined in the Dutch Corporate Governance Code. As long as Fides Food Systems holds at least 30% of the shares, it shall have the right to nominate three of the five Non-Executive Directors, and the nominees do not need to be "independent".

The Company believes this deviation is justified by Fides Food Systems' shareholding in the Company since the IPO and the specific knowledge and experience of the business of the Company held by these Directors.

Best practice provision 2.7.5 ("Accountability regarding transactions: majority shareholders")

The Company does not comply with best practice provision 2.7.5, which determines, inter alia, that all transactions between the Company and legal or natural persons who hold at least 10% of the shares must be agreed on terms that are customary in the market and require the approval of the Supervisory Board (or the Non-Executive Directors in a one-tier board). The Company will alternatively comply with Listing Rule 11, which requires shareholder approval for related party transactions which, by value, exceed a de minimis threshold. The Company believes this deviation is justified because the Listing Rules requirements are mandatory.

Best practice provision 3.1.2 ("Remuneration Policy")

The Company does not comply with best practice provision 3.1.2 (vi), which determines that shares should be held for at least five years after they are awarded. The Company felt it important to demonstrate to the executive team that the scheme would deliver value in the first three years to build confidence in this unfamiliar type of arrangement for Turkish and Russian executives. Having a five-year delay in getting any benefits would reduce its effectiveness. However, for the duration of the 2018–20 Remuneration Policy, the Chief Executive Officer will be required to retain a minimum of 5,000,000 shares. The Company believes that a further two-year holding period provides little additional incentive given the size of his minimum shareholding, subject to remaining an employee. The Company believes that with the current Remuneration Policy, it ensured an alignment with the interests of the shareholders.

Best practice provision 3.2.3 ("Severance payments")

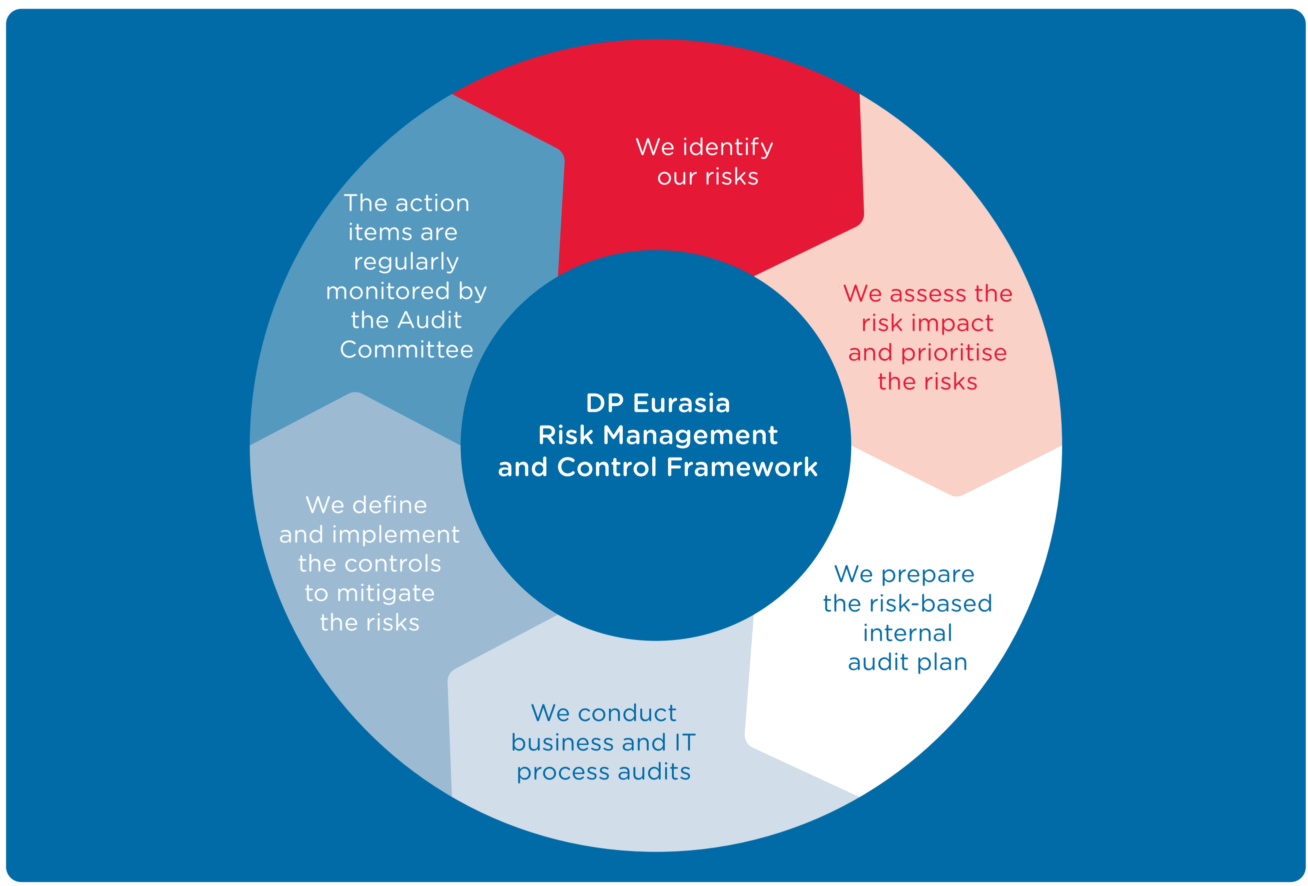
The Company does not comply with best practice provision 3.2.3, which determines, inter alia, that remuneration in the event of dismissal of employees should not exceed one year's salary. Although, in the Company's case, the Executive Directors will normally under their contracts not be entitled to be paid a severance payment upon termination that exceeds one year's annual base salary (the fixed remuneration) in the preceding financial year and no contractual severance payment will be awarded in the event of seriously culpable or negligent behaviour on the part of the Executive Director, Mr Saranga's contract provides for an additional compensation payment of one year's annual base salary payable only in the event that termination of his employment is due to him being unable to work because of a health condition. Where a contract is terminated, the Company reserves the right to make additional payments where such payments are made in good faith in discharge of an existing statutory or legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment. Any such payments may include, but are not limited to, paying statutory severance compensation, any fees for outplacement assistance and/or the Executive Director's legal and/or professional advice fees in connection with his or her cessation of office or employment. Payment would also be made for any outstanding vacation days unused at the date of cessation of employment.

Peter Williams
Chairman

26 March 2020

How we manage risk

The Audit Committee and management continuously monitor the risk management, effectiveness and timely implementation of the internal controls and provide guidance for prioritisation and further improvement.



Every business carries a certain level of risk in order to achieve its objectives and takes actions to alter the risk's impact or likelihood. Identifying and managing risks is an integral part of managing business. The Group registers the principal risks to the risk inventory and regularly evaluates these risks.

The Group follows the DP Eurasia Risk Management and Control Framework for a continuous risk monitoring. The risks are prioritised, assessed and related mitigating actions are taken as the basic principle of the framework.

The DP Eurasia Risk Management and Control Framework is based on the COSO 2017 framework, as "COSO 2017 Enterprise Risk Management – Integrated Framework" addresses the need for organisations to improve their approach to managing risk to meet the demands of an evolving business environment for both setting the strategy and driving the performance.

As a key element of a robust risk management and control framework, the internal audit functions are carried out by the DP Eurasia Internal Audit and Risk Management Department, which directly reports to the Audit Committee and has full access to all Group entities.

The DP Eurasia Internal Audit and Risk Management Department provides reasonable assurance to the Audit Committee and the Board on the design and effectiveness of the business processes and internal controls.

The Group Audit Committee Charter, Internal Audit Charter and Internal Audit Policy explain the responsibilities and independence of the Audit Committee and Internal Audit function in accordance with the International Internal Audit Standards.

A risk-based annual audit plan reflecting assessment of business units and strategic priorities for each Group company is prepared with the input of management and approved by the Audit Committee on behalf of the Board and discussed with the Board on an annual basis. The DP Eurasia Internal Audit and Risk Management Department conducts Business & IT Process Audits, special investigations and periodic controls according to a risk-based approach, based on financial, operational and compliance risks. The significant risk areas, audit issues and effectiveness of management action plans are periodically reported to the Audit Committee. The Audit Committee and management monitor the risk management, effectiveness and timely implementation of the internal controls and provide guidance for prioritisation and further improvement.

Corporate governance and ethics culture

The Group has implemented various policies and procedures in order to define and standardise the Corporate Governance Framework.

The Group's values and "doing the right thing" principle determine its culture. The Group adopts the "Tone at the Top" approach to reflect its values, code of conduct and corporate governance policies to the employees and all the related parties.

Code of Conduct

The Code of Ethics and Business Conduct mainly defines the general rules on relations with and between workers, relations with the market and other stakeholders and relations with the community. The Code of Conduct strictly highlights that the Group respects and promotes human rights in all the cultural, socioeconomic and geographic contexts in which it operates, respecting the traditions and cultures of, and providing support for, local communities in accordance with specific interests in each region. Also, the Group prohibits any situation involving or pertaining to child or forced labour.

The Group's employees are informed about Code compliance requirements when they join the Group. The Code of Conduct is part of an employees' onboarding program and is signed when the employee joins the Group. Also, refresher training is conducted to increase awareness and ensure that its values and the Code are part of the daily operations of the Group's employees. To encourage and motivate employees to comply with the various rules and regulations in their day-to day life, the Group developed an e-learning program. The programme will be ready to be rolled out in 2020.

Also each supplier of the Group will sign a Code of Conduct for every new contract. This is a mandatory part of the contract management system. Compliance is part of the internal audit program as well as the critical supplier audit which includes a quality audit. As part of the audit activities, business practice compliance with the Group standards and requirements are assessed including the Group's Code of Conduct. In 2019, no significant cases were reported that have let to the termination of a contract with one of the Group's suppliers.

The Group recognises the need to have internal audits and a detailed Code of Conduct policy, procedures and reporting mechanisms in place to protect our business integrity and compliance with applicable laws and regulations. All incidents of actual or suspected integrity-related cases reported through Hotline or other resources are promptly and thoroughly investigated. To the best of our knowledge, we had no cases of fraud, bribery or corruption, which has a significant impact on our business.

Anti-bribery

The DP Eurasia Anti-Corruption and Anti-Bribery Policy emphasises that any form of bribes or inappropriate advantages are prohibited by the Group and should be reported immediately, and that the gift receiving and giving rules should be followed.

Whistleblowing

The Group is committed to a culture of ethical and honest behaviour. The Group encourages anyone to report any violation of the Code of Ethics and Business Conduct to an independently managed hotline. The DP Eurasia Whistleblower Policy details the process to be followed when a violation is reported. The Group supports people to feel comfortable about reporting wrongdoings and ensures protection throughout the process.

The cases reported through the ethics hotline are thoroughly reviewed and investigated by the DP Eurasia Internal Audit and Risk Management Department. The cases are assessed by the Ethics Committee when required. The ethics cases and actions taken are periodically reported to the Audit Committee.

Personal data protection

The Group has established policies regarding personal data protection law in accordance with the applicable legislation of the related countries where it exists. These policies explain the principles of personal data management in line with the security and processing measures.

The Group closely follows the regulative requirements and takes technical and administrative actions accordingly.

Class training and e-learning classes are conducted in order to increase employee awareness on the personal data protection law requirements.

How we manage risk continued

The Group's risk register

The Group categorises risks in four types:

- **strategic risks –** the Group is willing to take a certain level of risk by assessing a risk/return approach when doing business;
- **operational risks –** the Group has a responsible approach to operational risk management. High quality products, customer satisfaction and continuity of production are the prioritised areas;
- **financial risks –** the Group continuously assesses its financial risks and seeks for the mitigations to minimise the potential risk impact; and
- **compliance risks –** compliance with laws and regulations is essential for the Group, which does not tolerate non-compliance with laws.

The risks represent a snapshot of the Group's principal risks.

Strategic

Business dependency on Master Franchise Agreements ("MFAs")

Group risk

- Expiration or termination of an MFA due to a breach of the agreement or store franchise agreements may affect the Group's business operationally and financially.

Mitigation

- The Group has strong relations with Domino's Pizza International.
- Since the Group's ability to renew the MFAs is dependent upon the good standing of the Group with respect to its contractual relationships with the Master Franchisors (including under the store franchise agreements) and its ability to agree a revised development plan in the relevant country, the KPIs (e.g. store opening, royalty performance etc.) are monitored very closely by management and the Board, and required actions are taken in order to address risky areas.

Operations and growth strategy dependency on the success of the sub-franchisees

Group risk

- The Group is reliant on the performance of sub-franchisees in successfully opening and operating franchised stores and paying for supplies, royalties and other fees to the Group on a timely basis.
- Franchise system risks are failure of sub-franchisees to make payments to the Group, sub-franchisee independence that may result in conflicts with Group standards or financial performance issues going undetected, non-renewal of a store franchise agreement with sub-franchisees, etc.

Mitigation

- The Group is significantly spending efforts on pricing strategies to increase profitability of the franchised stores.
- The franchised stores' financial and operating performance is continually monitored.
- The payment performance of the stores is monitored by management and remediation actions are taken to boost the low-performing stores.
- Stores are regularly audited to prevent or detect any financial, operational or compliance risks.
- Domino's Pizza International and the Group have started to conduct Food Safety Evaluation Audits in the stores to monitor compliance.

Growth strategy dependency on opening profitable new system stores

Group risk

- Failure to identify key geographical areas to open stores may result in failure to meet future expectations.
- Market saturation may become significant in the future and could adversely affect system store sales growth.

Mitigation

- The Group spends significant efforts on obtaining and training sub-franchisees and personnel, creating customer awareness by advertising and marketing activities.
- The Group continuously monitors the pipeline of proposed store openings in terms of strategic location and profitability.
- Franchisee development programmes are continuously improving to support the franchised stores.
- The Group works on improving the premise assessment and rental process.

The Group's dependency on infrastructure and internal systems to support the Group's planned growth and strategy: Digitalisation, disruptive technology and other innovation

Group risk

- Failure to enhance the Group's existing internal systems and controls, distribution and delivery networks and information technology systems may adversely affect the planned expansion.
- Failure to locate, hire, train and retain management and operating personnel may result in not responding on a timely basis to the changing demands of the Group, operating the existing business less effectively.

Mitigation

- The Group is conducting an information technology ("IT") architecture development project in order to enhance and strengthen the system architecture.
- The Group periodically monitors IT restructuring needs in order to serve the rapidly changing challenges of the digital world.
- The IT team continuously analyses the system security requirements, plans and takes the actions accordingly.
- The increase in the Group's online presence in different channels and better customer experience on online ordering platforms distinctly improve access to consumers and penetration.
- The Group is strengthening and improving its online platform technology in order to serve increasing consumer demands and follow technological and innovative changes.
- The desktop and mobile web platforms run at Microsoft Azure Cloud environment which provides security, scalability, availability, performance, and consequently serves growth.
- In Turkey, as of the beginning of 2018, all applications except online platforms were relocated at IBM Data Centre which enables a sustainable and secure infrastructure.
- The DP Eurasia Internal Audit and Risk Management Department conducts business process audits, performs risk assessments, evaluates design and effectiveness of the process controls. They monitor the remediation actions in terms of preventive/ detective and manual/system controls and provide consultancy services to standardise the processes in order to mitigate the risks. Additionally, IT General Control Audits will be conducted to define the improvement areas and follow up management action implementation to mitigate the risks.
- The Group moves the manual processes into the Workflow and Document Management Platform which will enable business process standardisation, preventive and detective control implementation to the business processes and significant risk mitigation. Business processes to be implemented to this platform are subject to risk-based prioritisation and best practice benchmarks.
- As part of the system security actions, ERP System Access Rights are reviewed periodically.

How we manage risk continued

Strategic continued

Reliance on successful marketing initiatives

Group risk

- Failure to succeed in marketing initiatives may result in not generating higher sales.
- The Group's spending of significant time and resources in product innovation, advertising campaigns and store designs and refurbishments may not generate increased sales or profits.

Mitigation

- The Group has an agile and responsive working model as a retailer.
- Closely monitoring the competitors and adopting best practice benchmarks enables the Group to implement new opportunities quickly and maximise the benefit from the marketing and product innovation efforts.
- The Group continuously works on new product innovation projects and performs pilot tests to enhance and expand the product portfolio, consequently serving sales increase.
- The Group has launched a comprehensive price policy restructuring project to enhance and implement pricing methodology depending on different factors.
- The Group works on restructuring and enhancing new product development and product enhancement processes to ensure agility, instant responsiveness and wide variety.
- The Group is enhancing the product trial assessment process to ensure speeding up the success criteria assessment and replacement decisions.

The Domino's Pizza brand and the Group's reputation are critical to its business and success

Group risk

- The Group's business could be negatively affected if brand or reputation is harmed.
- Any negative incident that affects consumer loyalty to the brand could significantly reduce its value and damage the Group's business, such as:
  - food safety concerns, including food tampering or contamination;
  - incidents of food-borne illness;
  - the quality of the ingredients and food products;
  - employee or customer injury, including driver accidents causing serious injury; and/or
  - employment-related claims relating to alleged employment discrimination, wage and hour violations, labour standards or healthcare and benefit issues.

Mitigation

- The Group conducts random audits in stores and on the supplier sites, monitors the results and takes the required actions.
- Stores are regularly audited to prevent or detect any financial, operational or compliance risks (food safety audits, operational evaluation reviews, store audits, mystery shopper audits, etc.).
- Domino's Pizza International and the Group has started to conduct Food Safety Evaluation Audits in the stores to monitor compliance with the standards.
- Commissaries are audited annually by Domino's Pizza International in terms of quality, food safety, and occupational health and safety. The results of the 2019 Turkish and Russian commissary audits were over 92% in compliance in Russia (4 stars) and over 96% in compliance in Turkey (5 stars) with Domino's Pizza International standards.
- In Russia, the Moscow commissary and stores are certified to HACCP (Hazard Analysis and Critical Control Point). HACCP is an internationally recognised system for reducing the risk of safety hazards in food.
- In Turkey, the four commissaries are certified to ISO 22000. ISO 22000 is a food safety management system.
- The Group monitors the health and safety compliance requirements in the corporate stores and premises and takes preventive/detective actions accordingly.

Competition from other pizza chains and fast-food restaurant chains may adversely affect the Group's business

Group risk

- Increased presence and competition from aggregators (which provide a food ordering and delivery platform by offering access to multiple delivery restaurants through a single online portal) supplying food ordering platforms could lead to an increased level of competition for the Group, as they improve access to delivery food options for consumers.

Mitigation

- The Group closely monitors its competitors and markets to prioritise significant challenges and focuses on increasing the positive impact of the marketing, product innovation, online channels and suitable store location efforts accordingly.
- The increase in the Group's online presence in different channels and better customer experience on online ordering platforms distinctly improve access to consumers and penetration.
- The Group has launched a comprehensive price policy restructuring project to enhance and implement pricing methodology depending on different factors.
- Regular price perception research is conducted to analyse consumer behaviour.
- Regular competitor price analyses are conducted and monitored closely to take related actions.

Changes in consumer preferences

Group risk

- The fast-food restaurant market is affected by consumer preferences and perceptions, and changes in these preferences and perceptions may reduce the demand for the Group's products.
- Consumers' expectations and health consciousness is increasing, which may require the Group to adopt changes on the products.
- New generation consumers' expectations are becoming more challenging.

Mitigation

- The Group works consistently on enhancing and diversifying the products and menu in order to meet customer preferences.
- Qualitative and quantitative marketing tests are frequently used for analysis.
- The Group works on restructuring and enhancing the new product development and product enhancement processes to ensure agility, instant responsiveness and wide variety.
- The Group is enhancing the product trial assessment process to ensure speeding up the success criteria assessment and replacement decisions.
- The Group is working on different projects to meet changing customer demands such as online payment options, faster delivery opportunities etc.

The Group's dependency on key members of its senior management

Group risk

- The Group's successful implementation of its strategy is dependent on its ability to recruit, retain and motivate high-quality senior management and other personnel with extensive knowledge in the fast-food restaurant industry.
- The loss of the services of any of the Group's senior managers could have a material adverse effect on its business plans, product development, growth strategy, marketing and other plans.

Mitigation

- The Group has the Selection and Appointment Committee focusing on drawing up selection criteria and appointment procedures for its Directors and senior managers.
- The Selection and Appointment Committee periodically assesses the size and composition of the Board and makes a proposal for a composition profile of the Board; periodically assesses the functioning of individual senior managers, and reports on this to the Board.
- The Selection and Appointment Committee draws up a plan for the succession of Directors and senior managers, makes proposals for appointments and reappointments and supervises the policy of the Board regarding the selection criteria and appointment procedures for Directors and senior managers to improve employee retention and mitigate the risk of losing services of the Directors and/or senior managers.

How we manage risk continued

Strategic continued

Macroeconomic and political developments

Group risk

Macroeconomic and political developments in the world and Turkey, Russia and the other jurisdictions in which the Group operates may negatively affect the Group's business, results of operations, financial condition, cash flows and prospects.

- The Group's operations are located in Turkey, Russia, Azerbaijan and Georgia, which are generally categorised as emerging markets. Emerging markets are generally subject to greater risk of being perceived negatively by investors based upon external events than more-developed markets, and financial turmoil in any emerging market (or global markets generally) could disrupt the business environment of the jurisdictions in which the Group operates.
- Financial or political turmoil in one emerging market country tends to adversely affect prices in credit, equity and foreign exchange markets in other emerging market countries, as investors move their money to more stable and developed markets.

Mitigation

- Macroeconomic and political changes are closely monitored by the Group in order to mitigate or eliminate the potential effects by implementing business continuity planning and crisis management and incorporating those risks into the Group's business strategies.

Climate change

Group risk

- Climate change effects may cause business interruption on the Group's operations.

Mitigation

The Group is working on updating its business continuity policies in order to be more prepared for the potential climate change impacts:

- crisis management;
- disaster recovery plan; and
- business continuity management.

Impact of a pandemic

Group risk

The Group could be adversely affected from the global pandemic COVID-19.

- We see increased uncertainties following the COVID-19 worldwide outbreak and market volatility, which have no relation to the business operations in the year to date.
- While our stores are open and operating under the ordinary course of business currently, we believe our business could be impacted for a period of time. These impacts could vary from reduced store operating hours to cancellation of eat-in and/or take-away, to complete store closures for an unspecified period of time at the extreme.
- These conditions could indicate the possible existence of a material uncertainty which may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Mitigation

The Group is assessing the potential impact/worst case scenarios and taking many measures to ensure business continuity. The main focus areas are:

- people;
- operations;
- supply chain;
- suppliers; and
- finance.

