Domino's Pizza Enterprises Limited

ACN 010 489 326

Half-year Financial Report
for the half-year ended 30 December 2018

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

CONTENTS

APPENDIX 4D

DOMINO'S PIZZA ENTERPRISES LIMITED

Current Reporting Period:	Half-year ended ended 30 December 2018
Previous Reporting Period:	Half-year ended ended 31 December 2017

SECTION A: RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Percentage change %			Amount $'million
Revenue and net profit				
Revenue for ordinary activities	Up	23.7%	to	702.0
Profit from ordinary activities after tax from continuing operations	Down	11.7%	to	52.8
Profit from ordinary activities after tax attributable to members	Down	9.2%	to	53.3
Net profit attributable to members	Down	9.2%	to	53.3

Dividends

	Amount per security (cents)	Franked percentage per security
Final dividend in respect of full year ended 01 July 2018 paid 4 September 2018	49.7	75%
Interim dividend in respect of half-year ended 30 December 2018	62.7	75%
Record date for determining entitlements to the dividend:	27 February 2019	

	30 December 2018	01 July 2018
Net tangible assets per security		
Net tangible asset per security	**(5.60)**	(5.70)

SECTION B: COMMENTARY ON RESULTS

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

The interim 75% franked dividend of 62.7 cents per share was approved by the Board of directors on 19 February 2019. In complying with accounting standards, as the dividend was not approved prior to period end, no provision has been taken up for this dividend in the half-year financial report.

Directors' report

The directors of Domino's Pizza Enterprises Limited (the Company or DPE) submit herewith the condensed financial report for the consolidated entity (the Company and its controlled entities) for the half-year ended 30 December 2018. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

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

Jack Cowin
Ross Adler
Grant Bourke
Paul Cave (resigned 7 November 2018)
Lynda O'Grady
Ursula Schreiber (appointed 30 November 2018)
Don Meij

REVIEW OF OPERATIONS

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

CONSOLIDATED ENTITY

The consolidated profit after tax for the period from continuing operations is $52.8 million (for the period ending 31 December 2017: $59.8 million). For the period ending 30 December 2018 net profit before tax has been impacted by one-off significant charges totalling $25.74 million compared to $6.3 million for the comparative half.

The Group's revenue was $702.0 million compared with $567.6 million in the first half of 2017/18. The increase in revenue is associated with the consolidation of the advertising funds which has increased revenues by $60.4 million, Same Store Sales (SSS) growth of 3.3%, continued organic new store openings and successful product launches in all markets.

There has been higher employee benefits expense and marketing expenses of $8.3 million and $52.1 million, respectively as a result of the consolidation of the advertising funds.

In relation to the one-off significant charges, ANZ incurred $10.9 million relating to professional fees associated with legal and settlement costs associated with protecting operational IP and compliance costs relating to the nationwide industrial relations compliance review. In Europe there was $13.0 million of costs relating to the conversion of Hallo Pizza in Germany and Pizza Sprint in France to Domino's branded stores. In addition, there was $1.6 million of professional and advisory costs incurred associated with potential acquisitions.

The effective tax rate (tax expense divided by profit before tax) is 30.4%, compared to 30.6% for the first half of 2017/18 and an interim partially franked dividend of 62.7 cents per share will be paid on 14 March 2019.

Cash from operating activities is $82.9 million for the first half compared to $81.9 million in the first half of 2017/18. This increase is mainly due to strong operating performance in ANZ, Japan and Europe, improvement to working capital movements which was off-set by an increase in non-recurring acquisition, integration, conversion and legal settlement costs in comparison to the first half 2017/18.

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

AUSTRALIA/NEW ZEALAND OPERATIONS

ANZ EBITDA decreased by 6.8% as a result of one-off significant charges. Revenue increased by 18.5% for the period compared with the first half of 2017/18. Contributing to the revenue growth is positive SSS for the period and an increase in new organic store openings of 13. There have also been successes with the new XL pizza and the launch of a new summer menu offering.

EUROPE OPERATIONS

Europe EBITDA decreased by 25.2% as a result of one-off significant charges. Revenue increased by 39.9% compared with the first half of 2017/18. The revenue growth is driven by the SSS growth for the period and continued organic new stores expansion, with 33 new stores added in the first half of 2017/18. Europe has continued its digital growth in all markets, with Germany set to grow significantly as a result of the completion of the Hallo Pizza acquisition on 5 January 2018.

Directors' report (continued)

REVIEW OF OPERATIONS (CONTINUED)

JAPAN OPERATIONS

Japan EBITDA and revenue increased by 34.3% and 13.1% respectively, compared with the first half of 2017/18. Japan's results benefited from strong SSS growth and 31 organic store openings.

EBITDA is a non IFRS performance measure and is defined in the glossary of the 2018 Annual Financial Report. This information is disclosed above as it represents a key measure used by management in describing and managing the performance of the business and operations for the year. Non IFRS measures have not been audited or reviewed in accordance with Australian Auditing Standards.

AUDITOR'S INDEPENDENCE DECLARATION

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

ROUNDING OFF OF AMOUNTS

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

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

On behalf of the directors

Jack Cowin
Non-Executive Chairman
Sydney, 19 February 2019

Don Meij
Managing Director/ Group Chief Executive Officer
Sydney, 19 February 2019

Auditor's independence declaration
to the directors of Domino's Pizza Enterprises Limited

Deloitte.

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19 February 2019

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

Dear Directors,

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

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

As lead audit partner for the review of the consolidated half year financial report of Domino's Pizza Enterprises Limited for the half-year ended 30 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Matthew Donaldson
Partner
Chartered Accountants

Deloitte.

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

We have reviewed the accompanying half-year financial report of Domino's Pizza Enterprises Limited, which comprises the condensed consolidated statement of financial position as at 30 December 2018, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 7 to 25.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Domino's Pizza Enterprises Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Deloitte.

Auditor's Independence Declaration

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

Conclusion

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

(a) giving a true and fair view of the Domino's Pizza Enterprises Limited's financial position as at 30 December 2018 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Matthew Donaldson
Partner
Chartered Accountants

Directors' declaration

The directors declare that:

1. in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

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

On behalf of the directors

Don Meij
Managing Director/ Group Chief Executive Officer
Sydney, 19 February 2019

Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended 30 December 2018

	Note	30 December 2018 $'000	31 December 2017 $'000
Continuing operations			
Revenue	3	458,137	401,487
Other revenue	3	243,904	166,160
Other gains and losses		5,161	9,211
Food, equipment and packaging expenses		(220,405)	(189,655)
Employee benefits expense		(142,534)	(124,446)
Plant and equipment costs		(11,452)	(9,918)
Depreciation and amortisation expense		(29,157)	(25,791)
Occupancy expenses		(23,764)	(20,920)
Finance costs		(6,694)	(4,126)
Marketing expenses		(77,897)	(25,288)
Royalties expense		(32,924)	(28,694)
Store related expenses		(11,674)	(10,852)
Communication expenses		(9,675)	(9,028)
Acquisition, integration, conversion and legal settlement costs		(25,445)	(6,335)
Other expenses		(39,668)	(35,636)
Profit before tax		75,913	86,169
Income tax expense		(23,065)	(26,350)
Profit for the period from continuing operations		52,848	59,819
Other comprehensive income			
Item that may be reclassified to profit or loss			
Gain/(loss) on net investment hedge taken to equity		(4,291)	(2,129)
Exchange differences arising on translation of foreign operations		19,198	(4,430)
Gain/(loss) on cash flow hedges taken to equity		(1,276)	244
Income tax relating to components of other comprehensive income		1,667	1,680
Other comprehensive income/(loss) for the period, net of tax		15,298	(4,635)
Total comprehensive income for the period		68,146	55,184
Profit is attributable to:			
Owners of Domino's Pizza Enterprises Limited		53,318	58,689
Non-controlling interests		(470)	1,130
Total profit for the period		52,848	59,819
Total comprehensive income for the period is attributable to:			
Owners of the parent		68,056	52,499
Non-controlling interests		90	2,685
Total comprehensive income for the period		68,146	55,184
		Cents	Cents
Earnings per share from continuing operations			
Basic (cents per share)		62.4	66.5
Diluted (cents per share)		62.2	66.3

This statement should be read in accompaniment with the notes to the financial statements.