As part of the Group's crisis management policy, the crisis management teams are taking the required measures, and closely following the guidelines announced by global and local health authorities.

Moreover, the Group has launched contactless delivery and online payment in order to ensure our customers and employees continue to be safe while interacting together.

Operational

Reliance on third-party suppliers

Group risk

Reliance on third-party suppliers and service providers may result in shortages or interruptions in the supply of raw materials, ingredients or complementary products.

- The Group's and its sub-franchisees' business is dependent on frequent deliveries from third-party suppliers of raw materials, ingredients and complementary products that meet the Group's specifications. Suppliers may fail to provide necessary products on a timely basis or to the agreed-upon standard, may discontinue or limit their products or may seek to charge the Group higher prices.
- Shortages or interruptions from suppliers may be caused by unanticipated demand, problems in production or distribution, inclement weather or other conditions.

Mitigation

- The Group periodically seeks alternative suppliers for critical materials and services to prevent any material shortages in case of a disruption in our principal suppliers' operations.
- The Group also has emergency plans in place in the event of a disruption of operations at our commissaries or suppliers.
- Supplier audits are periodically performed in order to monitor supplier performance and compliance.
- Supplier evaluation is performed annually to monitor the supplier performance as per the risk criteria and take the required actions.

Labour shortages

Group risk

Labour shortages or increased labour costs would negatively affect the Group's business.

- Labour is a significant component in the cost of operating the Group's corporate stores. If the Group faces labour shortages or increased labour costs because of increases in competition for employees, employee turnover, employee benefits costs, minimum wage raises or changes in employment law requirements in the countries in which the Group operates, its operating expenses could increase and the Group's growth and profitability could be adversely affected.

Mitigation

- The Group is spending efforts on different engagement activities to decrease employee turnover, and attract, motivate and retain qualified employees.
- The Group also closely monitors and anticipates governmental laws and government incentives in order to obtain an advantage in potential labour cost increases.
- The Group is implementing new technologies such as its GPS project to monitor operating effectiveness and take the required measures.

Financial

Increase in food cost and other supplies

Group risk

Increased costs of food and other supplies could decrease the Group's operating margins or cause the Group to limit or otherwise modify its product variety.

- The Group's profitability depends in part on its ability to manage changes in the price and availability of food and other commodities including dairy, meat, poultry, flour and cardboard. Prices may be affected by market movements, seasonality, increased competition, the general risk of inflation, shortages or interruptions in supply due to the weather, disease or other conditions beyond the Group's control.
- These events, combined with other more general economic and demographic conditions, could impact the Group's pricing and negatively affect the Group's system sales, the Group's commissary sales and operating margins.

Mitigation

The Group continually looks for ways to partially offset inflation and other changes in the costs of core raw materials by:

- applying efficient purchasing practices;
- productivity improvements;
- greater economies of scale; and
- gradually increasing certain product prices.

How we manage risk continued

Financial continued

Exchange rate fluctuations and cash flow management

Group risk

Exchange rate fluctuations could have an adverse effect on the Group.

- The Group's results of operations and financial condition have been, and will continue to be, affected by changes in the value of the Turkish Lira (the Group's presentation currency) against the Russian Rouble or Euro and between the Euro and the Russian Rouble, because a portion of the Group's revenue and costs is linked to these currencies.
- Cash flow risk and not meeting the debt covenant may adversely affect the business.

Mitigation

- The Group mitigates this risk by agreeing fixed exchange rates with its suppliers, wherever possible.
- The Group controls exposure to the exchange rate fluctuations by minimising the foreign currency nominated borrowing.
- The Group's bank loans consist of TRY and RUB currencies (related country's local currency) in order to eliminate hard currency risk.
- The Group currently utilises internal cash flow and bank borrowings in Turkey and Russia for its financing needs. The Group has debt covenants with respect to its bank borrowings in Russia, which the Board and the management believe will be met in 2020. Furthermore, the Group has additional borrowing capacity from Turkish banks, which it can draw down for liquidity needs and to cure any potential covenant breaches with respect to its bank borrowings in Russia.

Compliance

Risk of litigation from customers, sub-franchisees, employees and others in the ordinary course of business

Group risk

Risk of litigation from customers, sub-franchisees, employees and others in the ordinary course of business, which diverts financial and management resources.

- Claims of illness or injury relating to food quality or food handling are common in the food service industry. In addition, class action lawsuits have been filed, and may continue to be filed, against various fast-food restaurants alleging, among other things, that fast-food restaurants have engaged in deceptive advertising, sales and promotions which encourage obesity.
- Further, the Group may be subject to employee, sub-franchisee and other claims in the future based on, among other things, discrimination, harassment, wrongful termination, wages and overtime compensation as well as rest break and meal break issues. Such claims and disputes may divert management resources, create adverse publicity and could lead to an adverse judgement against the Group, which could adversely affect the Group's business, results of operations, financial condition, cash flows and prospects.

Mitigation

- Stores are regularly audited to prevent or detect any financial, operational or compliance risks (food safety audits, operational evaluation reviews, store audits, mystery shopper audits, etc.).
- The employees are regularly trained on the Group Code of Conduct, corporate governance policies, changing laws and regulations as needed to increase awareness.
- The legal and regulative requirements based on changing laws and regulations are reflected in the contracts via additional protocols to prevent any disputes.
- The supplier Code of Conduct is shared with the suppliers as part of the contract to ensure compliance and increase awareness.
- The Group has an independent hotline enabling internal and external parties to report Code of Conduct conflicts such as potential monetary frauds, quality concerns, wrongful termination, wages issues, etc. The cases are investigated by Internal Audit and Risk Management Department and preventive/detective actions are taken in order to enhance business processes and prevent repetition of these cases.
- Both Turkey and Russia have in-house lawyers on top of external law firm to work closely with business units and mitigate litigation cases.

Violation of data protection laws

Group risk

Violations of data protection laws carry fines and expose the Group and its employees to criminal sanctions and civil suits.

- Non-compliance with data protection laws could expose the Group to regulatory investigations, which could result in fines and penalties.
- Regulators may issue orders to stop processing personal data in addition to imposing fines, which could disrupt operations.
- The Group could be subject to litigation from persons or corporations allegedly affected by data protection violations.
- Any violation of these laws could harm the Group's reputation, which could have a material adverse effect on the Group's earnings, cash flows and financial condition.

Mitigation

- The Group periodically reviews data protection law compliance with internal and external support and takes required actions as needed.
- Personal data protection law compliance audits are conducted annually.
- System security requirements regarding data protection laws are continuously assessed by the IT team to take the required measures.

Violation of changing regulations

Group risk

- Regulatory changes (e.g. personal data protection law, quality regulations, product regulations etc.) are affecting the business processes and non-compliance may result in penalties and reputation risk.

Mitigation

- The Group is closely monitoring the changes in regulative requirements and taking the necessary measures in order to ensure compliance.
- Online or class training are conducted for our employees to increase awareness and ensure compliance related to new regulations or laws.
- Consultancy services are received from third parties with expertise related to regulatory or legal changes.

How we manage risk continued

Compliance continued

Reliance on information technology and risk of security breaches or failures

Group risk

- The Group is heavily reliant, as part of its online strategy, on information systems, including for online ordering platforms, point-of-sale processing in its system stores, management of its supply chain, accounting, payment of obligations, collection of cash, processing of credit and debit card transactions and other processes and procedures.
- Breaches of the Group's cybersecurity measures could result in unauthorised access to the Group's systems, misappropriation of information or data, including personal information, deletion or modification of user information, or a denial-of-service or other interruption to the Group's business operations.
- As techniques used to obtain unauthorised access to, or sabotage, systems change frequently and may not be known until launched against the Group or the Group's third-party service providers, the Group may be unable to anticipate, or implement adequate measures to protect against, these attacks.

Mitigation

- The Group is conducting an Information Technology architecture development project in order to enhance and strengthen the system architecture.
- The IT team continuously analyses the system security requirements, plans and takes action accordingly.
- A data leak prevention system is used for prevention and detection of data leaks in enterprise business applications.
- IT General Control Audits will be conducted to define the improvement areas and follow up management action implementation to mitigate the risks.
- The Group is in the process of hiring a Cyber Security Officer to ensure effective and close management of security requirements.
- The Group has initiated a two-year cybersecurity programme with Deloitte Turkey Cyber Risk Services, in order to protect the sensitive information that it acquires in the function of its operations.

Conclusion

In 2019, no major failings in the risk management and control systems were identified. The Group will continue to identify and monitor principal and emerging risks and implement mitigation actions to minimise or eliminate their potential impact.

Board declaration

The Board of DP Eurasia N.V. hereby declares, in accordance with article 5:25c of the Dutch Act on Financial Supervision and best practice provision 1.4.3 of the Dutch Corporate Governance Code, that to the best of its knowledge:

- the financial statements as included on pages 80 to 133 of the Annual Report provide a true and fair view of the assets, liabilities and financial position as at 31 December 2019 as well as the profit or loss of DP Eurasia N.V. and all the business undertakings included in the consolidation in accordance with IFRS as adopted in the European Union and Part 9 of Book 2 of the Dutch Civil Code;
- the management report included in this Annual Report provides a true and fair view of the condition on the balance sheet date and of the business performance during the financial year of DP Eurasia N.V. and the companies associated with it whose details are included in the financial statements, together with a description of the main risks DP Eurasia N.V. faces. The members of the Board have signed the financial statements pursuant to their statutory obligation under article 2:101(2) of the Dutch Civil Code;
- the Board is responsible for preparing the Annual Report in accordance with applicable laws and regulations and the Board considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- based on their assessment of prospects and viability, the Board confirms it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next twelve months, although there is uncertainty caused by the worldwide COVID-19 outbreak as discussed in detail in the going concern assumption on page 85;
- the management report included in this Annual Report provides sufficient insights into any failings and the effectiveness of the internal risk management and control systems, whose systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
- based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis; and
- the management report included in this Annual Report states those material risks and uncertainties that are relevant to the expectation of the Company's continuity for the period of twelve months after the preparation of this management report.

By order of:

Aslan Saranga
(Chief Executive Officer)

Frederieke Slot
(Executive Director)

Peter Williams
(Non-Executive Director)

Seymur Tari
(Non-Executive Director)

Izzet Talu
(Non-Executive Director)

Aksel Sahin
(Non-Executive Director)

Thomas Singer
(Non-Executive Director)

26 March 2020

Shares and shareholders

Shares

Our shares

The shares that are traded on the London Stock Exchange are traded under the symbol DPEU with ISIN code NL0012328801. DP Eurasia is included in the FTSE SmallCap and FTSE All-Share indices.

The authorised capital of the Company comprises a single class of registered shares. Shares that are traded via the CREST system, the paperless settlement system of the London Stock Exchange, are registered under the name and address of Link Market Services Trustee Limited (the "Depositary"). All issued shares are fully paid-up and each share confers the right to cast a single vote in the General Meeting. DP Eurasia's issued share capital on 31 December 2019 was €17,444,689.68, consisting of 145,372,414 ordinary shares of €0.12 each.

At the 2019 Annual General Meeting, the Board was designated as the corporate body authorised to issue shares or to grant rights to subscribe for shares limited to a maximum of one-third of the issued share capital of the Company as at 29 May 2019 and to restrict or exclude pre-emptive rights accruing to shareholders of the Company: (i) in connection with the issuance of shares limited to a maximum of 5% of the issued share capital as at 29 May 2019 but so that such authorisation may be used only for general corporate purposes; and (ii) in connection with the issuance of shares limited to a maximum of 5% of the issued share capital as at 29 May 2019, but so that such authorisation may be used only for the purposes of financing (or refinancing, if the authorisation is to be used within six months after the original transaction) a transaction which the Board determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the UK Pre-Emption Group prior to the date of the 2019 AGM.

By virtue of its authorisation by the General Meeting, the Board is also authorised to acquire fully paid-up shares in the capital of the Company, up to a maximum of 10% of the issued share capital, provided that the Company will not hold more shares in its own capital than a maximum of 50% of the issued capital of the Company, either through a purchase on a stock exchange or otherwise, the repurchase can take place for a minimal price, excluding expenses, of the nominal value of the shares and a maximum price of the higher of: (i) an amount equal to 5% above the average of the middle market quotations for the shares taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such shares are contracted to be purchased; and (ii) the highest current independent bid on the London Stock Exchange Daily Official List at the time that the purchase is carried out as stipulated by the Commission – adopted Regulatory Technical Standards pursuant to Article 5 paragraph 6 of the Market Abuse Regulation.

These designations and authorisations have been given for a period of 15 months ending on the earlier of the conclusion of the 2020 AGM or the close of business on 29 August 2020. Such authorities are renewed annually and authority will be sought at the 2020 AGM.

Dividend policy

The Group does not expect to declare any dividends in 2020. In future years, the Group will consider the payout of dividends, taking into account the amount of profits, the need for cash for capital expenditure and further expansion and its debt profile.

As such, while the Group's policy is to eventually pay out dividends in the appropriate circumstances, there is no immediate prospect of dividends being paid out, nor can there be any assurance as to when and in what amount any dividends may be eventually paid out.

Shareholders

Major shareholders

At the IPO, shares were offered to institutional investors in the UK and certain other jurisdictions. The listing significantly broadened the Company's shareholder base, and the Company's shares are widely spread over a large number of shareholders in various countries.

Shareholder structure

Under Dutch law, shareholders must disclose percentage holdings in the capital and/or voting rights in the Company when such holding reaches, exceeds or falls below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%. Such disclosure must be made to the Dutch Authority for the Financial Markets ("AFM") without delay. The Group's major shareholdings are included in the Substantial Holdings register of the AFM.

According to the register kept by the AFM, the following shareholders have disclosed that they own 3% or more of DP Eurasia's total share capital as at 25 March 2020.

25 March 2020	Share/vote %	Amount
Fides Food Systems Coöperatief U.A.[1]	32.81	47,697,882
Mr Saranga	5.57	8,106,310
Wellington Management Company	3.11	–

(1) Held by Turkish Private Equity Fund II L.P.

General Meeting

The Company will organise a General Meeting at least once a year. The agenda with notes and the registration process are published with the notice convening the meeting at least 42 days beforehand and are also available on the Company's website. The notes contain all relevant information with regard to the resolutions on the agenda. Each shareholder may attend General Meetings, address the General Meeting and exercise voting rights pro rata to his shareholding, either in person or by proxy. Shareholders may exercise these rights, if they are the holders of shares on the record date, which is the 28th day before the day of the General Meeting, and they or their proxy have notified the Company of their intention to attend the General Meeting. The Company shall give shareholders and other persons entitled to vote the possibility of issuing proxy votes to an independent third party. All proxy votes received are counted with the balance for and against and any votes withheld announced at the General Meeting and published on the Company's website after the meeting.

The Company's articles of association set out in detail the power of the General Meeting. Resolutions requiring the prior approval of the General Meeting are, amongst others:

- adoption of the Company's annual accounts;
- amendments to the articles of association;
- deciding on the remuneration policy of the Board;
- appointment and dismissal of Board members;
- appropriation of profits to the extent not added to the reserves;
- appointing the external auditor;
- transferring the Company or virtually the entire Company to a third party; and
- dissolution of the Company.

Subject to certain exceptions as set forth by law or the articles of association, resolutions of the General Meeting are passed by an absolute majority of the votes cast.

Draft minutes of the meeting will be released within three months of the meeting and will be available for comments for three months thereafter. The final minutes will be published on the Company's website. This year, the AGM is scheduled to be held on 3 June 2020 in Amsterdam, the Netherlands.

Controlling shareholder

For so long as there is a controlling shareholder (defined in the Listing Rules as any person who exercises or controls on their own or together with any person with whom they are acting in concert, 30% or more of the votes able to be cast on all or substantially all matters at general meetings of a company), the Board rules allow for the election or re-election of any independent Director to be approved by separate resolutions of: (i) the Company's shareholders; and (ii) the Company's shareholders excluding any controlling shareholder. If either of the resolutions is defeated, the Company may propose a further resolution to elect or re-elect the proposed independent Director, which: (a) may be voted on within a period commencing 90 days and ending 120 days from the original vote; and (b) may be passed by a vote of the shareholders of the Company voting as a single class.

Shares and shareholders continued

Controlling shareholder continued

Furthermore, in the event that the Company wishes the FCA to cancel the listing of the shares on the premium listing segment of the Official List or transfer the shares to the standard listing segment of the Official List, the Company must obtain at a General Meeting prior approval of:

(i) a majority of not less than 75% of the votes attaching to the shares voted on the resolution; and

(ii) a majority of the votes attaching to the shares voted on the resolution excluding any shares voted by a controlling shareholder. In all other circumstances, controlling shareholders have and will have the same voting rights attached to the shares as all other shareholders.

Impact of Brexit on the Group

The Group is subject to "shared jurisdiction" between the UK and the Netherlands with respect to takeover offers. The concept of the shared jurisdictions rules was introduced by the EU Takeover Directive. Shared jurisdiction applies where the target (in this instance DP Eurasia) has its registered office in one EEA Member State (the Netherlands) and its shares are admitted to trading on a regulated market (such as the main market of London Stock Exchange) in another EEA Member State (but not also in the Member State where it has its registered office).

Based on this Takeover Directive, the Dutch takeover rules will no longer be applicable if the UK is no longer an EEA Member State.

Based on the draft set of regulations (Takeovers (Amendment) (EU Exit) Regulations 2019 (Takeovers Regulations)) and a Consultation Paper (Panel Consultation Paper on the United Kingdom's withdrawal from the European Union (PCP 2018/2)) which sets out the framework of how the UK takeover rules will apply post-Brexit, the UK Panel on Takeovers and Mergers will delete the shared jurisdiction rules from the UK Code. This means that also the UK takeover rules may also no longer be applicable for the Company following a transitional period.

Due to Fides' shares in the current shareholder structure, the Group is not at risk.

Related regulation updates are closely followed up to take required actions and mitigate any potential risk.

Relationship Agreement and the controlling shareholder

The Company considers that TPEF II, through its subsidiary Fides Food Systems, exercises or controls on its own, or together with any person with whom it is acting in concert, more than 30% of the votes to be cast on all or substantially all matters at General Meetings. In order to ensure that the Company can carry on as an independent business as its main activity, on 28 June 2017, the Company and Fides Food Systems entered into a relationship agreement which regulates the ongoing relationship between the Company and Fides Food Systems and its associates, including TPEF II (the "Relationship Agreement").

The Relationship Agreement contains, among others, undertakings from Fides Food Systems that: (i) transactions and arrangements with it (and/or any of its associates (including TPEF II)) will be conducted at arm's length and on normal commercial terms; (ii) neither it nor any of its associates will take any action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules; (iii) neither it nor any of its associates will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules; (iv) neither Fides Food Systems nor any of its associates will take any action that would affect the ability of the Company to carry on its business independently of Fides Food Systems; and (v) it will not cause or authorise to be done anything which would prejudice either the Company's status as a company whose shares are admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities or its suitability for listing (the "Independence Provisions").

The Relationship Agreement will continue for so long as: (a) the shares are listed on the premium listing segment of the Official List and traded on the London Stock Exchange's main market for listed securities; and (b) Fides Food Systems, together with its associates, is entitled to exercise or to control the exercise of 10% or more of the votes able to be cast on all, or substantially all, matters at General Meetings. The Group believes that the terms of the Relationship Agreement will enable the Group to carry on its business independently of TPEF II.

Furthermore, Fides Food Systems has agreed to procure the compliance of its associates (including TPEF II) with the Independence Provisions.

The Company has complied with, and so far as the Company is aware, Fides Food Systems has complied with, sub-paragraphs (i), (ii) and (iii) of the Independence Provisions set out above.

Conflicts of interest

Save as set out below (and above under "Relationship Agreement and the controlling shareholder"), there are no potential conflicts of interest between any duties owed by the Directors or senior managers to the Company and their private interests or other duties. Fides Food Systems and Vision Lovemark Coöperatif U.A. (the "Founding Shareholders") have agreed with certain members of senior management (but not any Director) to pay to them an incentivisation bonus in connection with future sales by these shareholders in accordance with a special option scheme. Certain other employees are also entitled to cash payments from the Founding Shareholders upon future share sales by the Founding Shareholders, determined with reference to monthly salaries and the proportionate of a sale by the Founding Shareholders. Total payments to members of senior management and employees in connection with these arrangements could constitute a multiple of their annual compensation, should the Founding Shareholders dispose of their entire interest in the Company, and is dependent on the prices realised in connection with such sales.

The members of senior management entitled to receive the incentive payments are the Chief Financial Officer, the Chief Executive Officer of the Russian Operations and, with respect to the Turkish Operations, the Franchise Operations and International Development Director, the Corporate Operations Director and the Human Resources Director.

The Company believes that the private interests of those members of senior management in potentially wishing to maximise the price of the shares, including through the performance of the Company, will likely be aligned with the interests of the Company and the shareholders as a whole. However, there is a potential conflict between the interest of those members of senior management and the longer-term interests of the Company. The Company believes that any such risk will be mitigated through the Board's oversight of the Company and the procedures imposed through the Board Rules and the authorities delegated throughout the Group which reserve material decision-making power to the Board (such as matters relating to governance, dividend policy, strategy, the incurrence of capital expenditure or the entering into of commercial contracts in each case in an amount exceeding €1,000,000).

Investor relations policy

The Company is committed to maintaining an open and constructive dialogue with the investment community. The Company is aiming to keep its shareholders updated by informing them equally, simultaneously, clearly and accurately about the Company's strategy, performance and other Company matters and developments that could be relevant to investors' decisions.

The Company will act in accordance with applicable rules and regulations, including provisions on price-sensitive information, fair and non-selective disclosure and equal treatment of shareholders that are in the same position.

The Company communicates with all of its investors and analysts through organising or attending meetings such as the AGM, roadshows, broker conferences and capital market days. Furthermore, the Company publishes Annual Reports, Half-yearly Reports and trading updates.

Meetings

Briefings are given to update the market after each quarterly announcement via group meetings or teleconference and are accessible by telephone or through the internet. Meetings with investors (bilateral and general) are held regularly to ensure that the investment community receives a balanced and complete view of the Company's performance and the issues faced by the business, while always observing applicable rules concerning selective disclosure, equal treatment of shareholders and insider trading.

Analysts' reports and valuations are not assessed, commented upon or corrected, other than factually, by the Company. DP Eurasia does not pay any fee(s) to parties for carrying out research for analysts' reports or for the production or publication of analysts' reports. Contacts with the capital markets are dealt with by the Chief Executive Officer, the Chief Strategy Officer and Head of Investor Relations and, from time to time, certain Non-Executive Directors.