Condensed consolidated statement of financial position as at 30 December 2018

	Note	30 December 2018 $'000	1 July 2018 $'000
Assets			
Current assets			
Cash and cash equivalents		73,821	75,996
Trade and other receivables		91,438	78,181
Other financial assets		24,775	26,855
Inventories		26,460	19,271
Current tax assets		1,877	767
Other assets		26,058	28,529
Total current assets		244,429	229,599
Non-current assets			
Other financial assets		82,658	75,436
Investment in joint venture		2,365	2,755
Property, plant and equipment		227,885	200,103
Deferred tax assets		468	-
Other assets		7	7
Intangible assets		362,615	365,707
Goodwill	5	447,656	428,804
Total non-current assets		1,123,654	1,072,812
Total assets		1,368,083	1,302,411
Liabilities			
Current liabilities			
Trade and other payables		179,663	156,045
Borrowings	6	4,571	3,700
Other financial liabilities		13,330	12,646
Current tax liabilities		18,001	18,945
Provisions		10,391	9,709
Total current liabilities		225,956	201,045
Non-current liabilities			
Borrowings	6	613,020	594,799
Other financial liabilities		125,638	121,915
Provisions		9,557	8,807
Deferred tax liabilities		62,986	68,181
Total non-current liabilities		811,201	793,702
Total liabilities		1,037,157	994,747
Net assets		330,926	307,664
Equity			
Issued capital	7	201,904	192,808
Reserves		(59,137)	(76,371)
Retained earnings		188,159	191,227
Total equity		330,926	307,664

This statement should be read in accompaniment with the notes to the financial statements.

Condensed consolidated statement of changes in equity
For the half-year ended 30 December 2018

	Issued capital $'000	Hedging reserve $'000	Foreign currency translation reserve $'000	Other reserve $'000	Retained earnings $'000	Non-controlling interests $'000	Total $'000
Balance at 3 July 2017	340,040	(158)	2,725	(88,112)	160,569	-	415,064
Profit for the period	-	-	-	-	58,689	1,130	59,819
Other comprehensive income	-	(732)	(5,458)	-	-	1,555	(4,635)
Total comprehensive income	-	(732)	(5,458)	-	58,689	2,685	55,184
Share buy-back, net of tax	(87,068)	-	-	-	-	-	(87,068)
Non-controlling interests	-	-	-	-	-	(2,889)	(2,889)
Issue of employee share options	29,333	-	-	-	-	-	29,333
Issue of share capital under employee share option plan	76	-	-	-	-	-	76
Share options trust	-	-	-	(17,144)	-	-	(17,144)
Recognition of share based payments	-	-	-	4,683	-	-	4,683
Non-controlling interest put option	-	-	-	531	-	204	735
Payment of dividends	-	-	-	-	(39,905)	-	(39,905)
Balance at 31 December 2017	282,381	(890)	(2,733)	(100,042)	179,353	-	358,069
Balance at 01 July 2018	192,808	(3,945)	17,206	(89,632)	191,227	-	307,664
Changes in accounting policies	-	-	-	-	(13,955)	(17)	(13,972)
Restated equity at 02 July 2018	192,808	(3,945)	17,206	(89,632)	177,272	(17)	293,692
Profit for the period	-	-	-	-	53,318	(470)	52,848
Other comprehensive income	-	(3,900)	18,638	-	-	560	15,298
Total comprehensive income	-	(3,900)	18,638	-	53,318	90	68,146
Non-controlling interests	-	-	-	-	-	(5,878)	(5,878)
Issue of employee share options	9,096	-	-	-	-	-	9,096
Share options trust	-	-	-	(1,070)	-	-	(1,070)
Recognition of share based payments	-	-	-	911	-	-	911
Non-controlling interest put option	-	-	-	2,655	-	5,805	8,460
Payment of dividends	-	-	-	-	(42,431)	-	(42,431)
Balance at 30 December 2018	201,904	(7,845)	35,844	(87,136)	188,159	-	330,926

This statement should be read in accompaniment with the notes to the financial statements.

Condensed consolidated statement of cash flows
For the half-year ended 30 December 2018

	Note	30 December 2018 $'000	31 December 2017 $'000
Cash flows from operating activities			
Receipts from customers		763,470	628,805
Payments to suppliers and employees		(651,616)	(526,021)
Interest received		2,472	1,598
Interest and other finance costs		(6,129)	(3,600)
Income taxes paid		(25,280)	(18,905)
Net cash generated from operating activities	8	82,917	81,877
Cash flows from investing activities			
Proceeds from/(loans to) related parties and franchisees		13,812	2,458
Payments for intangible assets		(14,987)	(12,709)
Payments for property, plant and equipment		(35,846)	(27,229)
Proceeds from sale of non-current assets		5,052	8,010
Acquisition of stores and other businesses, net of cash		(13,904)	(7,064)
Acquisition of subsidiaries and non-controlling interests		(650)	(42,368)
Net cash inflow/(outflow) on investment in joint ventures		150	580
Net cash used in investing activities		(46,373)	(78,322)
Cash flows from financing activities			
Proceeds from issues of equity securities		6,890	16,058
Proceeds from borrowings		128,957	270,287
Repayment of borrowings		(130,900)	(150,426)
Payments for establishment of borrowings		(62)	(3,207)
Payments of finance leases		(3,807)	(4,002)
Payment for financial liabilities		-	(1,159)
Payments for shares bought back		-	(87,068)
Dividends paid		(42,431)	(39,905)
Net cash (used in)/generated from financing activities		(41,353)	578
Net (decrease)/increase in cash and cash equivalents		(4,809)	4,133
Cash and cash equivalents at the beginning of the period		75,996	50,454
Effects of exchange rate changes on the balance of cash held in foreign currencies		2,634	116
Cash and cash equivalents at the end of the period		73,821	54,703

This statement should be read in accompaniment with the notes to the financial statements.

Notes to the condensed consolidated financial statements

1 SIGNIFICANT ACCOUNTING POLICIES

Domino's Pizza Enterprises Limited ("the Company") is a Company domiciled in Australia. The financial report for the half-year ending 30 December 2018 comprises the condensed consolidated financial statements of the Company and its controlled entities (together referred to as the "consolidated entity" or "Group"). The annual financial report of the consolidated entity as at and for the year ended 01 July 2018 is available on request from the Company's registered office at Level 1, KSD1 485 Kingsford Smith Drive , Hamilton Qld 4007 or at www.dominos.com.au.

STATEMENT OF COMPLIANCE

The half-year financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the annual financial report of the consolidated entity for the financial year ended 01 July 2018 and public announcements made by the Company.

BASIS OF PREPARATION

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

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2018 annual financial report for the financial year ended 01 July 2018, except for the impact of the Standards and Interpretations described below and any new accounting policies adopted by the consolidated entity during the period. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 01 July 2018, except for the adoption of new standards effective as of 01 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IMPACTS OF STANDARDS ISSUED BUT NOT YET APPLIED BY THE GROUP

AASB 16 *Leases* was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases has been removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short term and low-value leases.

The accounting for lessors will not significantly change.

The Group has reviewed lease arrangements to assess the impact of adoption of the new Standard on 02 July 2018. The standard will affect primarily the accounting for the Group's operating leases. As at 01 July 2018, the group has non-cancellable operating lease commitments of $348.7 million, of which $178.9 million have a corresponding future lease receivable under sublease arrangements. Some of these leases relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in the Group's consolidated financial statements. However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Mandatory for financial years commencing on or after 01 July 2019. The Group does not intend to adopt the standard before its effective date.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

The Group applies, for the first time, AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* that require restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

AASB 9 FINANCIAL INSTRUMENTS - APPLIED FROM 02 JULY 2018

AASB 9 *Financial Instruments* ('AASB 9') replaces AASB 139 *Financial Instruments: Recognition and Measurement* for annual period beginning on or after 01 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

IMPACT OF ADOPTION

The Group adopted AASB 9 on 02 July 2018, which resulted in changes in accounting policies. Amounts recognised in the financial statements as at this date did not require any material adjustments on application of the new accounting policies. The standard replaced the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities; de-recognition of financial instruments; impairment of financial assets; and hedge accounting.

For transition, the Group has elected to apply the limited exemption in AASB 9 relating to the classification, measurement and impairment requirements for financial assets and accordingly has not restated comparative periods.