Consolidated statement of comprehensive income

For the years ended 31 December 2019 and 2018

	Notes	2019	2018
Revenue	4	**980,208**	856,874
Cost of sales	4	**(636,466)**	(566,250)
Gross profit		**343,742**	290,624
General administrative expenses		**(150,175)**	(136,145)
Marketing and selling expenses		**(137,043)**	(104,294)
Other operating income	6	**22,411**	10,466
Other operating expense	6	**(7,869)**	(7,361)
Operating profit		**71,066**	53,290
Foreign exchange income/(losses)	7	**4,665**	(18,770)
Financial income	7	**16,100**	5,508
Financial expense	7	**(85,103)**	(43,927)
Profit/(loss) before income tax		**6,728**	(3,899)
Income tax expense	21	**(12,344)**	(7,194)
Loss for the period		**(5,616)**	(11,093)
Other comprehensive (expense)/income		**(21,708)**	10,015
Items that will not be reclassified to profit or loss			
– Remeasurements of post-employment benefit obligations, net of tax		**(107)**	(291)
Items that may be reclassified to profit or loss			
– Currency translation differences		**(21,601)**	10,306
Total comprehensive loss		**(27,324)**	(1,078)
Loss per share[1]		**(0.0386)**	(0.0763)

(1) Amounts represent the basic and diluted earnings per share.

The accompanying notes form an integral part of these consolidated financial statements.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Consolidated statement of financial position

At 31 December 2019

	Notes	31 Dec 2019	31 Dec 2018
Assets			
Trade receivables	14	**23,422**	20,761
Lease receivables	17	**39,568**	—
Right-of-use assets	11	**180,236**	—
Property and equipment	9	**160,043**	136,041
Intangible assets	10	**81,424**	48,514
Goodwill	12	**47,133**	45,195
Deferred tax assets	21	**18,060**	12,187
Other non-current assets	17	**35,903**	25,389
Non-current assets		**585,789**	288,087
Cash and cash equivalents	13	**70,928**	28,444
Trade receivables	14	**114,493**	69,979
Lease receivables	17	**16,618**	—
Inventories	16	**70,062**	77,619
Other current assets	17	**65,247**	45,584
Current assets		**337,348**	221,626
Total assets		**923,137**	509,713
Equity			
Paid in share capital	23	**36,353**	36,353
Share premium		**119,286**	119,286
Contribution from shareholders		**19,970**	20,697
Other reserves not to be reclassified to profit or loss			
– Remeasurements of post-employment benefit obligations		**(2,591)**	(2,484)
Other reserves to be reclassified to profit or loss			
– Currency translation differences		**(22,288)**	(687)
Retained earnings		**(40,332)**	(34,716)
Total equity		**110,398**	138,449
Liabilities			
Financial liabilities	18	**153,159**	161,600
Lease liabilities	18	**184,708**	9,676
Long-term provisions for employee benefits	17	**2,051**	1,665
Deferred tax liability	21	**—**	565
Other non-current liabilities	17	**37,041**	28,373
Non-current liabilities		**376,959**	201,879
Financial liabilities	18	**164,854**	36,541
Lease liabilities	18	**71,427**	7,789
Trade payables	14	**121,178**	74,148
Current income tax liabilities	21	**8,955**	6,971
Provisions	19	**5,354**	1,816
Other current liabilities	17	**64,012**	42,120
Current liabilities		**435,780**	169,385
Total liabilities		**812,739**	371,264
Total liabilities and equity		**923,137**	509,713

The accompanying notes form an integral part of these consolidated financial statements.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Consolidated statement of changes in equity

For the year ended 31 December 2019

	Share capital	Share premium	Contribution from shareholders	Remeasurement of post-employment benefit obligations	Currency translation differences	Retained earnings	Total equity
Balances at 1 January 2018	36,353	119,286	18,183	(2,193)	(10,993)	(23,623)	137,013
Remeasurements of post-employment benefit obligations, net	—	—	—	(291)	—	—	(291)
Total loss for the period	—	—	—	—	—	(11,093)	(11,093)
Currency translation adjustments	—	—	—	—	10,306	—	10,306
Total comprehensive loss	*—*	*—*	*—*	*(291)*	*10,306*	*(11,093)*	*(1,078)*
Share-based incentive plans (Note 22)	—	—	2,514	—	—	—	2,514
Balances at 31 December 2018	36,353	119,286	20,697	(2,484)	(687)	(34,716)	138,449
Balances at 1 January 2019	36,353	119,286	20,697	(2,484)	(687)	(34,716)	138,449
Remeasurements of post-employment benefit obligations, net	**—**	**—**	**—**	**(107)**	**—**	**—**	**(107)**
Currency translation adjustments	**—**	**—**	**—**	**—**	**(21,601)**	**—**	**(21,601)**
Total loss for the period	**—**	**—**	**—**	**—**	**—**	**(5,616)**	**(5,616)**
Total comprehensive loss	***—***	***—***	***—***	***(107)***	***(21,601)***	***(5,616)***	***(27,324)***
Cancellation of share-based incentive (Note 22)	**—**	**—**	**(2,729)**	**—**	**—**	**—**	**(2,729)**
Share-based incentive plans (Note 22)	**—**	**—**	**2,002**	**—**	**—**	**—**	**2,002**
Balances at 31 December 2019	**36,353**	**119,286**	**19,970**	**(2,591)**	**(22,288)**	**(40,332)**	**110,398**

The accompanying notes form an integral part of these consolidated financial statements.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Consolidated statement of cash flows

For the year ended 31 December 2019

	Notes	31 Dec 2019	31 Dec 2018
Profit/(loss) before income tax		**6,728**	(3,899)
Adjustments for:			
Depreciation	9-11	**94,746**	37,018
Amortisation	10	**21,960**	16,250
Gains on sale of property and equipment	6	**11**	(4,054)
Performance bonus accrual		**4,562**	7,408
Non-cash employee benefits expense – share-based payments	22	**(727)**	2,514
Interest income	7	**(16,100)**	(5,508)
Interest expense	7	**78,506**	41,512
Unrealised foreign exchange losses on borrowings		**—**	11,473
Changes in operating assets and liabilities			
Changes in trade receivables		**(52,348)**	(10,535)
Changes in other receivables and assets		**(23,794)**	(2,156)
Changes in inventories		**7,557**	(21,360)
Changes in contract assets		**(294)**	(1,650)
Changes in contract liabilities		**4,246**	8,722
Changes in trade payables		**47,030**	14,078
Changes in other payables and liabilities		**27,010**	(8,194)
Income taxes paid	21	**(15,918)**	(6,788)
Performance bonuses paid		**(7,009)**	(5,876)
Cash flows generated from operating activities		**176,166**	68,955
Purchases of property and equipment	9	**(54,715)**	(49,324)
Purchases of intangible assets	10	**(48,228)**	(24,036)
Disposals from sale of tangible and intangible assets		**15,039**	25,987
Cash flows used in investing activities		**(87,904)**	(47,373)
Interest paid		**(40,255)**	(37,353)
Interest on leases paid		**(22,031)**	—
Interest received		**1,837**	5,508
Loans obtained		**165,233**	59,848
Loans paid	18	**(85,453)**	(104,957)
Payment of lease liabilities	18	**(60,875)**	(10,653)
Cash flows (used in)/generated from financing activities		**(41,544)**	(87,607)
Effect of currency translation differences		**(4,234)**	18,341
Net increase in cash and cash equivalents		**42,484**	(47,684)
Cash and cash equivalents at the beginning of the period	12	**28,444**	76,128
Cash and cash equivalents at the end of the period	12	**70,928**	28,444

The accompanying notes form an integral part of these consolidated financial statements.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements

For the year ended 31 December 2019

Note 1 – The Group's organisation and nature of activities

DP Eurasia N.V. (the "Company"), a public limited company, having its statutory seat in Amsterdam, the Netherlands, was incorporated under the law of the Netherlands on 18 October 2016. Upon incorporation Fides Food Systems Coöperatief U.A. and Vision Lovemark Coöperatief U.A. contributed and transferred all shares in Fidesrus B.V. and Fides Food Systems B.V. and their subsidiaries to the Company. From this point forward, the consolidated Group was formed. This was a transaction under common control.

The consolidated financial statements of DP Eurasia N.V. have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The consolidated financial statements also comply with the financial reporting requirements included in Title 9 of Book 2 of the Dutch Civil Code, as far as applicable.

The Company's registered address is: Herikerbergweg 238, Amsterdam, the Netherlands.

The management report within the meaning of Article 391 of Book 2 of the Dutch Civil Code consists of the following parts of the Annual Report:

- at a glance;
- highlights;
- key financial figures;
- message from CEO;
- strategic review;
- remuneration report;
- corporate governance report;
- how we manage risk;
- consolidated financial statements: Note 3 – Segment Reporting; and
- consolidated financial statements: Note 24 – Financial Instruments and financial risk management.

The Company and its subsidiaries (together referred to as the "Group") perform its activities in corporate-owned and franchised stores in Turkey and the Russian Federation, including providing technical support, control and consultancy services to the franchisees.

As at 31 December 2019, the Group holds franchise operating and sub-franchising rights in 765 stores (521 franchised stores, 244 corporate-owned stores) (31 December 2018: 724 stores (486 franchised stores, 238 corporate-owned stores)).

The consolidated financial statements as at and for the period ended 31 December 2019 have been approved and authorised for issue on 23 March 2020 by authorisation of the Board. The financial statements are subject to adoption by the Annual General Meeting.

Subsidiaries

The Company has a total of four fully owned subsidiaries. These entities and the nature of their businesses are as follows:

Subsidiaries	**2019 Effective ownership (%)**	2018 Effective ownership (%)	Registered country	Nature of business
Pizza Restaurantları A.Ş. ("Domino's Turkey")	**100**	100	Turkey	Food delivery
Pizza Restaurants LLC ("Domino's Russia")	**100**	100	Russia	Food delivery
Fidesrus B.V. ("Fidesrus")	**100**	100	The Netherlands	Investment company
Fides Food Systems B.V. ("Fides Food")	**100**	100	The Netherlands	Investment company

Pizza Restaurants LLC ("Domino's Russia") is established in the Russian Federation. Domino's Russia is operating a pizza delivery network of corporate and franchised stores in the Russian Federation. Domino's Russia has a Master Franchise Agreement (the "MFA Russia") with Domino's Pizza International for the pizza delivery network in Russia until 2030.

Pizza Restaurantları A.Ş. ("Domino's Turkey") is established in Turkey. Domino's Turkey is operating a pizza delivery network of corporate and franchised stores in Turkey. Domino's Turkey is a food delivery company, which has a Master Franchise Agreement (the "MFA Turkey") with Domino's Pizza International pizza delivery network in Turkey until 2032. The Group expects the terms of the MFAs to be extended.

Fides Food and Fidesrus are established in the Netherlands. Both Fides Food Systems and Fidesrus are acting as investment companies.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Note 2 – Basis of presentation of consolidated financial statements

2.1 Financial reporting standards

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by EU") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board ("IASB") and Title 9 of Book 2 of the Dutch Civil Code. The policies set out below have been consistently applied to all the periods and the years presented, unless otherwise stated. The consolidated financial statements have been prepared under the historical cost convention.

Domino's Turkey is registered in Turkey, individually maintains its accounting records in TRY and prepares its statutory financial statements in accordance with the Turkish Financial Reporting Standards (the "TFRS"). The stand-alone financial statements of Domino's Turkey are based on the statutory accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS as adopted by the EU.

Domino's Russia is registered in the Russian Federation, individually maintains its accounting records in RUB and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting ("RAR") of the Russian Federation. The stand-alone financial statements of Domino's Russia are based on the statutory accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS as adopted by the EU.

Going concern assumption

The consolidated financial statements have been prepared assuming that the Group will continue as a going concern and be able to realise its assets and discharge its liabilities in the normal course of business. The Board closely monitors the Group's strategy as well as its financial and operational performance and believes that it is well positioned to continue the growth of its profitability and store network once the COVID-19 crisis has abated.

The Group currently utilises internally generated cash flow and bank borrowings in Turkey and Russia to meet its financing needs. The Group's Turkish operations are well established and cash generative and act as a source of liquidity for the wider Group. The Group's Russian business is still in the early stages of growth and does not yet generate cash so is funded by local bank borrowings and intra-group cash injections and loan guarantees from its Turkish subsidiary. The Group has additional borrowing capacity available from Turkish banks, which it can draw down for liquidity needs and to cure any potential covenant breaches with respect to its bank borrowings in Russia. In light of recent market developments, the Group has drawn its unutilised bank lines in March 2020 in excess of its immediate needs to ensure that the Group has sufficient available funds to cover any potential short-term reduction in cash flow resulting from the COVID-19 outbreak. Current projections under a downside scenario based on the anticipated effects of COVID-19 known to date indicate that the Russian and Turkish businesses and Group as a whole will meet their bank covenants in 2020 notwithstanding the fact that all such projections are subject to inherent uncertainties.

Looking ahead, we see the potential for a prolonged period of uncertainty following the COVID-19 worldwide outbreak and related market volatility, which have had relatively little impact on our business operations year to date. Currently, our stores are open and operating as normal with the exception that customers are not able to eat-in in our Turkish stores (although our delivery and take-away businesses continue as normal). Future adverse impacts from the COVID-19 outbreak may include, but are not limited to, employees contracting the disease, difficulty in recruiting new employees, decrease in demand for our products, reduced store operating hours, temporary bans imposed by government on eat-in and/or take-away services, store closures for an unspecified period of time and the Group not being able to perform its obligations under the Master Franchise Agreements. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern and, therefore, its ability to realise its assets and discharge its liabilities in the normal course of business.

We have no indication whether governmental measures will have an effect in preventing a further spread of the disease around the world and therefore the duration of the pandemic. If the pandemic and its impact on the business last for a protracted period it is likely to have a more detrimental effect on the financial performance of the Group. The Group has taken proactive measures to ensure that our customers and employees continue to be safe. The Group has already established an internal task force to ensure that the supply chain is managed, critical inventory is available, and restaurants remain adequately staffed. We appreciate that the Turkish government has indicated its preparedness to support companies and encourage banks to maintain access to credit facilities so as to assist the corporate sector manage through the crisis and maintain employment.

2.2 Principles of consolidation

The consolidated financial statements include the parent company, DP Eurasia N.V. and its subsidiaries for the year ended at 31 December 2019. Subsidiaries are fully consolidated from the date on which control is transferred to the Company (the "acquisition date").

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 2 – Basis of presentation of consolidated financial statements continued

2.2 Principles of consolidation continued

Basis of consolidation

The consolidated financial statements include the accounts of the Group on the basis set out in sections below. The financial results of the subsidiaries are fully consolidated from the date on which control is transferred to the Group or deconsolidated from the date that control ceases.

Subsidiaries are all companies over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

The subsidiaries fully consolidated, the proportion of ownership interest and the effective interest of the Group in these subsidiaries as of 31 December 2019 are disclosed in Note 1.

The result of operations of subsidiaries acquired or sold during the year are included in the consolidated statement of comprehensive income from the acquisition date or until the date of sale.

The statements of financial position and statements of comprehensive income of the subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by the Company and its subsidiaries are eliminated against the related shareholders' equity. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Consolidation of foreign subsidiaries

Financial statements of subsidiaries operating in foreign countries are prepared in the currency of the primary economic environment in which they operate. Assets and liabilities in financial statements prepared according to the Group's accounting policies are translated into the Group's presentation currency, Turkish Liras, from the foreign exchange rate at the statement of financial position date whereas income and expenses are translated into TRY at the average foreign exchange rate. Exchange differences arising from the translation are included in the "currency translation differences" under shareholders' equity.

The foreign currency exchange rates used in the translation of the foreign operations within the scope of consolidation are as follows:

	31 Dec 2019		31 Dec 2018	
Currency	Period end	Period average	Period end	Period average
Euros	**6.6506**	**6.3484**	6.0280	5.6751
Russian Roubles	**0.0955**	**0.0872**	0.0753	0.0760

2.3 New and amended international financial reporting standards

New and amended standards adopted by the Group, which are applicable for the financial statements as at 31 December 2019

A number of new or amended standards became applicable for the current reporting period and the Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16, 'Leases';
- amendments to IFRS 9, 'Financial instruments';
- IFRIC 23, 'Uncertainty over income tax treatments';
- annual improvements 2015-2017; and
- amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement.

The amendments other than IFRS 16 are not expected to have an impact on the financial position or performance of the Group. The impact of IFRS 16 is disclosed in Note 2.4.

The new standards, amendments and interpretations, which are issued but not effective for the financial statements as at 31 December 2019:

- amendments to IAS 1 and IAS 8 on the definition of material;
- amendments to IFRS 9, IAS 39 and IFRS 7 – interest rate benchmark reform.

The amendments are not expected to have an impact on the financial position or performance of the Group.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

2.4 Impact of adoption of new standards

This note explains the impact of the adoption of IFRS 16, Leases on the Group's financial statements and discloses the new accounting policies that have been applied as from 1 January 2019.

The Group has adopted IFRS 16 from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard, the Group has applied the modified retrospective method for adoption. The reclassifications and the adjustments arising from the new lease accounting rules are therefore recognised in the opening balance sheet on 1 January 2019. New accounting policies regarding leases are explained in Note 2.6.

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17, Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 23.12% for TRY, 9.7% for RUB and 2.75% for EUR.

For leases previously classified as finance leases, the Group recognised the carrying amount of lease assets and lease liabilities immediately before transition as the carrying amount of related property and equipment line in the financial statements and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date but has not resulted in any adjustments in measurements.

Adjustments as a result of a different treatment of extension options

Adjustments as a result of different treatment of extension options are related to change in the Company's assessment for lease terms. With the adoption of IFRS 16, the Company has reassessed the lengths of its operating lease commitments and decided to prolong lease terms for most of its contracts. In addition, this adjustment amount includes extension options decided to be used for sub-leases of franchise stores.

Definition of a lease

In accordance with IFRS 16, the Group recognises a lease liability reflecting future lease payments and a 'right-of-use asset' for all of its lease contracts. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group assesses whether a contract is, or contains, a lease at the inception date. The inception date is the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease.

Sub-leases

The Group operates as intermediate lessor for a significant proportion of its leases. The Group has evaluated its rent agreements and classified its sub-leases as financial lease as required in IFRS 16.

Where the Group recognised a leasing agreement from a sub-lease transaction, which are classified as financial leasing, the right-of-use asset from head-lease is derecognised and a lease receivable equal to derecognised right-of-use assets is recognised.

Practical expedients applied

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

- reliance on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- the exclusion of initial direct costs 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; and
- accounting for leases of low-value assets (assets that cost less than USD 5,000, can be benefited on its own and not dependent on other assets) are not included in the measurement of the lease liabilities.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 'Determining whether an arrangement contains a lease'.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 2 – Basis of presentation of consolidated financial statements continued

2.4 Impact of adoption of new standards continued

Adjustments recognised on adoption of IFRS 16 continued

Impact on transition

The impact on transition to IFRS 16 is summarised in the table below. Accounts that were not affected by the changes have not been included. As a result, the sub-totals and the totals disclosed cannot be recalculated from the numbers provided.

	31 Dec 2018	IFRS 16 impact	1 Jan 2019
Non-current assets			
Property and equipment	136,041	—	136,041
Intangible assets	48,514	—	48,514
Right-of-use assets	—	162,446	162,446
Lease receivables	—	44,569	44,569
Current assets			
Lease receivables	—	13,857	13,857
Non-current liabilities			
Financial liabilities	171,276	162,879	334,155
Current liabilities			
Financial liabilities	44,330	57,993	102,323
Total equity	138,449	—	138,449

	2019
Operating lease commitments disclosed as at 31 December 2018	34,624
Sub-lease liabilities recognised as at 1 January 2019	186,389
Add: extension options used	145,578
Add: previously recognised finance leases	25,209
(Less): discounting effect	(153,463)
Lease liability recognised as at 1 January 2019	**238,337**

The changes in the accounting policy affected the following items in the balance sheet on 1 January 2019:

Current lease liabilities	65,782
Non-current lease liabilities	172,555
	238,337

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised lease receivables and right-of-use assets as at 1 January 2019 are as follows:

Lease receivables	58,426
Right-of-use assets	162,446
	220,872

The recognised right-of-use assets relate to the following types of assets:

	31 Dec 2019	1 Jan 2019
Properties	**166,147**	145,624
Motor vehicles	**14,089**	16,822
Total right-of-use assets	**180,236**	162,446

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

(i) Impact on segment disclosures and earnings per share

Adjusted EBITDA, segment assets and segment liabilities for December 2019 have increased as a result of the change in accounting policy.

Impact for the period

Income or loss	With IFRS 16 31 Dec 2019	IFRS 16 impact	Without IFRS 16 31 Dec 2019
Revenue	980,208	—	980,208
Cost of sales	(636,466)	9,217	(645,683)
Gross profit	**343,742**	**9,217**	**334,525**
General administrative expenses	(150,175)	3,850	(154,025)
Marketing and selling expenses	(137,043)	—	(137,043)
Other operating income	22,411	(522)	22,933
Other operating expense	(7,869)	—	(7,869)
Operating profit	**71,066**	**12,545**	**58,521**
Foreign exchange losses	4,665	(2,174)	6,839
Financial income	16,100	13,736	2,364
Financial expense	(85,103)	(35,767)	(49,336)
Profit/(loss) before income tax	**6,728**	**(11,660)**	**18,388**
Tax expense	(12,344)	2,425	(14,769)
Income tax expense	(15,318)	—	(15,318)
Deferred tax income	2,974	2,425	549
(Loss)/profit for the period	**(5,616)**	**(9,235)**	**3,619**

Assets	With IFRS 16 31 Dec 2019	IFRS 16 impact	Without IFRS 16 31 Dec 2019
Trade receivables	23,422	—	23,422
Lease receivables	39,568	39,568	—
Right-of-use assets	180,236	180,236	—
Property and equipment	160,043	—	160,043
Intangible assets	81,424	—	81,424
Goodwill	47,133	—	47,133
Deferred tax assets	18,060	2,559	15,501
Other non-current assets	35,903	(368)	36,271
Non-current assets	**585,789**	**221,995**	**363,794**
Cash and cash equivalents	70,928	—	70,928
Trade receivables	114,493	—	114,493
Lease receivables	16,618	16,618	—
Due from related parties	—	—	—
Inventories	70,062	—	70,062
Other current assets	65,247	(4,176)	69,423
Current assets	**337,348**	**12,442**	**324,906**
Total assets	**923,137**	**234,437**	**688,700**

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 2 – Basis of presentation of consolidated financial statements continued

2.4 Impact of adoption of new standards continued

Adjustments recognised on adoption of IFRS 16 continued

(i) Impact on segment disclosures and earnings per share continued

Liabilities	With IFRS 16 31 Dec 2019	IFRS 16 impact	Without IFRS 16 31 Dec 2019
Financial liabilities	153,159	—	153,159
Lease liabilities	184,708	178,354	6,354
Long-term provisions for employee benefits	2,051	—	2,051
Other non-current liabilities	37,041	610	36,431
Non-current liabilities	**376,959**	**178,964**	**197,995**
Liabilities			
Financial liabilities	164,854	—	164,854
Lease liabilities	71,427	64,135	7,292
Trade payables	121,178	—	121,178
Current income tax liabilities	8,955	—	8,955
Provisions	5,354	—	5,354
Other current liabilities	64,012	1,103	62,909
Current liabilities	**435,780**	**65,238**	**370,542**
Total liabilities	**812,739**	**244,202**	**568,537**
Total liabilities and equity	**923,137**	**234,437**	**688,700**

2.5 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

The consolidated financial statements are presented in TRY, which is the Group's presentation currency.