The Group applies the new forward-looking expected credit loss (ECL) model required by AASB 9, using the simplified approach for its trade receivables portfolio review and the general approach for all other financial assets as required by the standard. There was an insignificant impact on transition to AASB 9 on the Group's opening balances as at 02 July 2018.

CLASSIFICATION AND MEASUREMENT

On 01 July 2018, the Group assessed the classification of its financial assets on the basis of the contractual terms of their cash flows and the business model by which they are managed. All of the Group's financial assets were previously classified as loans and receivables or held to maturity and were reclassified to held at amortised cost on transition date.

DERIVATIVES AND HEDGING ACTIVITIES

The Group's risk management strategies and associated hedge documentation have been aligned with the requirements of AASB 9 and existing hedging relationships under AASB 139 have been treated as continuing hedges.

IMPAIRMENT OF FINANCIAL ASSETS

The Group implemented the new forward-looking expected credit loss model which is required for certain financial instruments. The simplified approach was used for the trade receivables portfolio and franchisee loans. There was an insignificant impact on application of the expected credit loss model.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS

The Group classifies its financial assets into the following categories: those to be measured subsequently at fair value (either through other comprehensive income (FVOCI) or through profit or loss (FVPL)) and those to be held at amortised cost. Further detail on each classification is outlined below.

Classification depends on the business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of financial assets at initial recognition. Generally, the Group does not acquire financial assets for the purpose of selling in the short term. When the Group enters into derivative contracts, these transactions are designed to reduce exposures relating to assets and liabilities, firm commitments or anticipated transactions.

FINANCIAL ASSETS HELD AT AMORTISED COST

This classification applies to debt instruments which are held under a hold to collect business model and which have cash flows that meet the 'Solely payment of principal and interest' (SPPI) criteria.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At initial recognition, trade receivables that do not have a significant financing component, are recognised at their transaction price. Other financial assets are initially recognised at fair value plus related transaction costs; they are subsequently measured at amortised cost using the effective interest method. Any gain or loss on de-recognition or modification of a financial asset held at amortised cost is recognised in the income statement.

FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

This classification applies to the following financial assets:

- Debt instruments that are held under a business model where they are held for the collection of contractual cash flows and also for sale ('collect and sell') and which have cash flows that meet the SPPI criteria.

  All movements in the fair value of these financial assets are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue (including transaction costs by applying the effective interest method), gains or losses arising on derecognition and foreign exchange gains and losses which are recognised in the income statement. When the financial assets are de-recognised, the cumulative fair value gain or loss previously recognised in other comprehensive income is reclassified to the income statement.

- Equity investment where the Group has irrevocably elected to present fair value gains and losses on revaluation in other comprehensive income. The election can be made for each individual investment however it is not applicable to equity investments held for trading.

  Fair value gains or losses on revaluation of such equity investments, including any foreign exchange components, are recognised in other comprehensive income. When the equity investment is derecognised, there is no reclassification of fair value gains or losses previously recognised in other comprehensive income to the income statement. Dividends are recognised in the income statement when the right to receive payment is established.

FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS (FVPL)

This classification applies to the following financial assets, and in all cases, transaction costs are immediately expensed to the income statement:

- Debt instruments that do not meet the criteria of amortised cost or fair value through other comprehensive income.
  Subsequent fair value gains or losses are taken to the income statement.
- Equity investments which are held for trading or where the FVOCI election has not been applied.
  All fair value gains or losses are related dividend income are recognised in the income statement.
- Derivatives which are not designated as a hedging instrument.
  All subsequent fair value gains or losses are recognised in the income statement.

FINANCIAL BORROWINGS

Borrowing and other financial liabilities (including trade payables but excluding derivative liabilities) are recognised initially at fair value, net of transaction costs incurred, and are subsequently measured at amortised cost.

IMPAIRMENT OF FINANCIAL ASSETS

A forward looking ECL review is required for: debt instruments measured at amortised cost or held at fair value through other comprehensive income, loan commitments and financial guarantees not measured at fair value through profit or loss; lease receivables and trade receivables that give rise to an unconditional right to consideration.

As permitted by AASB 9, the Group applies the 'simplified approach' to trade receivable balances and the 'general approach' to all other financial assets. The general approach incorporates a review for any significant increase in counterparty credit risk since inception. The ECL reviews include assumptions about the risk of default and expected loss rates.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

HEDGE ACCOUNTING

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investment in foreign operations as appropriate. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedge relationship meet all of the hedge effectiveness requirements prescribed in AASB 9. There has been no material change to the Group's hedging policies as a result of the adoption of AASB 9.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjust the hedge ratio for the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

CASH FLOW HEDGES

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur the gain or loss accumulated in equity is recognised immediately in profit or loss.

HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in Other Comprehensive Income and accumulated under the heading of foreign currency transaction reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal or partial disposal of the foreign operations.

AASB 15 REVENUE FROM CONTRACTS WITH CUSTOMERS - APPLIED FROM 02 JULY 2018

The Group has adopted AASB 15 *Revenue from Contracts with Customers* (AASB 15) from 02 July 2018, which supersedes AASB 118 *Revenue* (AASB 118). AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer. See below for details of how the Group revenues are earned, the impact of the Group’s revenues streams for the adoption of AASB 15 and accounting policies pertaining to revenue recognition subsequent to the adoption of AASB 15.

IMPACT OF ADOPTION ON REVENUE STREAMS

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue from the following significant sources:

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SALE OF GOODS

In previous reporting periods, revenue from the sale of goods was recognised when the Group had transferred to the buyer the significant risk and rewards of ownership. In applying AASB 15, revenue associated with the sale of goods is recognised when the performance obligation of the sale has been made and control of the goods has been transferred to the customer. Therefore, the adoption of AASB 15 has not had a material impact on revenue recognition in relation to the sale of goods.

SERVICE REVENUE

The Group provides services to franchisees and other third parties which are carried out under the instructions of the customer. Prior to the adoption of AASB 15, revenue from the provision of services was recognised when the services were rendered and based on reference to the stage of completion of the contract. In adopting AASB 15, no adjustments have been made to when the Group recognise revenue relating to the rendering of services as the Group typically commences and completes the service on the same day.

FRANCHISE ROYALTIES

Franchise agreements entitles the contracted party to access the Domino's name and associated intellectual property (the 'franchise right') in exchange for fees. The majority of this fee is based on a percentage of the applicable franchisee's store's sales. Continuing sale-based royalties represent the substantial majority of the consideration the Group receives under the Group's franchise agreements. Continuing sale-based royalties are generally invoiced and paid on a weekly basis and were recognised as the related sale occurred. The timing and amount of revenue recognised relating to continuing sale-based royalties was not impacted by the adoption of AASB 15 on the basis that the recognition of the sale-based royalty continues to be recognised when the related franchisee sales occur as this reasonably depicts the Group's performance toward the complete satisfaction of the franchise license performance obligation to which the sale-based royalty has been allocated.

The Group's franchise agreements also typically require certain less significant, one-off fees. These fees include initial fees paid upon executing a franchise agreement, renewal of the term of the franchise right and fees paid in the event the franchise agreement is transferred to another franchisee (collectively termed initial fees). Under AASB 118 revenue relating to initial fees was recognised when the related upfront services were provided. Upon adoption of AASB 15, the Group has determined that the initial fees are highly interrelated with the franchise right and are not individually distinct from the ongoing services provided to franchisees. As a result, upon adoption of AASB 15, initial fees are recognised as revenue over the term of each respective franchise agreement. Revenues from these initial franchise fees are recognised on a straight-line basis, which is consistent with the franchisee's right to use and benefit from the intellectual property.

NATIONAL ADVERTISING FUNDS

The Group receives an additional franchise fee that is based on a percentage of gross revenue of the franchisee. The fees are to be used on advertising activities that will benefit the brand, franchisees and Group. With the adoption of AASB 15, the Group has determined that this is not a separate performance obligation from the franchise right and therefore they are bundled as a single distinct performance obligation. Because the fee is also a sales-based royalty, revenue received in relation to the advertising fund is recognised when the related franchisee sales occur. National advertising fund expenses are recognised as incurred. This has resulted in a gross up in the amount reported of other revenue, employee benefits expense and marketing expenses, however, the impact is generally expected to be an offsetting increase to both revenues and expenses such that the impact on income from operations and net income is not expected to be material.