2.6 Summary of significant accounting policies

Revenue recognition

(i) Sale of goods – wholesale

The Group sells raw materials and equipment to franchise-owned stores. Sales are recognised at a point in time when control of the products has transferred, being when the products are delivered to the franchisees, the franchisees has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the franchisees' acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the franchisee, and either the franchisees has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. The financing component is only taken into consideration when the length of the time between the transfer of services and the related consideration is expected to exceed one year and the effect is material. The Group adjusts the promised amount of consideration for the effects of the time value of money when the timing of payments agreed provides either the customer or the entity with a significant benefit of financing.

(ii) Sale of goods – retail

The Group operates a chain of stores selling and delivering pizza. Revenue from the sale of goods is recognised at a point in time when the store sells a product to the customer.

Payment of the transaction price is due immediately when the customer purchases the pizza and the pizza is delivered to the customer.

(iii) Revenue from royalties

Royalties are calculated based on franchise-owned store sales to customers, which are recognised on the same basis as the corporate (retail) sales by the Group. Royalties are recognised in the period the related sale occurs.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

(iv) Sale of goods – customer loyalty programme

The Group operates a loyalty programme where retail customers accumulate points for purchases made which entitle them to discounts on future purchases. A contract liability for the award points is recognised at the time of the sale. Revenue is recognised when the points are redeemed or when they expire twelve months after the initial sale.

The points provide a material right to customers that they would not receive without entering into a contract. Therefore, the promise to provide points to the customer is a separate performance obligation. The transaction price is allocated to the product and the points on a relative stand-alone selling price basis. Management estimates the stand-alone selling price per point on the basis of the discount granted when the points are redeemed and on the basis of the likelihood of redemption, based on past experience. The stand-alone selling price of the product sold is estimated on the basis of the retail price. Other discounts are not considered as they are only given in rare circumstances.

A contract liability is recognised until the points are redeemed or expire.

(v) Revenue from franchise fees

The Group receives a franchise fee from each franchise that joins the Group and operates under the name of Domino's Pizza. However, the performance obligation of the Group is related to the services provided during the agreement. These franchise fee revenues are deferred during the period of the franchise agreement and those deferred revenues are included in the other non-current liabilities.

Franchise arrangement involves the right to operate in a specific location as well as other goods and services, such as point-of-sale systems, restaurant concept, menus and benefits from national advertising campaigns. Revenue generated from franchise fees are generated in proportion to time passed since the inception of the franchise contract.

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component.

(vi) Costs to fulfil a contract

The Group incurs certain costs with Domino's Pizza International related to set up of each franchise contract and IT systems used for recording of franchise revenue. The costs relate directly to the franchise contract, generate resources used in satisfying the contract and are expected to be recovered. They are therefore capitalised as costs to fulfil a contract and are expensed over the life of the contract.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, credit card receivables and cash at banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Trade receivables

Trade receivables, that are recognised by way of providing goods or services directly to a debtor, are accounted for initially at fair value and subsequently measured at amortised cost, using the effective interest method, less allowance for expected credit losses, if any.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. The allowance for expected credit losses ("ECL") of trade receivables is based on individual assessments of expected non-recoverable receivables as well as on expected credit losses estimated using a provision matrix by reference to past default experience on the trade receivables.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Trade and other payables

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost. Trade payables are classified as current liabilities if payment is due within one year or less, otherwise they are presented as non-current liabilities.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds and the redemption value is recognised in the income statement over the period of borrowing using the effective interest rate method.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 2 – Basis of presentation of consolidated financial statements continued

2.6 Summary of significant accounting policies continued

Inventories

Raw materials and trade goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Financial investments

Classification and measurement

Group classified its financial assets in three categories: financial assets carried at amortised cost, financial assets carried at fair value through profit or loss and financial assets carried at fair value through other comprehensive income. Classification is performed in accordance with the business model determined based on the purpose of benefits from financial assets and expected cash flows. Management performs the classification of financial assets at the acquisition date.

Financial assets measured at amortised cost are non-derivative financial assets that are held as part of a business model that aims to collect contractual cash flows and that have cash flows that include interest payments on principal dates and principal balances on certain dates under contractual terms.

The Group's financial assets which are recognised at amortised cost include, cash and cash equivalents, trade receivables, lease receivables and other receivables. The assets are measured at their fair values in the initial recognition of financial assets and discounted values by using the effective interest rate method in the subsequent accounting. Gains and losses resulting from the valuation of non-derivative financial assets measured at amortised cost are recognised in the consolidated statement of profit and loss.

Financial assets carried at amortised cost

Impairment

The Group has applied a simplified approach for the calculation of impairment on its receivables carried at amortised cost. In accordance with this method, if no provision has been recognised on the trade receivables, lease receivables and other receivables because of a specific event, the Group measures the expected credit loss from these receivables by the lifetime expected credit loss. The calculation of expected credit loss is performed based on the experience of the Group and its expectation based on the macroeconomic indications.

Financial assets carried at fair value

Assets that are held by management for collection of contractual cash flows and/or for selling the financial assets are measured at their fair value. If management does not plan to dispose these assets in twelve months after the balance sheet date, they are classified as non-current assets. The Group makes a choice for the equity instruments during the initial recognition and elects profit or loss or other comprehensive income for the presentation of fair value gain and loss. The Group has no financial assets carried at fair value in the current financial statements.

(i) Financial assets carried at fair value through profit or loss

Financial assets carried at fair value through profit or loss comprise of "derivative instruments" in the statement of financial position. Derivative instruments are recognised as an asset when the fair value of the instrument is positive, and as a liability when the fair value of the instrument is negative.

(ii) Financial assets carried at fair value through other comprehensive income

Financial assets carried at fair value through other comprehensive income comprise "financial assets" in the statement of financial position. When the financial assets carried at fair value through other comprehensive income are sold, the fair value gain or loss classified in other comprehensive income is classified to retained earnings.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any impairment in value. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the related accounts and any gain or loss resulting from their disposal is included in the income statement.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset ready for use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to income statement in the year the costs are incurred. If the asset recognition criteria are met, the expenditures are capitalised as an additional cost of property and equipment.

Except for the construction in progress, depreciation is computed on a straight-line basis over the estimated useful lives. The depreciation terms are as follows:

	Useful life (years)
Machinery and equipment	3-40
Motor vehicles	3
Furniture and fixtures	6-10
Leasehold improvements	5

The expected useful life, residual value and depreciation method are evaluated every year for the probable effects of changes arising in the expectations and are accounted for prospectively.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset less the costs of disposal.

Gains or losses on disposals or suspension of property and equipment are determined by sale revenue less net book value and collected amount and included in the related other income or other expense accounts, as appropriate.

Intangible assets

Key money

Key money comprises payments made to former franchisees of the Group to obtain franchising rights back from them (e.g. the area map and related rights). Key money is capitalized as long-lived assets and amortised over five years on a straight-line basis and subject to impairment reviews. Impairment reviews for key money are undertaken if events or changes in circumstances indicate a potential impairment.

Franchise contracts

Franchise contracts are composed of fees paid for the acquisition of the master franchise for the markets in which the Group operates. These are carried at cost less accumulated amortisation and any impairment loss. The useful economic lives of the assets are ten years and are amortised on a straight-line basis.

Software

Computer software, amongst others for online customer interface and financial reporting, 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 five years. Estimated useful lives and the amortisation method are reviewed at the end of each year and the effect of any change in the estimate is accounted for prospectively.

Advertising, promotion and marketing costs are not capitalised and are recognised in the income statement.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 2 – Basis of presentation of consolidated financial statements continued

2.6 Summary of significant accounting policies continued

Business combinations and goodwill

A business combination is the bringing together of separate entities or businesses into one reporting entity. Business combinations are accounted for using the acquisition method in accordance with IFRS 3.

The consideration transferred for a business combination is the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquired business and in addition, any costs directly attributable to the business combination. The cost of the business combination at the date of the acquisition is adjusted if a business combination contract includes clauses that enable adjustments to the cost of business combination depending on events after the acquisition date, and the adjustment is measurable more probable than not. Costs of the acquisition are recognised in the related period.

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquire and the fair value of the non-controlling interest in the acquire.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Cash Generating Units ("CGUs"), or Group of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Goodwill is not amortised, but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Impairment of non-financial assets

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognised at the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Value in use is the present value of estimated future cash flows expected to arise from the use of an asset and from its disposal at the end of its useful life while the fair value less cost to sell is the amount that will be collected from the sale of the asset less costs of disposal. Estimated future cash flows are typically based on five-year forecasts and terminal values are considered where the asset has an indefinite useful economic life. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or group of assets.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised on the income statement. Foreign exchange gains and losses related to operational activities are classified above operating profit, whereas foreign exchange gains and losses related to financing are classified below operating profit. See Note 2.5 regarding presentation currency.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Lease transactions

The Group as the lessee

The Group leases various offices, warehouses, retail stores and cars. Rental contracts are typically entered into for fixed periods of three to five years but may have extension options as described in (i) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Lease agreements are not included in net debt calculations on loan covenants, therefore do not affect the covenant ratios of the Group.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

In terms of cash outflows, each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Lease transactions are subject to same rules as other temporary differences. The Company considers the lease as a single transaction in which the asset and liability are integrally linked, so there is no net temporary difference at inception. Subsequently, as differences arise on settlement of the liability and the amortisation of the leased asset, there will be a net temporary difference on which deferred tax is recognised.

Right-of-use assets

Right-of-use assets comprising mainly of stores and vehicles are measured at cost less accumulated depreciation and impairment losses. The right-of-use asset is initially recognised at cost comprising of:

a. amount of the initial measurement of the lease liability;
b. any lease payments made at or before the commencement date, less any lease incentives received;
c. any initial direct costs incurred by the Group; and
d. an estimate of costs to be incurred by the lessee for restoring the underlying asset to the condition required by the terms and conditions of the lease (unless those costs are incurred to produce inventories).

The Group performs subsequent measurement for the right-of-use asset by:

a. netting-off depreciation and reducing impairment losses from the right-of-use assets; and
b. adjusting for certain remeasurements of the lease liability recognised at the present value.

Depreciation is computed on a straight-line basis over the estimated useful lives, weighing the estimated life of the asset, future economic benefits expected and lease term of the asset and chooses the shorter of the three. The depreciation terms are as follows:

	Useful life (years)
Properties	5
Motor vehicles	4-5

For the purpose of impairment testing, right-of-use assets are allocated to each of the stores. Each store to which the right-of-use assets are allocated represents the lowest level within the entity at which the right-of-use assets is monitored for internal management purposes. Right-of-use assets are monitored at the store level. Impairment reviews for right-of-use assets are undertaken if events or changes in circumstances indicate a potential impairment. An impairment loss is recognised at the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset less the costs of disposal.

Payments associated with the leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. There are no residual value guarantees and the initial direct costs are negligible.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 2 – Basis of presentation of consolidated financial statements continued

2.6 Summary of significant accounting policies continued

Lease transactions continued

Sub-leases

The Group operates as intermediate lessor for a significant proportion of its leases. The Group has evaluated its rent agreements and classified its sub-leases as financial lease as required in IFRS 16.

Where the Group recognised a leasing agreement from a sub-lease transaction, classified as financial leasing, the right-of-use asset from the head-lease is derecognised and a lease receivable equal to the derecognised right-of-use assets is recognised.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. Lease liabilities are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee 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.

Lease payments included in the measurement of the lease liability comprise the following:

a. fixed payments, including in-substance fixed payments;
b. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.

After initial recognition, the lease liability is measured:

a. increasing the carrying amount to reflect interest on the lease liability;
b. reducing the carrying amount to reflect the lease payments made; and
c. re-measuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

(i) Extension and termination options

In determining the lease liability, the Group considers the extension and termination options. The majority of extension and termination options held are exercisable both by the group and by the respective lessor.

Extension options are available for all contracts. In more than 90% of the contracts, DP Eurasia has the right to extend the contract unilaterally, which does not need the consent of the landlord. Periods covered by an option to extend the lease term are included in the lease term if the lessee is reasonably certain to exercise that option. The same rationale applies to termination options. The term covered by a termination option is not included in the lease term if the lessee is reasonably certain not to exercise the option. Otherwise, the lease term ends at the point in time when the lessee can exercise the termination option.

(i) Critical judgements in determining the lease term

Lease terms are generally negotiated locally. Contracts are negotiated on an individual basis and contain a wide range of terms and conditions, such as early termination clauses and renewal rights. Termination clauses and renewal rights are included in several leases across the Group's lease agreements. They are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise a renewal right, or not exercise a termination clause. Both options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

After the commencement date, the Group reassesses the lease term for each contract if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew. Critical judgements used in determining the lease terms are:

- the Group extends the lease term of properties' lease contracts between one and five years;
- the Group does not extend the lease term on the vehicles' lease contracts.

During the current financial year, there were no revisions related initially recognised lease liabilities.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. Factors that are considered in terminating or renewing leases include amongst others:

- location of the store;
- leasehold improvements made with a significant remaining value; and
- costs and business disruption required to replace a leased asset.

(ii) Discount rates used

The discount rate to be used should be the interest rate implicit in the lease, if that rate can be readily determined. This is the rate of interest that causes the present value of: (a) lease payments; and (b) the unguaranteed residual value to equal the sum of: (i) the fair value of the underlying asset; and (ii) any initial direct costs of the lessor. However, since the implicit rate cannot be readily determined, the incremental borrowing rate is used in calculating the present value of lease payments during the lease terms that are not paid at that date. Incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The incremental borrowing rate is calculated separately for each operating company, based on currencies that lease agreements are based on. The rate calculated based on a build-up approach whereby each category of leases has an incremental borrowing rate based on the country (and currency) of the lessee and the lease term. The Group uses recent third-party financing from banks and adjusts (if necessary) to reflect changes in financing conditions.

The discount rate is a key variable for lease liabilities and a 1% increase or decrease in the discount rate would increase or decrease total lease payments by approximately TRY 4,055 and TRY (4,330), respectively.

(iii) Variable elements used

The variable element is the rent increase rate and is calculated based on the Consumer Price Index ("CPI"), Producer Price Index ("PPI") or an average of both. Variable lease payments are based on an index or a rate and are initially measured using the index or the rate at the commencement date.

Estimation uncertainty arising from variable lease payments

The Group does not forecast future changes of the index/rate; these changes are considered when the lease payments change. Variable lease payments that are not based on an index or a rate are not part of the lease liability, but they are recognised in the income statement when the event or condition that triggers those payments occurs.

Nearly 90% of future lease payments for stores are linked to CPI, PPI or an average of both. Variable payment terms are mostly used to make up for the volatile inflation rates in a country. An average of a 5% increase in the CPI and PPI indices would increase total lease payments by approximately TRY 11,769.

Exemptions and simplifications

Payments for leases of low-value assets such as IT equipment (mainly printers, laptops and mobile phones etc.) are not included in the measurement of the lease liabilities within the scope of IFRS 16. Lease payments of these contracts continue to be recognised in profit or loss in the related period.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 2 – Basis of presentation of consolidated financial statements continued

2.6 Summary of significant accounting policies continued

Provisions, contingent assets and liabilities

Provisions are recognised in the consolidated financial statements when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate used to calculate the present value of the provision should be pre-tax rate reflecting the current market assessments of the time value of money and the risks specific to the liability. The discount rate shall not reflect risks for which future cash flow estimates have been adjusted.

A possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group have not been recognised in these consolidated financial statements and are treated as contingent liabilities and contingent assets.

Volume rebate advances

Volume rebates received in advance are recognised as income within cost of sales on an accruals basis on the expected entitlement earned up to the statement of financial position date. Up-front fees received as volume rebates are recognised as a liability in the financial statements.

Performance bonus accruals

Realisation of the performance bonus depends on the financial and non-financial performance of the Group. Performance bonus accrual is recognised when the Group achieved its minimum requirements and recognised within related payroll expense accounts.

Related parties

Key management personnel, including Directors of the Company and its subsidiaries and members of the senior leadership team, together with their families and companies controlled by or affiliated with them, are considered and referred to as related parties. The Group has determined key management personnel as Executive Directors, members of the Board of Directors and the leadership team. All transactions between related parties have been made considering an arm's length policy.

Parties are considered related to the Group if directly, or indirectly through one or more intermediaries, the party:

- is an associate of the Group;
- is a joint venture in which the Group is a venture;
- is a member of the key management personnel of the Group or its parent;
- is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to; and
- has a post-employment benefit plan for the benefit of employees of the Group, or of an entity that is a related party of the Group.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Taxes

Current and deferred tax

Taxes on income for the year comprise current tax and the change in deferred income taxes. Current year tax liability consists of the taxes calculated over the taxable portion of the current year income by reference to corporate income tax rates enacted as of the date of the statement of financial position and adjustments provided for the previous years' income tax liabilities.

Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

The Group recognises tax assets for the tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

Deferred income tax liabilities are recognised for all taxable temporary differences, whereas deferred income tax assets resulting from deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised.

Deferred income tax assets and deferred income tax liabilities related to income taxes levied by the same taxation authority are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

Employment termination benefit

Provision for employment termination benefits, as required by Turkish labour law, represents the estimated present value of the total reserve of the future probable obligation of the Group companies operating in Turkey arising in case of the retirement of the employees, termination of employment without due cause or call for military service. The provision is based upon actuarial estimations using the estimated liability method. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recorded to the income statement and movements through the statement of changes in equity in the period in which they arise.

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave and bonuses are accrued in the year in which the associated services are rendered by the employees. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the unified social tax for its employees in its Russian operations.

Unused vacation rights

Unused vacation rights accrued in the consolidated financial statements represent the estimated total liabilities related to employees' unused vacation days as of the statement of financial position date.

Share-based incentives

Share-based compensation benefits are provided to members of management via various incentive plans. Information relating to the equity-settled incentive scheme is set out in Note 22.

The fair value of options and share awards granted are recognised as a share-based payment expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the awards granted:

- any market performance conditions (e.g. the entity's share price);
- the impact of any service and non-market performance vesting conditions (e.g. remaining an employee of the Group over a specified time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of awards that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

When options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 2 – Basis of presentation of consolidated financial statements continued

2.6 Summary of significant accounting policies continued

Earnings/(loss) per share

Earnings per share disclosed in the consolidated income statement is determined by dividing net income/(loss) by the weighted average number of shares circulating during the year concerned.

Statement of cash flows

The Group has used the indirect method to prepare the consolidated statement of cash flows. Cash flows in foreign currencies have been translated at transaction rates.

Subsequent events

The Group adjusts the amounts recognised in the consolidated financial statements to reflect the adjusting events after the statement of financial position date. If non-adjusting events after the statement of financial position date have material influences on the economic decisions of users of the consolidated financial statements, they are disclosed in the notes to the consolidated financial statements.

One-off items

Regarding the one-off policy approved by the Group management, in the presentation of the consolidated income statement, the Group separates one-off items in order to disclose significant non-recurring items and income/expenses which are assumed by the Group management as not part of the normal course of business.

A one-off item is a one-time cost or gain, or series of connected costs or gains, greater than TRY 300 that is non-recurring, does not arise in the ordinary course of business, but from circumstances or events that are approved by Group management such as:

- business combinations (including integration and restructuring costs);
- public offerings;
- litigation settlements;
- significant disposals of assets and businesses;
- other non-recurring events such as:
  - share-based incentives; or
  - excess pension charges such as those arising from a change in legislation and income arising from curtailments of pension plans.

One-off items are applied on a consistent and accrual basis in the consolidated financial statements. In the presentation of the consolidated income statement, the Group separates one-off items in order to disclose significant non-recurring items and incomes/expenses which are assumed by the Group management as not part of the normal course of business. The principal events which may give rise to a one-off item include the restructuring and integration of businesses, public offerings, material litigation costs/gains, the cost of implementing a cost containment program, income and expenses arising from significant disposals of assets and businesses, sheltered abnormal cost and other specific income and expenses such as share-based incentives and excess pension charges. The Group discloses the consolidated income statement in this way as it provides relevant information which is more closely aligned to how management monitors the performance of the Group.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Segment reporting

The Group has two business segments, determined by management according to the information used for the evaluation of performance and the allocation of resources: the Turkish and Russian operations. These segments are managed separately because they are affected by the economic conditions and geographical positions in terms of risks and returns.

IFRS 8 requires operating segments to be reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the management team, including the Chief Executive Officer, Chief Strategy Officer and Chief Financial Officer.

The Group management assesses the performance of operating segments by the earnings before interest, tax, depreciation and amortisation ("EBITDA"), adjusted net debt, adjusted net income and adjusted earnings per share figures generated by adjusting the EBITDA, net debt, net income and earnings per share calculated based on the financial statements prepared in accordance with IFRS with necessary adjustments and reclassifications. Those adjustments and reclassifications are adding back the net effect of the time difference and foreign exchange gains and losses generated from commercial operations in accordance with IFRS and the one-off items policy as reflected above. EBITDA calculated based on this approach is defined as "adjusted EBITDA". Management primarily uses the adjusted EBITDA measure when making decisions about the Group's activities. As EBITDA and adjusted EBITDA are non-GAAP measures, adjusted EBITDA and adjusted operating profit measures used by other entities may not be calculated in the same way and hence not directly comparable.

Group management assesses liquidity and levels of borrowing by net debt (total borrowings less cash and cash equivalents) and by additionally removing the effect of long-term guarantee deposits and cash in transit not included in the year-end cash balance to arrive at adjusted net debt". Management primarily uses the adjusted net debt measure when making decisions about the Group's financing. As net debt and adjusted net debt are non-GAAP measures, adjusted net debt measures used by other entities may not be calculated in the same way and hence not directly comparable.

2.7 Significant accounting estimates

The preparation of consolidated financial statements requires estimates and assumptions to be made regarding the amounts for assets and liabilities at the statement of financial position date, and bases for the contingent assets and liabilities as well as the amounts of income and expenses realised in the reporting period. The Group makes estimates and assumptions concerning the future, which, by definition, may not equate to the related actual results. The estimates and assumptions that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial period are addressed below:

The areas involving significant estimates or judgements are:

- impairment tests for goodwill (Note 12);
- impairment tests for tangible assets (Note 9);
- deferred income tax assets recognition of Fidesrus (Note 20); and
- right-of-use assets, lease receivables and liabilities (Notes 2.4 and 11).

Significant judgements or estimates are disclosed in the related notes.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 3 – Segment reporting

The business operations of the Group are organised and managed with respect to geographical positions of its operations. The information regarding the business activities of the Group as of 31 December 2019 and 2018 comprise the performance and the management of its Turkish and Russian operations and head office.

The Group has two business segments, determined by management according to the information used for the evaluation of performance and the allocation of resources, the Turkish and Russian operations. Other operations are composed of corporate expenses of Dutch companies. These segments are managed separately because they are affected by the economic conditions and geographical positions in terms of risks and returns.

The segment analysis for the periods ended 31 December 2019 and 2018 are as follows:

1 January – 31 December 2019	Turkey	Russia	Other	Total
Corporate revenue	**210,833**	**283,567**	**—**	**494,400**
Franchise revenue and royalty revenue obtained from franchisees	**314,772**	**91,440**	**—**	**406,212**
Other revenue	**33,729**	**45,867**	**—**	**79,596**
Total revenue	**559,334**	**420,874**	**—**	**980,208**
– At a point in time	***553,396***	***417,732***	**—**	***971,128***
– Over time	***5,938***	***3,142***	**—**	***9,080***
Operating profit	**82,664**	**175**	**(11,773)**	**71,066**
Capital expenditures	**37,171**	**69,597**	**—**	**106,768**
Tangible and intangible disposals	**(4,442)**	**(10,608)**	**—**	**(15,050)**
Depreciation and amortisation expenses	**(50,468)**	**(66,238)**	**—**	**(116,706)**
Adjusted EBITDA[(1)]	**134,599**	**63,889**	**(8,691)**	**189,797**

31 December 2019	Turkey	Russia	Other	Total
Borrowings				
TRY	**164,800**	**—**	**—**	**164,800**
RUB	**—**	**153,213**	**—**	**153,213**
	164,800	**153,213**	**—**	**318,013**
Lease liabilities				
TRY	**93,054**	**—**	**—**	**93,054**
RUB	**—**	**163,081**	**—**	**163,081**
	93,054	**163,081**	**—**	**256,135**
Total	**257,854**	**316,294**	**—**	**574,148**

1 January – 31 December 2018	Turkey	Russia	Other	Total
Corporate revenue	203,958	277,945	—	481,903
Franchise revenue and royalty revenue obtained from franchisees	257,313	43,946	—	301,259
Other revenue	23,399	50,313	—	73,712
Total revenue	484,670	372,204	—	856,874
– At a point in time	*482,490*	*371,543*	—	*854,033*
– Over time	*2,180*	*661*	—	*2,841*
Operating profit	66,540	(3,173)	(10,077)	53,290
Capital expenditures	36,797	42,213	—	79,010
Tangible and intangible disposals	(7,318)	(14,615)	—	(21,933)
Depreciation and amortisation expenses	(28,910)	(24,358)	—	(53,268)
Adjusted EBITDA	96,537	23,853	(9,810)	110,580

(1) Adjusted EBITDA figures for 2019 include the impact of adoption of IFRS 16, and are therefore not on a like-for-like basis with the 2018 figures.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

31 December 2018	Turkey	Russia	Other	Total
Borrowings				
TRY	24,820	—	—	24,820
RUB	—	173,321	—	173,321
	24,820	173,321	—	198,141
Lease liabilities				
TRY	2,610	—	—	2,610
RUB	—	14,855	—	14,855
	2,610	14,855	—	17,465
Total	27,430	188,176	—	215,606

EBITDA, adjusted EBITDA, net debt, adjusted net debt, adjusted net income and non-recurring and non-trade income/expenses are not defined by IFRS. The amounts provided with respect to operating segments are measured in a manner consistent with that of the financial statements. These items determined by the principles defined by Group management comprise income/expenses which are assumed by the Group management to not be part of the normal course of business and are non-recurring items. These items which are not defined by IFRS are disclosed by Group management separately for a better understanding and measurement of the sustainable performance of the Group.

The reconciliation of adjusted EBITDAs for 2019 and 2018 is as follows:

Turkey	2019	Excluding IFRS 16 impact 2019	2018
Adjusted EBITDA[1]	**134,599**	**108,701**	96,537
Non-recurring and non-trade (income)/expenses per Group management[1]			
One-off non-trading costs	**131**	**131**	191
Share-based incentives	**1,336**	**1,336**	896
EBITDA	**133,132**	**107,234**	95,450
Depreciation and amortisation	**(50,468)**	**(31,160)**	(28,910)
Operating profit	**82,664**	**76,074**	66,540

Russia	2019	Excluding IFRS 16 impact 2019	2018
Adjusted EBITDA[1]	**63,889**	**24,495**	23,853
Non-recurring and non-trade (income)/expenses per Group management[1]			
One-off non-trading costs	**(461)**	**(461)**	1,051
Share-based incentives	**(2,063)**	**(2,063)**	1,618
EBITDA	**66,413**	**27,019**	21,184
Depreciation and amortisation	**(66,238)**	**(32,800)**	(24,358)
Operating loss	**175**	**(5,781)**	(3,174)

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 3 – Segment reporting continued

Other	2019	Excluding IFRS 16 impact 2019	2018
Adjusted EBITDA[1]	**(8,691)**	**(8,691)**	(9,810)
Non-recurring and non-trade (income)/expenses per Group management[1]			
One-off non-trading costs[2]	**3,082**	**3,082**	267
EBITDA	**(11,773)**	**(11,773)**	(10,077)
Depreciation and amortisation	**—**	**—**	—
Operating loss	**(11,773)**	**(11,773)**	(10,077)

(1) EBITDA, adjusted EBITDA and non-recurring and non-trade income/expenses are not defined by IFRS. These items are determined by the principles defined by the Group management and comprise income/expenses which are assumed by Group management to not be part of the normal course of business and are non-trading items. These items, which are not defined by IFRS, are disclosed by Group management separately for a better understanding and measurement of the sustainable performance of the Group. In addition, adjusted EBITDA figures for 2019 includes impact of adoption of IFRS 16 and not like for like basis with 2018 figures.

(2) The reason for the significant increase in one-off non-trading costs is related to a 2017 expense from the IPO that was invoiced in 2019.

The reconciliation of adjusted net income as of 31 December 2019 and 2018 is as follows:

	2019	Excluding IFRS 16 impact 2019	2018
(Loss)/profit for the period as reported	**(5,616)**	**3,619**	(11,093)
Non-recurring and non-trade (income)/expenses per Group management[1]			
Share-based incentives	**(727)**	**(727)**	2,514
One-off expenses	**18**	**18**	1,507
Adjusted net (loss)/profit for the period	**(6,325)**	**2,910**	(7,072)

(1) Adjusted net income and non-recurring and non-trade income/expenses are not defined by IFRS. Adjusted net income excludes income and expenses which are not part of the normal course of business and are non-recurring items. Management uses this measurement basis to focus on core trading activities of the business segments, and to assist it in evaluating underlying business performance.

The average headcount for the Group is as follows:

31 December 2019	**Netherlands**	**Turkey**	**Russia**
Number of employees	**3**	**1,651**	**1,922**

31 December 2018	Netherlands	Turkey	Russia
Number of employees	3	2,286	1,816

Note 4 – Revenue and cost of sales

	2019	2018
Corporate revenue	**494,400**	481,903
Franchise revenue and royalty revenue obtained from franchisees	**406,212**	301,259
Other revenue	**79,596**	73,712
Revenue	**980,208**	856,874
Cost of sales	**(636,466)**	(566,250)
Gross profit	**343,742**	290,624

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Revenue recognised in relation to contract liabilities

The movements of performance obligations and revenue recognised in relation to contract liabilities for the years ended 31 December 2019 and 2018 are as follows:

	2019	2018
As of 1 January	**28,943**	21,983
Recognised as revenue	**(9,080)**	(2,841)
Increases due to new franchise agreements entered	**13,042**	9,801
As of 31 December	**32,905**	28,943

Unsatisfied long-term franchisee contracts

The Group recognised net sales amounting to TRY 4,668 with respect to the performance obligations satisfied at a point in time for the year ended 31 December 2019 (31 December 2018: TRY 4,374).

The amount of performance obligations relating to ongoing contracts of the Group that will be recognised in the future is TRY 37,572 (31 December 2018: TRY 33,326). The Group expects that this amount will be recorded as revenue within 15 years.

Note 5 – Expenses by nature

	2019	2018
Employee benefit expenses	**204,091**	193,285
Depreciation and amortisation expenses	**116,706**	53,268
	320,797	246,553

Note 6 – Other operating income and expenses

Other income	2019	2018
Marketing service income[1]	**9,152**	–
Interest income arising from sales with extended terms	**4,841**	1,748
Gain from sale of property and equipment	**2,222**	6,354
Foreign exchange gains	**2,674**	1,651
Other	**3,522**	713
	22,411	10,466

Other expense	2019	2018
Legal and other provision expenses	**3,783**	821
Losses from sale of property and equipment	**1,666**	2,300
Foreign exchange losses	**1,348**	3,295
Other	**1,072**	945
	7,869	7,361
Other operating income, net	**14,542**	3,105

(1) For 2019, the marketing income mainly includes cross-promotion income.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 7 – Financial income and expenses

Foreign exchange gains/(losses)	2019	2018
Foreign exchange gains/(losses), net	**6,840**	(18,770)
Foreign exchange losses on lease liabilities	**(2,175)**	–
	4,665	(18,770)

Financial income	2019	2018
Interest income on lease liabilities	**13,736**	–
Interest income	**2,364**	5,508
	16,100	5,508

Financial expense	2019	2018
Interest expense	**42,739**	41,118
Interest expense on lease liabilities	**35,767**	–
Other	**6,597**	2,809
	85,103	43,927

Note 8 – Earnings/(loss) per share

	31 Dec 2019	31 Dec 2018
Average number of shares existing during the period	**145,372,414**	145,372,414
Net loss for the period attributable to equity holders of the parent	**(5,616)**	(11,093)
Loss per share	**(0.0386)**	(0.0763)

The reconciliation of adjusted earnings per share as of 31 December 2019 and 2018 is as follows:

	31 Dec 2019	31 Dec 2018
Average number of shares existing during the period	**145,372,414**	145,372,414
Net loss for the period attributable to equity holders of the parent	**(5,616)**	(11,093)
Non-recurring and non-trade expenses per Group management[(1)]		
Share-based incentives	**(727)**	2,514
One-off expenses	**18**	1,507
Adjusted net loss for the period attributable to equity holders of the parent	**(6,325)**	(7,072)
Adjusted earnings per share[(1)]	**(0.04)**	(0.05)

(1) Adjusted earnings per share and non-recurring and non-trade income/expenses are not defined by IFRS. The amounts provided with respect to operating segments are measured in a manner consistent with that of the financial statements. These items determined by the principles defined by Group management comprises income/expenses which are assumed by Group management to not be part of the normal course of business and are non-recurring items. These items which are not defined by IFRS are disclosed by Group management separately for a better understanding and measurement of the sustainable performance of the Group.

There are no shares or options with a dilutive effect and hence the basic and diluted earnings per share are the same.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Note 9 – Property and equipment

	1 Jan 2019	Additions	Disposals	Transfers	Currency translation adjustments	31 Dec 2019
Cost						
Machinery and equipment	55,668	20,911	(11,553)	—	11,799	76,825
Motor vehicles	32,963	3,825	(13,082)	—	6,269	29,975
Furniture and fixtures	62,109	9,211	(9,544)	—	776	62,552
Leasehold improvements	91,207	22,798	(13,987)	—	13,100	113,118
Construction in progress	3,024	1,795	—	—	2,606	7,425
	244,971	58,540	(48,166)	—	34,550	289,895
Accumulated depreciation						
Machinery and equipment	(17,975)	(11,120)	6,868	—	(4,153)	(26,380)
Motor vehicles	(18,218)	(8,290)	10,168	—	(3,261)	(19,601)
Furniture and fixtures	(27,848)	(7,271)	6,600	—	(259)	(28,778)
Leasehold improvements	(44,889)	(15,319)	9,242	—	(4,127)	(55,093)
	(108,930)	(42,000)	32,878	—	(11,800)	(129,852)
Net book value	136,041					160,043

Depreciation expense of TRY 33,705 has been charged in cost of sales and TRY 8,295 has been charged in general administrative expenses.

	1 Jan 2018	Additions	Disposals	Transfers	Currency translation adjustments	31 Dec 2018
Cost						
Machinery and equipment	42,094	16,209	(10,028)	1,882	5,511	55,668
Motor vehicles	25,831	5,651	(1,283)	—	2,764	32,963
Furniture and fixtures	58,646	12,609	(12,069)	2,652	271	62,109
Leasehold improvements	80,470	20,069	(15,169)	206	5,631	91,207
Construction in progress	7,240	437	—	(5,260)	607	3,024
	214,281	54,975	(38,549)	(520)	14,784	244,971
Accumulated depreciation						
Machinery and equipment	(11,494)	(8,167)	2,988	—	(1,302)	(17,975)
Motor vehicles	(10,596)	(7,953)	1,143	—	(812)	(18,218)
Furniture and fixtures	(26,953)	(7,087)	6,261	—	(69)	(27,848)
Leasehold improvements	(36,842)	(13,812)	7,054	—	(1,289)	(44,889)
	(85,885)	(37,019)	17,446	—	(3,472)	(108,930)
Net book value	128,396					136,041

Depreciation expense of TRY 23,311 has been charged in cost of sales and TRY 13,708 has been charged in general administrative expenses.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 10 – Intangible assets

	1 Jan 2019	Additions	Disposals	Transfers	Currency translation adjustments	31 Dec 2019
Cost						
Key money	**17,456**	**29,725**	**(1,192)**	**—**	**4,633**	**50,622**
Computer software	**45,573**	**18,503**	**(1,349)**	**—**	**5,945**	**68,672**
Franchise contracts	**48,485**	**—**	**—**	**—**		**48,485**
	111,514	**48,228**	**(2,541)**	**—**	**10,578**	**167,779**
Accumulated amortisation						
Key money	**(5,342)**	**(6,967)**	**1,193**	**—**	**(922)**	**(12,038)**
Computer software	**(17,178)**	**(10,145)**	**1,220**	**—**	**(2,886)**	**(28,989)**
Franchise contracts	**(40,480)**	**(4,848)**	**—**	**—**	**—**	**(45,328)**
	(63,000)	**(21,960)**	**2,413**	**—**	**(3,808)**	**(86,355)**
Net book value	**48,514**					**81,424**

Amortisation expense of TRY 12,994 has been charged in cost of sales and TRY 8,966 has been charged in general administrative expenses.

The Group does not have any intangible assets with an indefinite useful life.

	1 Jan 2018	Additions	Disposals	Transfers	Currency translation adjustments	31 Dec 2018
Cost						
Key money	8,755	9,691	(1,852)	—	862	17,456
Computer software	31,502	14,344	(815)	520	22	45,573
Franchise contracts	48,485	—	—	—	—	48,485
	88,742	24,035	(2,667)	520	884	111,514
Accumulated amortisation						
Key money	(2,001)	(4,974)	1,808	—	(175)	(5,342)
Computer software	(10,855)	(6,351)	28	—	—	(17,178)
Franchise contracts	(35,555)	(4,925)	—	—	—	(40,480)
	(48,411)	(16,250)	1,836	—	(175)	(63,000)
Net book value	40,331					48,514

Amortisation expense of TRY 10,189 has been charged in cost of sales and TRY 6,061 has been charged in general administrative expenses.

Franchise contracts

The Group has recognised franchise contracts resulting from a business combination on 26 January 2011 amounting to TRY 48,485 and accounted for them as intangible assets in its consolidated financial statements.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Note 11 – Right-of-use assets

Details of right-of-use assets as of 31 December 2019 and 1 January 2019 are as follows:

	31 Dec 2019	1 Jan 2019[1]
Right-of-use assets		
Properties	**166,147**	145,624
Vehicles	**14,089**	16,822
	180,236	162,446

Details of lease receivable as of 31 December 2019 and 1 January 2019 are as follows:

	31 Dec 2019	1 Jan 2019[1]
Lease receivables		
Current	**16,618**	13,857
Non-current	**39,568**	44,569
	56,186	58,426

Details of lease liabilities as of 31 December 2019 and 1 January 2019 are as follows:

	31 Dec 2019	1 Jan 2019[1]
Lease liabilities		
Current	**71,427**	65,782
Non-current	**184,708**	172,555
	256,135	238,337

(1) In the previous year, the Group only recognised lease assets and lease liabilities (TRY 17,465) in relation to leases that were classified as finance leases under IAS 17, 'Leases'. The assets were presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to Note 2.4.

Movement of right-of-use assets

	1 Jan 2019	Additions	Disposals	Currency translation adjustments	31 Dec 2019
Right-of-use assets					
Properties	145,624	62,333	(28,334)	26,034	205,657
Vehicles	16,822	2,522	(1,672)	6,103	23,775
	162,446	64,855	(30,006)	32,137	229,432
Depreciation charge of right-of-use assets					
Properties	—	(44,549)	4,653	386	(39,510)
Vehicles	—	(8,197)	1,672	(3,161)	(9,686)
	—	(52,746)	6,325	(2,775)	(49,196)
	162,446				180,236

For the year ended 31 December 2019, depreciation expense of TRY 44,859 has been charged to the cost of sales and TRY 7,887 has been charged to general administrative expenses.

	2019	2018
Interest expense on lease liabilities		
Properties	**(18,932)**	—
Vehicles	**(4,035)**	—
	(22,967)	—

The total amount of interest of sub-lease income is TRY 13,736.

In 2019, the total cash outflow for principle of leases and interest of leases is TRY 60,875 and TRY 13,736, respectively. In 2019, the total cash inflow for interest of leases is TRY 12,800, respectively.

Expenses of low-value assets are TRY 60.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 12 – Goodwill

Movement of goodwill is as follows:

	31 Dec 2019	31 Dec 2018
1 January	**45,195**	44,209
Currency translation impact	**1,938**	986
31 December	**47,133**	45,195

The goodwill relates to Turkish and Russian CGUs at the amounts TRY 36,023 and RUB 11,110 respectively (31 December 2018: TRY 36,023, and RUB 9,172 respectively).

Goodwill impairment test

In accordance with IFRS and the accounting policies explained in Note 2.6, the Group performs impairment tests on goodwill to assess whether impairment exists. The Group is obliged to test goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired, as goodwill is deemed to have an indefinite useful life.

In order to perform this test, management is required to compare the carrying value of the relevant cash generating unit ("CGU"), defined as stores of the Group including goodwill with its recoverable amount. The recoverable amounts of the CGU are determined based on a value in use calculation.

The recoverable amounts of CGUs are calculated based on value in use. These calculations require estimations and use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. For the purpose of assessing impairment, the discounted cash flows calculated based on the Group's revenue projections for five years are compared to the carrying value of all assets in CGUs, including allocated goodwill.

The Group prepares pre-tax cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the remaining term based on the average long-term growth rate of 12% for the Turkish market and 3.8% for the Russian market. The impact of IFRS 16 has been included in the discounted cash flow models and resulted in an increase in weighted average cost of capital.

Other key assumptions applied in the impairment tests include the expected product price, demand for the products, product cost and related expenses which are reflected in the sales growth rate for the upcoming years. Management used sales growth projection rate 12% for Turkey and 15% for Russia respectively. Growth projections include inflation expectations for the related CGUs. Management determined these key assumptions based on past performance and its expectations on market development. Further, management applied pre-tax discount rates of 22% for 2019, 20% for 2018 for Turkey and 17.5% for 2019 and 17.5% for 2018 for the Russian Federation to reflect country specific Group risks.

Sensitivities – Turkish operations

The assumptions used for value in use calculations to which the recoverable amount is more sensitive are growth rate beyond five years and pre-tax discount rate. Management determined these key assumptions based on past performance and its expectations on market development. Further, management adopts different discount rates each year that reflect specific risks related to the Group as discount rates. Impairment loss has not been recognised as a result of the impairment tests performed with the above assumptions as at 31 December 2019. A further test with a 5% adverse change to the above assumptions did not result in any impairment loss, either.

Sensitivities – Russian operations

The assumptions used for value in use calculations to which the recoverable amount is more sensitive are growth rate beyond five years and pre-tax discount rate. Management determined these key assumptions based on past performance and its expectations on market development.

Impairment loss has not been recognised as a result of the impairment tests performed with the above assumptions as at 31 December 2019. A further test with a 5% adverse change to the above assumptions did not result in any impairment loss, either.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Note 13 – Cash and cash equivalents

The details of cash and cash equivalents as of 31 December 2019 and 2018 are as follows:

	31 Dec 2019	31 Dec 2018
Cash	**897**	818
Banks	**16,744**	16,367
Term bank deposits (less than three months)	**42,745**	—
Credit card receivables[1]	**10,542**	11,259
	70,928	28,444

(1) Maturity term of credit card receivables are 30 days on average (31 December 2018: 30 days).

The details of functional currency of the banks is as follows:

	31 Dec 2019	31 Dec 2018
TRY	**12,228**	8,914
RUB	**45,451**	5,425
EUR	**1,276**	1,638
Other	**534**	390
	59,489	16,367

Note 14 – Trade receivables and payables

a) Short-term trade receivables

	31 Dec 2019	31 Dec 2018
Trade receivables	**89,419**	50,903
Post-dated cheques	**27,154**	19,148
Receivables from related parties (Note 14)	**—**	20
	116,573	70,071
Less: doubtful trade receivable	**(2,080)**	(92)
Short-term trade receivables, net	**114,493**	69,979

The average collection period for trade receivables is between 30 and 60 days (2018: between 30 and 60 days).