IMPACT OF ADOPTION

As the Group has adopted the modified transitional approach to implementation and the new standard has therefore been applied only to contracts that remain in force at 02 July 2018. A transition adjustment has been recognised in retained earnings on transition at 02 July 2018 without adjustment of comparatives.

The impact on the Group's retained earnings as at 02 July 2018 is as follows:

	$'000
Retained earnings as at 01 July 2018	191,227
Recognition of contract liability for franchise initial fees	(20,151)
Adjustment in recognition of deferred tax	6,196
Adjustment to retained earnings for adoption of AASB 15	(13,955)
Opening retained earnings at 02 July 2018	**177,272**

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVISED ACCOUNTING POLICIES

SALE OF GOODS

The revenue from the sale of food and beverages is recognised when the performance obligation has been satisfied. The performance obligation is assessed to be satisfied when control is passed to the customer at a point in time at the completion of the sale.

SERVICE REVENUE

The Group provides services to franchisees and other third parties which are carried out under the instructions of the customer. Service revenue is recognised on satisfaction of the performance obligation which is when the services are rendered.

FRANCHISE REVENUE

Revenue associated with continuing sale-based royalties and marketing fund royalties is recognised when the related franchisee sale occurs, as the Group considers there to be one performance obligation, being the franchise right.

Initial fees are recognised as revenue on a straight-line basis over the term of the respective franchise agreement. This is on the basis the Group has determined that the services provided in exchange for the initial fees are highly interrelated with the franchise right and are not individually distinct from the ongoing services provided to franchisees.

COMPARATIVE INFORMATION

Comparative amounts have, where necessary, been reclassified so as to be consistent with prior year disclosures. This resulted in an immaterial reclassification from revenue to other revenue, food, equipment and packaging expenses to other expenses and depreciation and amortisation expenses to finance costs. The reclassifications have occurred to more accurately reflect the nature of the underlying revenue and expenses.

2 SEGMENT INFORMATION

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

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

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

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

	Half-year ended 30 December 2018			
	ANZ $'000	Europe $'000	Japan $'000	Total $'000
Continuing operations				
Revenue	205,985	263,822	232,234	702,041
EBITDA	55,353	24,799	31,612	111,764
Depreciation & amortisation	(11,781)	(8,132)	(9,244)	(29,157)
EBIT	43,572	16,667	22,368	82,607
Finance costs	-	-	-	(6,694)
Net profit before tax	43,572	16,667	22,368	75,913

2 SEGMENT INFORMATION (CONTINUED)

	Half-year ended 31 December 2017			
	ANZ $'000	Europe $'000	Japan $'000	Total $'000
Continuing operations				
Revenue	173,871	188,524	205,252	567,647
EBITDA	59,391	33,153	23,542	116,086
Depreciation & amortisation	(10,519)	(6,511)	(8,761)	(25,791)
EBIT	48,872	26,642	14,781	90,295
Finance costs				(4,126)
Net profit before tax				86,169

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

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

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

	30 December 2018 $'000	1 July 2018 $'000
Continuing operations		
Australia/New Zealand	**283,016**	297,747
Europe	**523,776**	511,974
Japan	**561,291**	492,690
Total segment assets	**1,368,083**	1,302,411
Unallocated assets	**-**	-
Total assets	**1,368,083**	1,302,411

2 SEGMENT INFORMATION (CONTINUED)

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

	30 December 2018 $'000	1 July 2018 $'000
Continuing operations		
Australia/New Zealand	(515,472)	(503,828)
Europe	(233,684)	(247,647)
Japan	(288,001)	(243,272)
Total segment liabilities	(1,037,157)	(994,747)
Unallocated liabilities	-	-
Total liabilities	(1,037,157)	(994,747)

3 REVENUE AND OTHER REVENUE

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

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

The below table provides the timing of revenue recognition:

	Half-year ended 30 December 2018			
	ANZ $'000	Europe $'000	Japan $'000	Total $'000
Revenue				
Revenue from sale of goods - point in time	59,860	176,385	216,349	452,594
Revenue from rendering of services - point in time	5,345	198	-	5,543
Total revenue	65,205	176,583	216,349	458,137
Other revenue				
Royalties, franchise service, supplier fees & other - point in time	77,737	24,628	2,592	104,957
Royalties, franchise service, supplier fees & other - over time	63,043	62,611	13,293	138,947
Total other revenue	140,780	87,239	15,885	243,904
Total revenue and other revenue	205,985	263,822	232,234	702,041