Movement of provision for doubtful receivables is as follows:

	2019	2018
1 January	**92**	92
Current year charges	**1,988**	—
31 December	**2,080**	92

The Group applied IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade, lease and other receivables based on historical losses. The Group analysed the impact of IFRS 9 and the historical losses that were incurred in 2019 also impacted the expected credit losses going forward, resulting in an additional TRY 606 recorded as provision for doubtful receivables. The Group also assessed whether the historic pattern would change materially in the future. The expected credit loss applied per aging bucket is shown as below:

	Not due	0-30 days	31-90 days	91-180 days	181-360 days	Over 360 days
	0.02%	0.15%	0.32%	0.59%	11.3%	26.4%
	129,995	971	3,726	1,236	1,788	199

Lease receivables has no history if default and expected credit loss percentages are close to zero and its effect is immaterial, so the table below consists of only trade and other receivables.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Financial statements

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 14 – Trade receivables and payables continued

b) Long-term trade receivables

	31 Dec 2019	31 Dec 2018
Trade receivables	**7,467**	10,729
Post-dated cheques[1]	**15,955**	10,032
	23,422	20,761

(1) Post-dated cheques are the receivables from franchisees resulting from store openings.

c) Short-term trade and other payables

	31 Dec 2019	31 Dec 2018
Trade payables	**108,995**	70,635
Other payables	**12,183**	3,513
	121,178	74,148

The weighted average term of trade payables is less than three months. Short-term payables with no stated interest are measured at original invoice amount unless the effect of imputing interest is significant (31 December 2019 and 2018: less than three months).

Note 15 – Transactions and balances with related parties

The details of receivables and payables from related parties as of 31 December 2019 and 2018 and transactions is as follows:

a) Key management compensation

	31 Dec 2019	31 Dec 2018
Short-term employee benefits	**18,212**	16,243
Share-based incentives	**2,002**	2,514
	20,214	18,757

There are no loans, advance payments or guarantees given to key management.

b) Board compensation

	Executive Directors		Non-Executive Directors				
Year ending 31 December 2019	Aslan Saranga	Frederieke Slot	Peter Williams	Tom Singer	Seymur Tari	İzzet Talu	Aksel Sahin
Base salary (TRY)	2,295,945	634,840	1,083,930	502,221	–	–	–
Benefits (TRY)	171,479	146,013	–	–	–	–	–
Pension (TRY)	–	224,733	–	–	–	–	–
Annual bonus (TRY)	748,086	–	–	–	–	–	–
Long-term incentives (TRY)	614,971	–	–	–	–	–	–
Total (TRY)	**3,830,481**	**1,005,586**	**1,083,930**	**502,221**	**–**	**–**	**–**
Total (local currency)	**₺3,830,481**	**€158,400**	**£150,000**	**£69,500**	**–**	**–**	**–**

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

	Executive Directors		Non-Executive Directors				
Year ending 31 December 2018	Aslan Saranga	Frederieke Slot	Peter Williams	Tom Singer	Seymur Tari	İzzet Talu	Aksel Sahin
Base salary (TRY)	2,000,000	566,140	957,765	443,764	—	—	—
Benefits (TRY)	150,599	130,212	—	—	—	—	—
Pension (TRY)	—	200,414	—	—	—	—	—
Annual bonus (TRY)	778,667	—	—	—	—	—	—
Long-term incentives (TRY)	614,971	—	—	—	—	—	—
Total (TRY)	3,830,481	896,766	957,765	443,764	—	—	—
Total (local currency)	₺3,830,481	€158,400	£150,000	£69,500	—	—	—

Notes to the table – methodology

Base salary

This represents the cash paid or receivable in respect of the financial year.

Benefits

This represents the taxable value of all benefits paid or receivable in respect of the relevant financial year. Aslan Saranga's benefits included private health cover, and company car. Frederieke Slot's benefits included medical disability allowance, mobility allowance and education, communication and IT allowances.

Pension

Aslan Saranga receives no pension provision; Frederieke Slot receives a pension allowance worth 36% of base salary.

Annual bonus

This represents the total bonus payable for the relevant financial year under the ADBP.

Long-term incentives

This column relates to the expense recognised for the LTIP awards during the period in accordance with IFRS. Please note that in the remuneration report on page 45, the value of vested LTIP awards is included in the remuneration table. Since no LTIP awards have been vested to Executive Directors during the period, this column has a zero figure in the remuneration report.

On 8 May 2018, Aslan Saranga was granted an LTIP award amounting to 279,322 shares (share price GBP 1.878), which will vest in May 2021 subject to achievement of an EBITDA growth target. On 3 May 2019, Aslan Saranga was granted an LTIP award amounting to 332,706 shares (share price GBP 0.88) which will vest in May 2022 subject to achievement of an EBITDA growth target.

Local currency totals

Part of Aslan Saranga's remuneration and the whole of Frederieke Slot's, remuneration is paid in Euros and Peter Williams' and Tom Singer's remuneration is wholly paid in Pound Sterling. Total amounts received by each individual in local currency are recorded in the final column of the above table. In the other columns of the table, remuneration has been converted into Turkish Lira for consistency with the financial statements.

Note 16 – Inventories

	31 Dec 2019	31 Dec 2018
Raw materials	**66,003**	75,248
Other inventory	**4,059**	2,371
	70,062	77,619

The cost of inventories recognised as expense and included in "cost of sales" amounted to TRY 348,080 in 2019 (2018: TRY 269,454).

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 17 – Other receivables, assets and liabilities

Other current assets	31 Dec 2019	31 Dec 2018
Advance payments	**36,217**	9,687
Deposits for loan guarantees[1]	**18,683**	24,195
Lease receivables	**16,618**	—
Prepaid taxes and VAT receivable	**2,740**	3,177
Prepaid marketing expenses	**1,486**	2,018
Prepaid insurance expenses	**1,029**	4,857
Contract assets related to franchising contracts[2]	**482**	438
Other	**4,610**	1,212
Total	**81,865**	45,584

(1) In December 2019, the Group repaid a portion of its loans to Sberbank Moscow and the TRY 31,643 (RUB 420 million) cash deposit condition that was made as collateral by the Fidesrus.

(2) The Group incurs certain costs with Domino's Pizza International related to the set up of each franchise contract and IT systems used for recording of franchise revenue.

Other non-current assets	31 Dec 2019	31 Dec 2018
Lease receivables	**39,568**	—
Long-term deposits for loan guarantees[1]	**21,624**	8,342
Prepaid marketing expenses	**8,232**	7,173
Contract assets related to franchising contracts[2]	**4,186**	3,936
Deposits given	**1,861**	5,909
Other	**—**	29
Total	**75,471**	25,389

(1) In December 2019, the Group repaid its 9.7% loan in the amount of RUB 690 million. The loan carries a TRY 31,643 (RUB 420 million) cash deposit condition that was made as collateral by the Russian operating company. The principal amount is payable monthly from August 2019.

(2) The Group incurs certain costs with DP International related to the set up of each franchise contract and IT systems used for recording of franchise revenue.

Other current liabilities	31 Dec 2019	31 Dec 2018
Taxes and funds payable	**13,351**	6,047
Payable to personnel	**8,044**	6,970
Volume rebate advances	**7,805**	942
Unused vacation liabilities	**7,523**	6,404
Performance bonuses	**4,961**	7,408
Social security premiums payable	**4,109**	3,588
Advances received from franchisees	**4,057**	2,243
Contract liabilities from franchising contracts[1]	**2,908**	5,727
Other expense accruals	**11,254**	2,791
Total	**64,012**	42,120

(1) The Group incurs certain revenue with the set up of each franchise contract and these franchise fee revenues are deferred over the period of the franchise agreement.

Other non-current liabilities	31 Dec 2019	31 Dec 2018
Contract liabilities from franchising contracts[1]	**34,664**	27,599
Long term provisions for employee benefits	**2,051**	1,665
Other	**2,377**	774
Total	**39,092**	30,038

(1) The Group incurs certain revenue with the set up of each franchise contract and these franchise fee revenues are deferred over the period of the franchise agreement.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Note 18 – Financial liabilities

	31 Dec 2019	31 Dec 2018
Short-term bank borrowings	164,800	24,820
Short-term financial liabilities	164,800	24,820
Short-term portions of long-term borrowings	54	11,721
Short-term portions of long-term leases	71,427	7,789
Current portion of long-term financial liabilities	71,481	19,510
Total short-term financial liabilities	236,281	44,330
Long-term bank borrowings	153,159	161,600
Long-term leases	184,708	9,676
Long-term financial liabilities	337,867	171,276
Total financial liabilities	574,148	215,606

The summary information of short-term and long-term bank borrowings is as follows:

31 December 2019 Currency	Maturity	Interest rate (%)	Short-term	Long-term
TRY borrowings	Revolving	10.88	164,800	—
RUB borrowings	2024	9.70	54	153,159
			164,854	153,159

31 December 2018 Currency	Maturity	Interest rate (%)	Short-term	Long-term
RUB borrowings	2024	9.70	11,721	161,600
TRY borrowings	Revolving	24.71	24,820	—
			36,541	161,600

The loan agreement between Sberbank Moscow and Domino's Russia is subject to covenant clauses whereby the Group, Domino's Turkey and Domino's Russia are required to meet certain ratios. The financial indicator of:

- Domino's Russia, which requires the ratio of financial debt to adjusted EBITDA for the relevant period should not be more than 11;
- Domino's Turkey, which requires the ratio of financial debt to adjusted EBITDA for the relevant period should not be more than 3;
- the Group, which requires the ratio of financial debt to adjusted EBITDA for the relevant period, should not be more than 3.5.

During the validity period hereof, the number of the restaurant chain (own and franchised) of Domino's Turkey should be not less than 524 units as of the end of 2018; the annual level of the adjusted EBITDA of the Turkish division should be not less than TRY 87 million during 2018-2020.

Throughout the period the Group, Domino's Russia and Domino's Turkey have met the covenant clauses of Sberbank Moscow.

The redemption schedule of the borrowings as of 31 December 2019 and 2018 is as follows:

	31 Dec 2019	31 Dec 2018
To be paid in one year	164,854	36,541
To be paid between one to two years	4,627	19,044
To be paid between two to three years	44,522	25,404
To be paid between three years and more	104,010	117,152
	318,013	198,141

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 18 – Financial liabilities continued

The redemption schedule of the leases as of 31 December 2019 and 2018 is as follows:

	31 Dec 2019	31 Dec 2018
Leases to be paid in one year	**71,427**	7,789
Leases to be paid between one to two years	**77,979**	6,128
Leases to be paid between two to three years	**86,849**	3,548
Leases to be paid between three years and more	**19,880**	–
	256,135	17,465

The details of the finance lease liabilities as of 31 December 2019 and 2018 are as follows:

	31 Dec 2019	31 Dec 2018
Total financial lease payments	**–**	25,209
Interest to be paid in upcoming years	**–**	(7,744)
	–	17,465

As of 31 December 2019 and 2018, net financial liabilities reconciliation is as follows:

	31 Dec 2019	31 Dec 2018
Cash and cash equivalents	**70,928**	28,444
Financial liabilities and leases to be paid in one year	**(236,281)**	(44,330)
Financial liabilities and leases to be paid in one to five years	**(337,867)**	(171,276)
	(503,220)	(187,162)

	31 Dec 2019	31 Dec 2018
Cash and cash equivalents	**70,928**	28,444
Financial liabilities and leases – fixed rate	**(316,294)**	(188,176)
Financial liabilities – floating rate	**(257,854)**	(27,430)
	(503,220)	(187,162)

31 December 2019	Short-term financial liabilities and leases	Long-term financial liabilities and leases	Total
1 January financial liabilities	(44,330)	(171,276)	(215,606)
Net cash flow effect, loans received	**(147,443)**	**(17,790)**	**(165,233)**
Net cash flow effect, loans paid	**5,668**	**79,785**	**85,453**
Net cash flow effect, leasing payments	**60,875**	**–**	**60,875**
Interest of leases paid	**22,031**	**–**	**22,031**
Lease liability (IFRS 16)	**(88,045)**	**(211,662)**	**(299,707)**
Interest on financial liabilities	**(17,311)**	**–**	**(17,311)**
Currency translation adjustments	**(27,726)**	**(16,924)**	**(44,650)**
31 December financial liabilities	**(236,281)**	**(337,867)**	**(574,148)**

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

31 December 2018	Short-term financial liabilities and leases	Long-term financial liabilities and leases	Total
1 January financial liabilities	(142,152)	(85,753)	(227,905)
Net cash flow effect, loans received	(48,345)	(11,503)	(59,848)
Net cash flow effect, loans paid	91,887	13,070	104,957
Net cash flow effect, leasing payments	15,192	4,054	19,246
Other non-cash transaction, leasing payment	(11,122)	(3,122)	(14,244)
Unrealised FX gain and loss	(1,568)	(9,904)	(11,472)
Interest on financial liabilities	(4,159)	—	(4,159)
Currency translation adjustments	(23,282)	1,101	(22,181)
31 December financial liabilities	(123,549)	(92,057)	(215,606)

The reconciliation of adjusted net debt as of 31 December 2019 and 2018 is as follows:

	31 Dec 2019	31 Dec 2018
Short-term bank borrowings	**164,854**	36,541
Short-term portions of long-term lease borrowings	**71,427**	7,789
Long-term bank borrowings	**153,159**	161,600
Long-term lease and borrowings	**184,708**	9,676
Total borrowings	**574,148**	215,606
Cash and cash equivalents (-)	**(70,928)**	(28,444)
Net debt	**503,220**	187,162
Non-recurring items per Group management		
Long-term deposit for loan guarantee	**(34,253)**	(32,537)
Adjusted net debt[(1)]	**468,967**	154,625

(1) Net debt, adjusted net debt and non-recurring and non-trade items are not defined by IFRS. Adjusted net debt includes cash deposits used as a loan guarantee and cash paid, but not collected, during the non-working day at the year end. Management uses these numbers to focus on net debt to take into account deposits not otherwise considered cash and cash equivalents under IFRS.

Note 19 – Provision

Short-term provisions

	31 Dec 2019	31 Dec 2018
Legal provisions and other	**5,354**	1,816
	5,354	1,816

Legal provisions are mostly resulting from labour and rent disputes.

The movement of provisions as of 31 December 2019 and 2018 is as follows:

	2019	2018
Balance at 1 January	**1,816**	2,116
Provision set during the period	**3,538**	821
Paid during the period	**—**	(1,121)
Balance as at 31 December	**5,354**	1,816

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 20 – Commitments, contingent assets and liabilities

a) Guarantees given and received for trade receivables are as follows:

	31 Dec 2019	31 Dec 2018
Guarantee letters given	**5,190**	3,671
	5,190	3,671

	31 Dec 2019	31 Dec 2018
Guarantee notes received	**39,064**	34,008
Guarantee letters received	**14,832**	23,295
	53,896	57,303

Guarantee notes and letters are received as collateral for trade receivables.

b) Tax contingencies

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions has been challenged by tax authorities as of reporting date. Since the final outcome of the tax act is not certain, the Group has evaluated potential scenarios and has provided a tax provision to its financial statements as of 31 December 2019 based on best estimation and risk assessments.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Co-operation and Development ("OECD") but has specific characteristics. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Tax liabilities arising from transactions between companies within the Group are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Management will vigorously defend the Group's positions and interpretations that were applied in determining taxes recognised in these consolidated financial statements if these are challenged by the authorities.

c) Operating lease commitments

	31 Dec 2019	31 Dec 2018
In one year	**–**	16,243
1 – 5 years	**–**	17,637
5 – 10 years	**–**	744
	–	34,624

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

d) Legal cases

As of 31 December 2019, the Group had three ongoing legal cases, which were opened by three franchises in Russia. The Group does not expect any material risk in these legal cases in accordance with the opinions of its legal advisors; therefore, it has not recognised any provision for these legal cases in the consolidated financial statements as of 31 December 2019.

Note 21 – Tax assets, liabilities and tax expense

Corporate tax

The Group is subject to taxation in accordance with the tax regulations and the legislation effective in the countries in which the Group companies operate. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

The Netherlands

Dutch tax legislation does not permit a Dutch parent company and its foreign subsidiaries to file a consolidated Dutch tax return. Dutch resident companies are taxed on their worldwide income for corporate income tax purposes at a statutory rate of 25%. No further taxes are payable on this profit unless the profit is distributed.

Services incurred by Dutch parent companies may generally be divided into two kinds of services being group services for which costs are incurred for the economic and commercial benefit of subsidiaries and shareholder services for which costs are incurred for activities provided in the capacity of the shareholder. All costs incurred by the Company are shareholder services (costs incurred for activities provided in the capacity of shareholder) and not group services (costs incurred for the economic or commercial benefit of subsidiaries).

Since shareholder services are not for the benefit of any one specific subsidiary, it is not required to re-charge these fees or costs to a subsidiary or to subsidiaries.

If certain conditions are met, income derived from foreign subsidiaries is tax exempted in the Netherlands under the rules of the Dutch participation exemption. However, certain costs such as acquisition costs are not deductible for Dutch corporate income tax purposes. Furthermore, in some cases the interest payable on loans to affiliated companies is non-deductible.

When income derived by a Dutch company is subject to taxation in the Netherlands as well as in other countries, generally avoidance of double taxation can be obtained under the extensive Dutch tax treaty network or under Dutch domestic law.

Dividend distributions are subject to 15% Dutch withholding tax. However, under the Netherlands' extensive tax treaty network, this rate can, in many cases, be significantly reduced if certain conditions are met.

Turkey

The Corporate Tax Law was amended by Law No, 5520, dated 13 June 2006. Most of the articles of the new Corporate Tax Law (No 5520) came into force on 1 January 2006. Corporate tax is payable at a rate of 22% (31 December 2018: 22%) on the total income of the Group after adjusting for certain disallowable expenses, exempt income and investment and other allowances (e.g. research and development allowance). No further tax is payable unless the profit is distributed (except for withholding tax at the rate of 19.8%, calculated on an exemption amount if an investment allowance is granted in the scope of Income Tax Law Temporary Article 61).

With the Law on Amendments to Certain Laws and Tax Laws and Decrees by the Courts dated 28 November 2017, the tax rate has been changed to 22% for corporate tax and advance tax of corporate earnings for the 2018, 2019 and 2020 taxation periods.

Companies are required to pay advance corporate tax quarterly at the rate of 22% on their corporate income in Turkey. Advance tax is payable by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporate tax liability. If, despite offsetting, there remains a paid advance tax amount, it may be refunded or offset against other liabilities to the government.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 21 – Tax assets, liabilities and tax expense continued

Russia

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses as established in Chapter 25 of the Tax Code of the Russian Federation. Corporate tax is payable at a rate of 20% (31 December 2018: 20%) as identified in Article 247 of the Tax Code of the Russian Federation Special rules may apply in cases where a different from 20% tax rate is used.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse, or the tax loss carry forwards will be utilised.

Corporate tax liability for the year consists of the following:

	31 Dec 2019	31 Dec 2018
Corporate tax calculated	15,318	11,579
Prepaid taxes (-)	(8,947)	(4,608)
Tax liability	**6,371**	6,971

Tax income and expenses included in the statement of comprehensive income are as follows:

	2019	2018
Current period corporate tax expense	(15,318)	(11,579)
Deferred tax income/(expense)	2,974	4,385
Tax expense	**(12,344)**	(7,194)

The reconciliation of the tax expense in the statement of comprehensive income is as follows:

	2019	2018
Profit before tax	6,728	(3,899)
Corporate tax at statutory rates (25%)	(1,682)	975
Disallowable expenses	(7,423)	(5,834)
Unrecognised tax losses	(5,287)	(2,714)
Differences in tax rates	1,646	(323)
Other, net	402	702
Total tax expense	**(12,344)**	(7,194)

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

The breakdown of cumulative temporary differences and the resulting deferred income tax assets/liabilities at 31 December 2019 and 2018 using statutory tax rates are as follows:

	31 Dec 2019		31 Dec 2018	
	Temporary differences	Deferred tax assets/ (liabilities)	Temporary differences	Deferred tax assets/ (liabilities)
Carry forward tax losses[1]	44,926	8,985	38,001	7,600
Contract liabilities from franchising contracts	34,826	7,486	28,943	6,367
Expense accruals	18,529	3,708	9,515	2,093
Bonus accruals	4,695	1,011	7,168	1,517
Unused vacation liabilities	3,368	741	2,663	586
Legal provisions	3,606	793	1,816	399
Provision for employee termination benefit	2,051	451	1,665	366
Right-of-use assets and lease liability	13,625	2,845	–	–
Other	1,173	211	3,220	554
	126,799	26,231	92,991	19,482
Property, equipment and intangible assets	(36,642)	(8,171)	(39,727)	(7,861)
	(36,642)	(8,171)	(39,727)	(7,861)
Deferred income tax assets, net		**18,060**		11,621

(1) Consists of carry forward losses of Domino's Russia.

Deferred income tax assets recognition of Fidesrus

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilisation of deferred tax assets must be reduced, this reduction will be recognised in the income statement.

Based on the change in the tax code in the Russian Federation after 31 December 2015, previously applied limitation on carry forward tax losses for a ten-year period has been abolished and any losses incurred since 2007 will be carried forward until fully recognised.

Domino's Russia recognises tax assets for the tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. Domino's Russia recognises deferred income tax assets arising from tax losses, tax discounts and other temporary differences with the estimates and assumptions relying on Domino's Russia management's five-year business plan and potential growth opportunities in Russia.

Movement of the deferred tax for the years ended 31 December 2019 and 2018 are as follows:

	31 Dec 2019	31 Dec 2018
Balance at the beginning of the year	11,622	5,929
Charged to the statement of income	2,974	4,746
Currency translation difference	3,434	866
Charged to other comprehensive income	30	81
Balance at the end of the year	**18,060**	11,622

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 22 – Share-based payments

The Phantom Option Scheme

The Phantom Option Scheme was put in place to incentivise senior members of management. The incentive plan entitles the employees to a cash payment at the date of an exit by shareholders. The amount payable will be determined based on the difference between the equity value of the entities at the time of exit and their grant dates. Granted options will only vest if certain conditions are met, including continued employment with the Group, and if there is an event of a 100% exit by Fides Food Systems Coöperatief U.A. and Vision Lovemark Coöperatief U.A. However, shareholders have the right to exercise these plans even if they do not exit 100% of their stake and may determine the amount payable to employees pro rata their exited shareholding.

Based on this scheme, the difference between the grant equity value and the exit value of the entities have been allocated for Pizza Restaurantları A.Ş. and Pizza Restaurants LLC separately and multiplied by the respective option amount of each individual.

Options are granted under the plan for no consideration and carry no dividend or voting rights.

When exercised, the whole payout will be made by the ultimate shareholders of the Group in cash and any taxes, fees or any other costs related to the incentive will be borne by employees within the incentive plan. As a result, the phantom options are accounted for as equity-settled share-based payment awards.

The Company uses the Black-Scholes option valuation model to calculate the fair value of the Phantom Option at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. The fair value at grant date is determined using an adjusted form of the Black Scholes Model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option. The expected price volatility is based on the historic volatility of the peer group companies. The fair value of the options is then recognized over the vesting period of the options granted.

The fair value of the options granted in 2010, 2012 and 2015 under the Phantom Option Scheme has been estimated using the Black-Scholes option pricing model.

- Expected average option term in years: 8.8 years
- Expected volatility: 42.6%
- Expected dividend yield: 0%
- Risk-free interest rate: 2.6%

In relation to the IPO, the shareholders used their right to partly settle the options outstanding under these plans, and 48.6% of the outstanding phantom options were settled in August 2017. As a result, this portion of the outstanding share-based incentives is fully expensed as at 31 December 2017. The unrecognised portion of the total grant date fair value for the remaining 51.4% of the options amounts to TRY 51 and is expensed over the remainder of the estimated vesting period.

CEO Share Incentive Scheme

Additionally, a share incentive scheme was put in place between Fides Food Systems Coöperatief U.A., and Vision Lovemark Coöperatief U.A. Based on performance targets and continuing employment of the CEO, the shares would be granted each year to Vision Lovemark Coöperatief U.A.

The share incentive scheme has been terminated in December 2016. The fair value of the shares granted was determined with reference to an EBITDA based enterprise value of the Group's Turkish segment. The vesting period for each grant was one year.

Russian CEO Share Incentive Scheme

According to the incentive scheme, employees were granted an option to acquire shares based on performance targets of the Group for the upcoming years, and continuing employment until the vesting time. The shares under the option will vest at the end of the scheme period (Note 22). On 4 June 2019, the Russian CEO terminated his employment contract. He retained his vested awards for 2018 totalling 540,000 shares, however, the remaining unvested awards were lapsed due to cessation of employment prior to vesting. TRY 2,729 corresponding to the unvested part of the accrued share-based incentive has been transferred to the income statement as of 31 December 2019.

LTIP

New share incentive scheme was put in place on 7 May 2018. According to the incentive scheme employees were granted an option to acquire shares, based on performance targets of the Group for the upcoming three years, and continuing employment till the vesting time. The shares under the option will vest at the end of the scheme period.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

The weighted-average fair value of the options granted under the LTIP in 2018 amounted to TRY 349 per option, which has been estimated using the Black-Scholes option pricing model based on the following weighted-average assumptions. Abovementioned share options are still outstanding:

- share price on the grant date: GBP 1.85;
- expected average option term in years: three years;
- expected volatility: 36.6%;
- expected dividend yield: 0%; and
- risk-free interest rate: 0.9%.

The expected volatility for each of the vesting instalments has been determined based on the annualised volatility of historical data for a group of relevant comparator companies, measured over the expected life of the instalments.

On 8 May 2018, Aslan Saranga was granted an LTIP award amounting to 279,322 shares, which will vest in May 2021 subject to achievement of an EBITDA growth target. On 3 May 2019, Aslan Saranga was granted an LTIP award amounting to 332,706 shares which will vest in May 2022 subject to achievement of an EBITDA growth target. The fair value of the LTIP awards granted in 2019 is equal to the share price on the grant date of GBP 0.88 (2018: GBP 1.878) since Aslan Saranga is entitled to compensation for dividends during the vesting period.

Under these two existing plans, amounting to TRY 2,002 has been charged for 2019, whereas TRY 2,514 has been charged for 2018 and the cumulative charge is TRY 19,970 as at 31 December 2019 (31 December 2018: TRY 20,697).

Note 23 – Equity

The shareholders and the shareholding structure of the Group at 31 December 2019 and 2018 are as follows:

	31 Dec 2019		31 Dec 2018	
	Share (%)	**Amount**	Share (%)	Amount
Fides Food Systems Coöperatief U.A.	**32.8**	**11,928**	42.8	15,562
Public shares	**62.1**	**22,591**	52.1	18,944
Vision Lovemark Coöperatief U.A.	**4.9**	**1,777**	4.9	1,774
Other	**0.2**	**57**	0.2	73
		36,353		36,353

As of 31 December 2019, the Group's 145,372,414 (31 December 2018: 145,372,414) shares are issued and fully paid for.

On 3 July 2017, just prior to the IPO, the Company issued (i) 13,046,726 ordinary shares, with a nominal value of EUR 0.12 each, in the capital of the Company to Vision Lovemark Coöperatief U.A. and (ii) 117,420,534 ordinary shares, with a nominal value of EUR 0.12 each, in the capital of the Company to Fides Food Systems Coöperatief U.A., which was paid up by debiting the Company's share premium reserve by TRY 31,239. Also, on 3 July 2017, as part of its IPO, the Company issued 10,372,414 new ordinary shares with a nominal value of EUR 0.12 each. As a result, the Company's issued and outstanding share capital increased to TRY 36,353 (divided into 145,372,414 ordinary shares). After the IPO, 52.1% of the shares became public. The net proceeds received by the Company from the IPO is TRY 94,132 (TRY 9,075 per share). DP Eurasia's authorised share capital is EUR 60,000,000.

DP Eurasia Executive Director Aslan Saranga bought 1,000,000 shares and Non-Executive Director Peter Williams bought 31,776 shares in 2018.

	2019	2018
1 January	**145,372,414**	145,372,414
Addition	**–**	–
31 December	**145,372,414**	145,372,414

The nominal value of each share is EUR 0.12 (2018: EUR 0.12). There is no preference stock.

Share premium

Share premium represents the total of differences resulting from the contribution of Fides Food Systems by Fides Food Systems Coöperatief U.A. at a price exceeding the face value of those shares and differences between the face value and the fair value of shares issued for acquired companies and the differences between the proceeds and the nominal value of the shares issued at the IPO.

Ultimate controlling party

The ultimate controlling party of the Company is Turkish Private Equity Fund II LP. There is no individual ultimately controlling the Group.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 24 – Financial instruments and financial risk management

a) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

To maintain or re-arrange the capital and debt structure, the Group may change the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets.

Group management decided the capital structure by reference to the adjusted net debt by dividing the adjusted EBITDA.

	31 Dec 2019	Excluding IFRS 16 impact 31 Dec 2019	31 Dec 2018
Total borrowings and lease liabilities	**574,148**	**331,659**	215,606
Cash and cash equivalents (-)	**(70,928)**	**(70,928)**	(28,444)
Net debt	**503,220**	**260,731**	187,162
Non-recurring items per Group management			
Long-term deposit for loan guarantee	**(34,253)**	**(34,253)**	(32,537)
Adjusted net debt	**468,967**	**226,478**	154,625
Adjusted EBITDA	**189,797**	**124,505**	110,580
Adjusted net debt/adjusted EBITDA	**2.47x**	**1.82x**	1.40x

b) Financial risk factors

The Group is exposed to a variety of financial risks due to its operations. These risks include credit risk, market risk (foreign exchange risk, price risk and interest rate risk) and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial position and performance.

b.1) Credit risk

The Group considers its maximum credit risk at 31 December 2019 to be TRY 214,037 (31 December 2018: TRY 144,007), which is the total of the Group's financial assets.

Credit risk is managed on a Group basis, except for credit risk relating to trade receivable and other receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. It is Group policy that deposits are made with repositories of BA2 credit rating or higher as defined by Moody's.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, lease receivables other receivables and contract assets. To measure the expected credit losses, trade receivables, lease receivables other receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to payments to Domino's Pizza International and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The aging of past due but not impaired financial assets is as follows:

	31 Dec 2019	31 Dec 2018
Less than a month	**971**	1,350
One to three months	**3,726**	2,205
Three to six months	**1,236**	786
Over six months	**1,987**	1,526
Total	**7,920**	5,867

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

	31 Dec 2019	31 Dec 2018
Trade receivables		
Counterparties without external credit rating		
Group 1	**26,586**	17,040
Group 2	**114,340**	73,700
Group 3	**2,080**	92
Total	**143,006**	90,832

- Group 1 – New customers (less than six months);
- Group 2 – Existing customers (more than six months) with no defaults in the past; and
- Group 3 – Existing customers (more than six months) with some defaults in the past.

b.2) Liquidity risk

The Group uses banks as well as its suppliers and shareholders as funding resources. The Group's liquidity risk is continuously evaluated through determining and monitoring changes in funding conditions required for achieving the targets set in the Group's strategy.

The Group manages its liquidity risk by monitoring expected and actual cash flows on a regular basis and by maintaining continuity of funds, borrowings and reserves through matching the maturities of financial assets and liabilities. The Group periodically reviews its covenant compliance and uses loans between Group companies to ensure there is enough liquidity to carry out its operations.

As of 31 December 2019 and 2018, the liquidity risks arising from the Group's financial liabilities consisted of the following:

	31 December 2019					
Maturities in accordance with agreements	**Carrying value**	**Total cash outflows in accordance with contract**	**Less than 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
Non-derivative financial liabilities						
Borrowings	**318,013**	**399,379**	**83,027**	**125,994**	**190,358**	**—**
Leases	**256,135**	**318,206**	**30,374**	**69,503**	**184,399**	**33,930**
Third party trade payables	**121,178**	**121,178**	**121,178**	**—**	**—**	**—**
Total	**695,326**	**838,763**	**234,579**	**195,497**	**374,757**	**33,930**

	31 December 2018					
Maturities in accordance with agreements	Carrying value	Total cash outflows in accordance with contract	Less than 3 months	3-12 months	1-5 years	Over 5 years
Non-derivative financial liabilities						
Borrowings	198,141	258,124	21,467	21,627	172,842	42,188
Leases	17,465	20,958	9,780	8,384	2,794	—
Third party trade payables	74,148	74,148	74,148	—	—	—
Total	289,754	353,230	105,395	30,011	175,636	42,188

Loans from banks comprise short-term loans obtained for working capital needs and other long-term loans. The total amount includes accrued interest and the related loans.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the consolidated financial statements continued

For the year ended 31 December 2019

Note 24 – Financial instruments and financial risk management continued

b) Financial risk factors continued

b.2) Liquidity risk continued

As of 31 December 2019, and 2018 the categories of financial instruments of the Group is as follows:

31 December 2019	Note	Assets and liabilities at amortised cost	Loans and receivables	Available for sale financial assets	Financial assets or liabilities at fair value through profit or loss	Carrying value
Financial assets		**70,928**	**229,402**	—	—	**300,330**
Cash and cash equivalents	13	**70,928**	—	—	—	**70,928**
Trade receivables	14	—	**194,101**	—	—	**194,101**
Lease receivables	17	—	**16,618**	—	—	**16,618**
Other current assets	17	—	**18,683**	—	—	**18,683**
Financial liabilities		**695,326**	—	—	—	**695,326**
Financial liabilities	18	**318,013**	—	—	—	**318,013**
Leases	18	**256,135**				**256,135**
Trade and other payables	14	**121,178**	—	—	—	**121,178**

31 December 2018	Note	Assets and liabilities at amortised cost	Loans and receivables	Available for sale financial assets	Financial assets or liabilities at fair value through profit or loss	Carrying value
Financial assets		28,444	90,720	—	—	119,164
Cash and cash equivalents	13	28,444	—	—	—	28,444
Trade receivables	14	—	90,720	—	—	90,720
Financial liabilities		289,754	—	—	—	289,754
Financial liabilities	18	215,606	—	—	—	215,606
Trade and other payables	14	74,148	—	—	—	74,148

b.3) Market risk

The Group's activities also expose it to market risk, including interest rate risk, foreign currency risk, and price risk. The Group doesn't carry any loans in currencies other than the operating company currencies on its balance sheet.

The Group manages its financial instruments centrally in accordance with the Group's risk policies via the Treasury Group in the Finance Department. The Group's cash inflows and outflows are monitored on a regular basis and compared to the monthly and yearly cash flow budgets and forecasts.

Interest rate risk

The Group is exposed to market interest rate fluctuations on its floating rate debt. Increases in benchmark interest rates could increase the interest cost of floating rate debt and increase the cost of future borrowings. The Group's ability to manage interest costs also has an impact on reported results.

At 31 December 2019, interest rates were fixed on approximately 55% of the net debt for 2019 (87% for 2018). The average interest rate on short-term borrowings in 2019 was 10.29% (2018: 17.21%).

The financial instruments of the Group which are sensitive to interest rates are stated in the following table:

	31 Dec 2019	31 Dec 2018
Financial instruments with floating interest		
Financial liabilities	**257,854**	27,430
Financial instruments with fixed interest		
Financial liabilities – repricing dates	**316,294**	188,176
– six months or less	—	—
– six to twelve months	**41,907**	19,510
– one to five years	**274,387**	168,666

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Assuming that all other variables remain constant, a 1.0 percentage point increase in floating interest rates on a full-year basis as at 31 December 2019 would have led to an additional TRY 2,331 finance costs (2018: TRY 248 additional finance costs). A 1.0 percentage point decrease in floating interest rates on a full-year basis would have an equal but opposite effect.

The Group's objective is to minimise net interest cost and balance the amounts of debt at fixed and floating rates over time. The majority of the debt has interest charged at a fixed rate. This limits the impact that changes to floating rates have on the Group's finance expenses.

Foreign currency risk

The Group is operating in multiple countries and is subject to the risk that changes in foreign currency values impact the value of the Group's sales, purchases, assets and borrowings. At 31 December 2019, the exposure to the Group from companies holding assets and liabilities other than in their functional currency amounted to TRY 17,685 (31 December 2018: TRY 35,150).

As an estimation of the approximate impact of the residual risk, with respect to financial instruments, the Group has calculated the impact of a 20% change in exchange rates.

Impact on income statement

A 20% strengthening of the Euro against key currencies to which the Group is exposed would have led to approximately an additional TRY 3,537 gain in the income statement (2018: TRY 7,030 loss).

A 20% weakening of the Euro against these currencies would have led to an equal but opposite effect.

Price risk

As of 31 December 2019, the Group does not have financial instruments classified as available for sale, or fair value through profit and loss, which are exposed to market price fluctuations. Price risk does arise from an increase in commodity prices. This price risk is managed locally where advanced purchases of raw materials are made to achieve lower prices and bulk purchases are made to achieve discounts from suppliers.

Note 25 – Subsequent events

According to an amendment to the Sberbank Loan Agreement signed by the Group's Russian subsidiary and Sberbank, the Company and its Turkish subsidiary were required to sign the amendment as guarantors by 27 February 2020. At 20 March 2020, the deadline to meet this requirement has been extended by Sberbank to 30 April 2020. The Group expects no difficulty in meeting this requirement.

We see the potential for a prolonged period of uncertainty following the COVID-19 worldwide outbreak and related market volatility, which have had relatively little impact on our business operations year to date. Currently, our stores are open and operating as normal with the exception that customers are not able to eat-in in our Turkish stores (although our delivery and take-away businesses continue as normal). Future adverse impacts from the COVID-19 outbreak may include, but are not limited to, employees contracting the disease, difficulty in recruiting new employees, decrease in demand for our products, reduced store operating hours, temporary bans imposed by government on eat-in and/or take-away services, store closures for an unspecified period of time and the Group not being able to perform its obligations under the Master Franchise Agreements. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern and, therefore, its ability to realise its assets and discharge its liabilities in the normal course of business.

We have no indication whether governmental measures will have an effect in preventing a further spread of the disease around the world and therefore the duration of the pandemic. If the pandemic and its impact on the business last for a protracted period it is likely to have a more detrimental effect on the financial performance of the Group. The Group has taken proactive measures to ensure that our customers and employees continue to be safe. The Group has already established an internal task force to ensure that the supply chain is managed, critical inventory is available, and restaurants remain adequately staffed. We appreciate that the Turkish government has indicated its preparedness to support companies and encourage banks to maintain access to credit facilities so as to assist the corporate sector manage through the crisis and maintain employment.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Company income statement

For the years ended 31 December 2019 and 2018

	Notes	2019	2018
Income statement			
General administrative expenses	6	**(11,773)**	(10,079)
Operating profit		**(11,773)**	(10,079)
Foreign exchange (losses)		**(214)**	(68)
Financial income		**1,876**	1,242
Net income/(loss) from subsidiaries	2	**4,495**	(2,188)
Loss before income tax		**(5,616)**	(11,093)
Tax expense		**–**	–
Loss for the year		**(5,616)**	(11,093)

The accompanying notes form an integral part of these financial statements.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Company balance sheet

As at 31 December 2019 (before appropriation of profit)

	Notes	31 Dec 2019	31 Dec 2018
Assets			
Subsidiaries	2	**51,604**	75,557
Non-current assets		**51,604**	75,557
Cash and cash equivalents	3	**710**	1,115
Due from related parties	4	**60,530**	65,219
Other current assets		**192**	—
Current assets		**61,432**	66,334
Total assets		**113,036**	141,891
Liabilities			
Accounts payable		**2,129**	1,406
Due to related parties		**228**	918
Other current liabilities		**281**	1,118
Current liabilities		**2,638**	3,442
Total liabilities		**2,638**	3,442
Equity			
Paid in share capital	5	**36,353**	36,353
Share premium		**139,256**	139,983
Other legal reserves		**(22,288)**	(687)
Retained earnings		**(37,307)**	(26,107)
Result for the year		**(5,616)**	(11,093)
Total equity		**110,398**	138,449
Total liabilities		**113,036**	141,891

The accompanying notes form an integral part of these financial statements.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the Company financial statements

For the year ended 31 December 2019

Note 1 – Basis of presentation of statutory financial statements

1.1 Basis of preparation

The Company financial statements of DP Eurasia N.V. (hereafter: the Company) have been prepared in accordance with Part 9, Book 2 of the Dutch Civil Code. In accordance with sub 8 of article 362, Book 2 of the Dutch Civil Code, the Company's financial statements are prepared based on the accounting principles of recognition, measurement and determination of profit, as applied in the consolidated financial statements. These principles also include the classification and presentation of financial instruments, being equity instruments or financial liabilities.

The Company has prepared its Annual Report in accordance with EU-directives as implemented in Part 9, Book 2 of the Dutch Civil Code and the firm pronouncements in the Guidelines for Annual Reporting in the Netherlands as issued by the Dutch Accounting Standards Board for the year ended 31 December 2019.

In case no other policies are mentioned, refer to the accounting policies as described in the accounting policies in the consolidated financial statements of this Annual Report. For an appropriate interpretation, the Company financial statements of DP Eurasia N.V. should be read in conjunction with the consolidated financial statements.

The Company is registered with the trade register of the Chamber of Commerce in the Netherlands under the number 67090753.

The Company prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The remuneration paragraph is included in the remuneration section of the consolidated financial statements.

1.2 Summary of significant accounting policies

Investments in consolidated subsidiaries

Consolidated subsidiaries are all entities (including intermediate subsidiaries) over which the Company has control. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are recognised from the date on which control is transferred to the Company or its intermediate holding entities. They are derecognised from the date that control ceases. Investments in consolidated subsidiaries are measured at net asset value. Net asset value is based on the measurement of assets, provisions and liabilities and determination of profit based on the principles applied in the consolidated financial statements.

The Company applies the acquisition method to account for acquiring subsidiaries, consistent with the approach identified in the consolidated financial statements. The consideration transferred for the acquisition of a subsidiary is the fair value of assets transferred by the Company, liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in an acquisition are measured initially at their fair values at the acquisition date, and are subsumed in the net asset value of the investment in consolidated subsidiaries. Acquisition-related costs are expensed as incurred.

Note 2 – Subsidiaries

The movement schedule for the investment in subsidiaries as of 31 December 2019 and 2018 is as follows:

1 January 2018	82,829
Net loss from subsidiaries	(2,188)
Currency translation difference	(7,307)
Remeasurement of post-employment benefit obligations	(291)
Share-based incentive plans	2,514
1 January 2019	75,557
Net income from subsidiaries	**4,495**
Currency translation difference	**(27,614)**
Remeasurement of post-employment benefit obligations	**(107)**
Share-based incentive plans	**2,002**
Cancellation of share-based incentive plans	**(2,729)**
31 December 2019	**51,604**

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Note 3 – Cash and cash equivalents

The details of cash and cash equivalents as of 31 December 2019 and 2018 are as follows:

	31 Dec 2019	31 Dec 2018
Cash	**710**	1,115
	710	1,115

	31 Dec 2019	31 Dec 2018
Euro	**710**	1,115
	710	1,115

Note 4 – Due from related parties

The details of due from related parties as of 31 December 2019 and 2018 are as follows:

	31 Dec 2019	31 Dec 2018
Pizza Restaurants LLC[(1)]	**41,682**	37,082
Pizza Restaurantları A.Ş.[(1)]	**18,696**	28,137
Fidesrus B.V.	**82**	—
Fides Food Systems B.V.	**70**	—
	60,530	65,219

(1) There is an average 4.5% interest increase on the Pizza Restaurants LLC balance and a 4.8% interest increase on the Pizza Restaurantları A.Ş. balance.

Note 5 – Equity

The movements in shareholders' equity are as follows:

	Share capital	Share premium	Currency translation reserves	Retained earnings	Result for the year	Total equity
Balances at 1 January 2018	36,353	137,469	(10,993)	(25,908)	92	137,013
Remeasurements of post-employment benefit obligations, net	—	—	—	(291)	—	(291)
Appropriation of the result preceding year	—	—	—	92	(92)	—
Currency translation adjustments	—	—	10,306	—	—	10,306
Share-based incentive plans	—	2,514	—	—	—	2,514
Total loss for the year	—	—	—	—	(11,093)	(11,093)
Balances at 31 December 2018	36,353	139,983	(687)	(26,107)	(11,093)	138,449
Remeasurements of post-employment benefit obligations, net	**—**	**—**	**—**	**(107)**	**—**	**(107)**
Appropriation of the result preceding year	**—**	**—**	**—**	**(11,093)**	**11,093**	**—**
Currency translation adjustments	**—**	**—**	**(21,601)**	**—**	**—**	**(21,601)**
Share-based incentive plans	**—**	**2,002**	**—**	**—**	**—**	**2,002**
Cancellation of share-based incentive plans	**—**	**(2,729)**	**—**	**—**	**—**	**(2,729)**
Total loss for the year	**—**	**—**	**—**	**—**	**(5,616)**	**(5,616)**
Balances at 31 December 2019	**36,353**	**139,256**	**(22,288)**	**(37,307)**	**(5,616)**	**110,398**

The Group has no dividend payment to the Company as of 31 December 2019 (31.12.2018: none).

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Notes to the Company financial statements continued

For the year ended 31 December 2019

Note 5 – Equity continued

The shareholders and the shareholding structure of the Company at 31 December 2019 and 2018 are as follows:

	31 Dec 2019		31 Dec 2018	
	Share (%)	Amount	Share (%)	Amount
Fides Food Systems Coöperatief U.A.	**32.8**	**11,928**	42.8	15,562
Public shares	**62.1**	**22,591**	52.1	18,944
Vision Lovemark Coöperatief U.A.	**4.9**	**1,777**	4.9	1,774
Other	**0.2**	**57**	0.2	73
		36,353		36,353

As of 31 December 2019, the Company's 145,372,414 (31 December 2018: 145,372,414) shares are issued and fully paid for.

On 3 July 2017, just prior to IPO, the Company issued (i) 13,046,726 ordinary shares, with a nominal value of EUR 0.12 each, in the capital of the Company to Vision Lovemark Coöperatief U.A. and (ii) 117,420,534 ordinary shares, with a nominal value of EUR 0.12 each, in the capital of the Company to Fides Food Systems Coöperatief U.A., which was paid up by debiting the Company's share premium reserve by TRY 31,239. Also, on 3 July 2017, as part of its IPO, the Company issued 10,372,414 new ordinary shares with a nominal value of EUR 0.12 each. As a result, the Company's issued and outstanding share capital, increased to TRY 36,353 (divided into 145,372,414 ordinary shares). After the IPO, 52.1% of the shares became public.

	2019	2018
1 January	**145,372,414**	145,372,414
Addition	**—**	—
31 December	**145,372,414**	145,372,414

The nominal value of each share is EUR 0.12 (2018: EUR 0.12). There is no preference stock.

Share premium

Share premium represents the total of differences resulting from the contribution of Fides Food Systems by Fides Food Systems Coöperatief U.A. at a price exceeding the face value of those shares and differences between the face value and the fair value of shares issued for acquired companies and the differences between the proceeds and the nominal value of the shares issued at the IPO.

Retained earnings

The Board determined the result over 2018 as follows:

	2018
Retained earnings	(11,093)
Net result for the period	(11,093)

Note 6 – General administrative expenses

	2019	2018
IPO costs	**3,082**	267
Personnel expenses	**2,850**	2,302
Consultancy expenses	**2,191**	2,840
Miscellaneous expenses[1]	**2,797**	2,307
Management expenses	**225**	582
Other	**628**	1,781
Total	**11,773**	10,079

(1) Miscellaneous expenses mainly includes the travel, accommodation and other expenses of Domino's Turkey personnel.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Note 7 – Audit fees

For the year ended 31 Dec 2019	PwC NL	Other PwC network	Total PwC network
Audit of financial statements	547	729	1,276
Other audit services	171	230	401
Total audit services	718	959	1,677
Tax services	—	—	—
Other non-audit services	—	—	—
Total	—	—	—

The fees listed above relate to the procedures applied to the Company and its consolidated Group entities by accounting firms and external auditors as referred to in article 1(1) of the Dutch Accounting Firms Oversight Act (Dutch acronym: "Wta") as well as by Dutch and foreign-based accounting firms, including their tax services and advisory groups.

These fees relate to the audit of the 2019 financial statements, regardless of whether the work was performed during the financial year.

For the year ended 31 Dec 2018	PwC NL	Other PwC network	Total PwC network
Audit of financial statements	633	732	1,365
Other audit services	90	56	146
Total audit services	723	788	1,511
Tax services	—	—	—
Other non-audit services	—	—	—
Total	—	—	—

Note 8 – Employees

During 2019, the average number of employees, based on full-time equivalents, was three (2018: three).

Of these, two employees are working outside of the Netherlands.

Note 9 – Commitments and contingencies not included in the balance sheet

Tax group liability

The Company is the parent of the Group's fiscal unity in the Netherlands, and is therefore liable for the liabilities of said fiscal unity as a whole. The fiscal unity consists of DP Eurasia N.V., Fidesrus B.V. and Fides Food Systems B.V.

Other information

Proposal for profit allocation

With due observance of Dutch law and the articles of association, it is proposed that the net loss of TRY (5,616) is deducted from the retained earnings. Furthermore, with due observance of article 43, paragraph 7, it is proposed that no dividend payment will be paid over 2019.

(Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.)

Independent auditor's report

To: the general meeting and Board of Directors of DP Eurasia N.V.

Report on the financial statements 2019

Our opinion

In our opinion:

- the consolidated financial statements of DP Eurasia N.V. together with its subsidiaries ('the Group') give a true and fair view of the financial position of the Group as at 31 December 2019 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the Company financial statements of DP Eurasia N.V. ('the Company') give a true and fair view of the financial position of the Company as at 31 December 2019 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2019 of DP Eurasia N.V., Amsterdam. The financial statements include the consolidated financial statements of the Group and the Company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the following consolidated statements for 2019: the statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising significant accounting policies and other explanatory information.

The Company financial statements comprise:

- the Company balance sheet as at 31 December 2019;
- the Company income statement for the year then ended;
- the notes, comprising the accounting policies applied and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the Company financial statements.

Material uncertainty related to going concern

We draw attention to the going concern paragraph in Note 2.1 of the consolidated financial statements. This note indicates that the Group faces uncertainties following the COVID-19 virus outbreak that might negatively impact its business operations and financial performance. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

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

Independence

We are independent of DP Eurasia N.V. in accordance with the European Union Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

Our audit approach

Overview and context

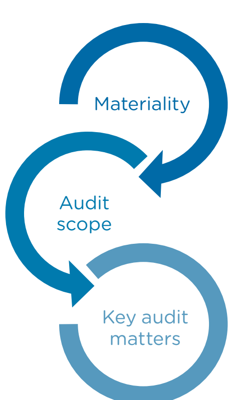
DP Eurasia N.V. is a public limited Company, having its statutory seat in Amsterdam, the Netherlands. The principal activity of the Company consists of acting as an investment company. The Company and its subsidiaries operate Company owned stores in Turkey, the Russian Federation, Azerbaijan and Georgia. Furthermore, the Group provides technical support and consultancy services to franchise-owned stores in these regions. The Group is comprised of several components and therefore we considered our Group audit scope and approach as set out in the section 'The scope of our Group audit'. We paid specific attention to the areas of focus driven by the operations of the Group, as set out below.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Board of Directors made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In paragraph 2.7 of the financial statements the Company describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the recoverability of deferred tax assets at Pizza Restaurants LLC ("Domino's Russia") and the goodwill impairment assessment, we considered these matters as key audit matters as set out in the section 'Key audit matters' of this report.

Furthermore, we considered adoption of IFRS 16 'Leases' as a key audit matter considering the changed accounting and increased complexity resulting from the IFRS 16 implementation. Other areas of focus, that were not considered as key audit matters were revenue recognition from corporate stores, share-based payments, collectability of receivables, debt covenant compliance at Domino's Russia and valuation of inventory.

We ensured that the audit teams both at Group and at component level included the appropriate skills and competences that are needed for the audit of a Group operating in the retail and consumer industry. We therefore included specialists in the areas of IT audit and income tax and experts in the areas of valuations and share-based payments in our team.

The outline of our audit approach was as follows:



Materiality

- Overall materiality: TRY 9.8 million

Audit scope

- We conducted audit work in Turkey, Russia and the Netherlands.
- Site visits were conducted to Turkey and Russia.
- Audit coverage: 100% of consolidated revenue, 100% of consolidated total assets and 99% of consolidated profit before tax.

Key audit matters

- Recoverability of deferred tax assets at Pizza Restaurants LLC ("Domino's Russia")
- Goodwill impairment assessment
- Adoption of IFRS 16 'Leases'

Independent auditor's report continued

To: the general meeting and Board of Directors of DP Eurasia N.V.

Materiality

The scope of our audit is influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgement we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall Group materiality	TRY 9.8 million (2018: TRY 8.5 million).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement, we used 1% of revenues.
Rationale for benchmark applied	We used total revenues as the primary benchmark, based on our analysis of the common information needs of users of the financial statements. We believe that total revenues is an important metric for the financial performance of the Group. Although we believe that the profit of the business is one of the ultimate key performance measures, at this stage of expansion through foreign markets, the key stakeholders are focused on the entity's growth in revenue. After evaluating alternative benchmarks together with the generally accepted benchmark of profit before tax, we believe that total revenue is an appropriate benchmark.
Component materiality	To each component in our audit scope, we, based on our judgement, allocate materiality that is less than our overall Group materiality. The range of materiality allocated across components was between TRY 9.8 million and TRY 7.5 million.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above TRY 467 thousand (2018: TRY 400 thousand) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our Group audit

DP Eurasia N.V. is the parent company of a Group of entities. The financial information of this Group is included in the consolidated financial statements of DP Eurasia N.V.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall Group audit strategy and plan, we determined the type of work required to be performed at component level by the Group engagement team and by each component auditor.

The Group audit primarily focused on the significant components: Pizza Restaurantları A.Ş. ("Domino's Turkey") and Pizza Restaurants LLC ("Domino's Russia"), and these were subjected to audits of their complete financial information, as those components are individually financially significant to the Group. Additionally, we selected one component, the DP Eurasia N.V. stand-alone entity, for audit procedures to achieve appropriate coverage on financial line items in the consolidated financial statements.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

Revenue	100%
Total assets	100%
Profit before tax	99%

For Group entities DP Eurasia N.V. and Domino's Turkey the Group engagement team performed the audit work in the Netherlands and Turkey. For Domino's Russia, we used a component auditor who is familiar with the local laws and regulations to perform the audit work. Where the component auditor performed the work, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

We issued instructions to the Domino's Russia component team. These instructions included among others our risk analysis, materiality and scope of the work. We explained to the component audit team the structure of the Group, the main developments that are relevant for the component auditor, the risks identified, the materiality levels to be applied and our Group audit approach. We had calls with the component audit team and visited the team and local management twice, during the audit as well as upon completion of their audit work. During these calls and visits, we discussed the significant accounting and audit issues identified by the component auditor, the reports of the component auditor, the findings of their procedures and other matters, which could be of relevance for the consolidated financial statements. We reviewed selected working papers during our visits.

The financial statement disclosures and a number of complex items were audited by the Group engagement team at the head office. These include, share based payments, the adoption of the accounting standard IFRS 16 as well as compliance with Dutch law disclosure requirements.

By performing the procedures above at components, combined with additional procedures at Group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

Independent auditor’s report continued

To: the general meeting and Board of Directors of DP Eurasia N.V.

Our focus on the risk of fraud

Our objectives

We assess and respond to the risk of fraud in the context of our audit of the financial statements. In this context and with reference to the sections on responsibilities in this report, our objectives in relation to fraud are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

However, because of the characteristics of fraud, particularly those involving sophisticated and carefully organised schemes to conceal it, such as forgery, deliberate failure to record transactions and collusion, our audit might not detect instances of material fraud.

Our risk assessment

We obtained an understanding of the entity and its environment, including the entity’s internal controls. We made enquiries of internal audit, the Audit Committee and the Board of Directors. In addition, we considered other external and internal information. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. Fraud risk factors are events or conditions, which indicate an incentive or pressure, an opportunity, or an attitude or rationalisation to commit fraud. We evaluated the fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud.

As in all of our audits, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Board of Directors that may represent a risk of material misstatement due to fraud. Given the territories the Group operates in, we considered the risk of bribery and corruption taking into account the corruption perception index of the countries of operation and updated our understanding of the internal controls that the Group has in place to address and manage this risk. We additionally performed background checks on a sample of supplier relationships.

Our response to the risk of fraud

We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks. In addition, we performed procedures, which include journal entry testing and evaluating accounting estimates for bias.

In particular, our procedures consisted of data analysis of high-risk journal entries, assessment of whistleblower hotline process, evaluation of key estimates and judgements made by DP Eurasia (including retrospective reviews of prior year’s estimates against actual outcomes) and testing the classification and capitalization of expenses. Where we identified instances of unexpected journal entries or other risks through our data analytics, we performed additional audit procedures to address each identified risk. These procedures also included testing of transactions back to source information. We also incorporated an element of unpredictability in our audit.

We considered the outcome of our other audit procedures and evaluated whether any findings or misstatements were indicative of fraud. If so, we re-evaluate our assessment of fraud risk and its resulting impact on our audit procedures.

We refer to the key audit matters in the next paragraph of this report, which are all examples of our approach related to areas of higher risk due to accounting estimates where management makes significant judgements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the Board of Directors. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comment or observation we made on the results of our procedures should be read in this context.

Compared to prior year we excluded one key audit matter, being the adoption of franchisee contract fee revenue recognition as last year was the adoption year for IFRS 15 'Revenue from contracts with customers' and the transition has been completed. Additionally, we identified one new key audit matter relating to adoption of IFRS 16 'Leases'.

Key audit matter	Our audit work and observations
Recoverability of deferred tax assets at Pizza Restaurants LLC ("Domino's Russia") **The Group describes its accounting policies concerning deferred tax assets recognition within Note 2.6 under "Taxes" and provides details on deferred tax positions and accumulated tax losses within Note 21, section "Deferred income tax assets recognition of Fidesrus", to the consolidated financial statements.** As of 31 December 2019, Domino's Russia has carry forward tax losses amounting to TRY 48 million, which relate to the years 2014 to 2018. Management considers that, despite the losses incurred over past years, there is sufficient convincing evidence that the Company will be able to earn taxable profits in the near future, which can be used to offset the carry forward tax losses. In reaching this conclusion, management considered the approved budgets, their track record in meeting the budgets, its expansion strategy with own stores as well as franchise-owned stores and the improved results in Russia as disclosed in Note 3 'Segment reporting'. Based on the expected taxable income and considering the related and inherent risk of uncertainty related to future taxable profits, Domino's Russia's recognition of deferred tax assets amounts to TRY 9 million (2018: TRY 8 million). Due to the inherent level of uncertainty, the potential limitations in the recoverability of deferred tax assets and the significant management's judgement involved, we considered this a key audit matter for our audit.	Management provided us with a breakdown of the historic losses by year and the composition of the carry-forward deferred tax assets relating to tax losses. With the support from our income tax specialists, we evaluated and tested corporate income tax positions taken by management and coordinated local tax issues. We examined supporting documentation of the deferred tax assets and assessed the recoverability through agreeing the forecasted future taxable profits with the approved business plan. We assessed whether management's five years business plan and potential growth opportunities used in the forecasts were consistent with those used in the impairment tests, including the goodwill impairment assessment and found no inconsistencies. We have challenged the underlying assumptions forecasted revenues and costs, ascertained inclusion of all required elements in the forecasts and recalculated taxable profits based on the applicable tax rates in Russia. We also assessed the past performance and current year results against previous business plans used by Domino's Russia to determine the future taxable income. With the procedures performed above, we determined that the methodologies and assumptions used by the Group to assess recoverability of deferred tax assets as at 31 December 2019 are reasonable.

Independent auditor's report continued

To: the general meeting and Board of Directors of DP Eurasia N.V.

Key audit matters continued

Key audit matter	Our audit work and observations
Goodwill impairment assessment **The Group describes its accounting policies concerning business combinations and goodwill within Note 2.6 and provides details on the carrying amount of goodwill and significant accounting estimates involved in Notes 2.7 and 12.** We focused on this area due to the significance of goodwill balance of TRY 47 million (2018: TRY 45 million) to the financial statements and because the assessment of management of the recoverable amount of the Group's Cash Generating Units ("CGU") involves judgements on estimates such as the future results of the business and the discount rates applied to future cash flow forecasts. In particular, we focused our audit effort on goodwill recognised in relation to the acquisition of Pizza Restaurantları A.Ş. in Turkey amounting to TRY 38 million in 2010. The Group prepared a goodwill impairment assessment as required by IAS 36. Key assumptions applied in the impairment assessment include amongst others, the expected (average) product price, revenue growth rates, product cost and related expenses. Management determined these key assumptions based on past performance and its expectations on market developments. Additionally, management applies discount rates, which reflects country specific risks. Management concluded that there is significant headroom between the recoverable amount of the CGUs and the carrying values.	We evaluated and challenged the composition of management's future cash flow forecasts, the process by which they were drawn up, and the consistency with the Board of Directors' approved budgets. We compared the current year actual results with the 2019 figures as included in the prior year forecast and concluded that the forecasts included assumptions that, with hindsight, had been realistic. With the support of our valuation expert, we benchmarked key market related assumptions in management's valuation model used to determine recoverable amounts against external data, including assumptions of future prices, revenue growth rates and discount rates. Furthermore, we checked the mathematical accuracy of management's valuation model and agreed relevant data, including assumptions on timing and future capital and operating expenditure, to the latest plans and budgets. We assessed whether possible changes in the key assumptions could lead to an impairment of the recognised goodwill and assessed the likelihood of such a change occurring given past and forecasted performance. We found the Group's estimates and judgements used in the goodwill impairment assessment to be supported by the available evidence and have not noted material exceptions.

Key audit matter	Our audit work and observations
The Group describes impact of first time adoption and its accounting policies within Note 2.4 and 2.6 and provides details on the right-of-use assets on Note 11. IFRS 16 'Leases' ('IFRS 16') is effective for periods beginning on or after 1 January 2019. The application of the new standard resulted in the recognition of right-of-use assets amounting to TRY 162 million, lease receivables amounting to TRY 58 million and increase in financial lease liabilities amounting to TRY 220 million as per 1 January 2019. The Group has applied the simplified transition method in the first-time adoption of IFRS 16 and has not restated comparative consolidated financial statements. The measurement of the right-of-use assets and financial lease liabilities are based on significant estimates and assumptions of management. Key assumptions applied include, amongst others, the incremental borrowing rates used to discount cash flows and assessment of options to extend or terminate lease contracts. Given that the impact of IFRS 16 adoption is significant to the financial statements and the management judgement involved, we considered this a key audit matter.	We evaluated the completeness of the contract lists obtained from management, assessed selected contracts whether they are a service or lease contract and evaluated whether the contracts defined by the Group as leases are in scope of IFRS 16. We recalculated the right-of-use assets and related financial lease liabilities recognised in the consolidated financial statements. We assessed the appropriateness of the assumptions and key judgements applied by management in determining the expected lease period for each lease, including the likely exercise of renewal options and the incremental borrowing rate. For a sample of leases we agreed the lease terms used, including extension options if applicable, in management's calculation to the various contracts. We also assessed the appropriateness of the disclosures in the consolidated financial statements in relation to the application and adoption of IFRS 16. We found the Group's estimates and judgements used in the IFRS 16 adoption to be supported by the available evidence and have not noted material exceptions.

Report on the other information included in the Annual Report

In addition to the financial statements and our auditor's report thereon, the Annual Report contains other information that consists of:

- the overview, management report, other information and additional information;
- the remuneration report;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 and the sections 2:135b and 2:145 subsection 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 and section 2:135b subsection 7 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information, including the Board of Directors report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code and the remuneration report in accordance with the sections 2:135b and 2:145 subsection 2 of the Dutch Civil Code.

Independent auditor's report continued

To: the general meeting and Board of Directors of DP Eurasia N.V.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of DP Eurasia N.V. following the passing of a resolution by the Board of Directors at a meeting held on 29 May 2019. Our appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of three years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public-interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in Note 7 to the Company financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the Board of Directors

The Board of Directors is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going-concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Directors should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. 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 but not absolute level of assurance, which makes it possible that we may not detect all material misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

PricewaterhouseCoopers Accountants N.V.

Original has been signed by

R.P.R. Jagbandhan RA

Amsterdam, 26 March 2020

Appendix to our auditor's report on the financial statements 2019 of DP Eurasia N.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Concluding on the appropriateness of the Board of Directors' use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the consolidated financial statements, we are responsible for the direction, supervision and performance of the Group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of Group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected Group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the Audit Committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Contacts

Advisers

Company registered office and business address
DP Eurasia N.V.
Herikerbergweg 238
Luna Arena
1101 CM Amsterdam
The Netherlands

Corporate Brokers

Morgan Stanley & Co International plc
20 Bank Street
Canary Wharf
London E14 6AD
United Kingdom

Liberum Capital Limited
Level 12
Ropemaker Place
25 Ropemaker Street
London EC2Y 9LY
United Kingdom

English Legal Advisers to the Company

Dentons UK and Middle East LLP
One Fleet Place
London, EC4M 7WS
United Kingdom

Dutch Legal Advisers to the Company

Houthoff Coöperatief U.A.
Gustav Mahlerplein 50
1082 MA Amsterdam
The Netherlands

External Auditors

PricewaterhouseCoopers Accountants N.V.
Thomas R Malthusstraat 5
1066 JR Amsterdam
The Netherlands

UK Depositary Interest Register

Link Market Services Trustees Limited
4 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

Financial PR

Buchanan
107 Cheapside
London EC2V 6DN
United Kingdom

Glossary

ADBP Annual and deferred bonus plan

AFM Dutch Authority for the Financial Markets

AGM Annual General Meeting

Board The Board of the Company

CEO Chief Executive Officer

CGU Cash-generating unit

Company DP Eurasia N.V.

Domino's Turkey Pizza Restaurantları A.Ş.

Domino's Russia Pizza Restaurants LLC

DP Eurasia DP Eurasia N.V.

EBITDA Earnings before interest, tax, depreciation and amortisation

EUR Euro

Fides Food Fides Food Systems B.V.

Fides Food Systems Fides Food Systems Coöperatief U.A.

Fidesrus Fidesrus B.V.

Founding Shareholders Fides Food Systems Coöperatief U.A. and Vision Lovemark Coöperatief U.A.

GBP Great British Pound

General Meeting General Meeting of shareholders of the Company

Group The Company and its subsidiaries

IFRS International Financial Reporting Standards as adopted in the European Union

IPO The initial public offering of the Company and the admission of its shares to trading on the main market of the London Stock Exchange

LTIP Long-term incentive plan

Master Franchisors Domino's Pizza International Franchising Inc. and, prior to the assignment to DPIF in 2012, Domino's Pizza Overseas Franchising B.V.

MFA Master Franchise Agreement

OLO Online ordering

PwC PricewaterhouseCoopers Accountants N.V.

PwC Turkey PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş

RUB Russian Rouble

System stores Corporate stores and franchised stores

TPEF II Turkish Private Equity Fund II L.P.

TRY Turkish Lira

USD US Dollar

The paper used in this report is produced using virgin wood fibre from well-managed forests with FSC© certification. All pulps used are elemental chlorine free and manufactured at a mill that has been awarded the ISO 14001 and EMAS certificates for environmental management. The use of the FSC© logo identifies products which contain wood from well-managed forests certified in accordance with the rules of the Forest Stewardship Council.

Printed by CPI Colour, an FSC© and ISO 14001 accredited company, who is committed to all round excellence and improving environmental performance as an important part of this strategy.

Designed and produced by
lyonsbennett
www.lyonsbennett.com

www.dpeurasia.com