4 DIVIDENDS

	30 December 2018 $'000	31 December 2017 $'000
Recognised amounts		
Partially franked dividend for full year ended 1 July 2018: 49.7 cents (2 July 2017: 44.9 cents)	**42,431**	39,905
Unrecognised amounts		
Interim partially franked dividend for the half-year ended 30 December 2018: 62.7 cents (31 December 2017: 58.1 cents)	**53,632**	50,904

On 19 February 2019, the directors declared a partially franked interim dividend of 62.7 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2019, to be paid to shareholders on 14 March 2019. The dividend will be paid to all shareholders on the Register of Members on 27 February 2019. The total estimated dividend to be paid is $53.6 million.

5 GOODWILL

	30 December 2018 $'000	1 July 2018 $'000
Gross carrying amount		
Cost	**447,656**	428,804
Accumulated amortisation and impairment	**-**	-
Net carrying amount	**447,656**	428,804
Movement		
Net carrying amount at the beginning of the year	**428,804**	387,111
Additions	**-**	322
Acquisitions of Domino's Pizza stores and other businesses	**8,643**	13,008
Acquisitions through business combinations	**-**	24,360
Disposals and write-offs	**(5,441)**	(14,762)
Other including foreign exchange movement	**15,650**	18,765
Net carrying amount at the end of the period	**447,656**	428,804

6 BORROWINGS

	30 December 2018 $'000	1 July 2018 $'000
Unsecured		
Bank loans	565,261	552,524
Loans from other entities	34,643	32,839
Finance lease liabilities	17,687	13,136
	617,591	598,499
Current	4,571	3,700
Non-current	613,020	594,799
Total borrowings	617,591	598,499

7 ISSUED CAPITAL

	30 December 2018 $'000	1 July 2018 $'000
85,537,140 fully paid ordinary shares (1 July 2018: 85,368,040)	201,904	192,808

	30 December 2018		01 July 2018	
	Number of shares '000	Share capital $'000	Number of shares '000	Share capital $'000
Fully paid ordinary shares				
Balance at beginning of financial year	85,368	192,808	88,873	340,040
Shares issued:				
Issue of shares under executive share option plan	169	9,096	839	36,094
Issue of shares under employee share plan	-	-	4	155
Capital costs associated with share issue	-	-	-	(2)
Share buy-back	-	-	(4,348)	(183,479)
Balance at the end of the period	85,537	201,904	85,368	192,808

TERMS AND CONDITIONS OF THE ESOP

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

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

During the half-year ended 30 December 2018, a total of 147,000 share options over ordinary shares were issued under the ESOP, which had a fair value at grant date of $9.58 per share option. These options vest once conditions are met, which are based on results of the following 3 financial years.

During the half-year ended 30 December 2018, a total of 169,100 options were exercised, increasing share capital by $9.1 million.

8 NOTE TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	30 December 2018 $'000	31 December 2017 $'000
Profit for the period		**52,848**	59,819
Profit on sale of non-current assets		**(5,774)**	(9,423)
Equity settled share-based payments		**3,116**	4,690
Depreciation and amortisation		**29,157**	25,791
Share of associate entities net profit/(loss)		**292**	(83)
Amortisation of loan establishment costs		**566**	526
Other		**1,657**	(1,062)
Net cash provided by operating activities before changes in assets and liabilities		**81,862**	80,258
Movement in working capital			
(Increase)/decrease in assets:			
Trade and other receivables		**(9,620)**	(9,856)
Inventory		**(6,295)**	(4,605)
Other current assets		**2,261**	(8,199)
Increase/(decrease) in liabilities:			
Trade and other payables		**17,575**	15,421
Provisions		**915**	(1,541)
Current tax liabilities		**(2,377)**	3,219
Deferred tax balances		**(1,404)**	7,180
Net cash from operating activities		**82,917**	81,877

Included in the movement of other financial assets are non-cash transactions of $13.5 million (31 December 2017: $25.0 million) relating to loans to franchisees.

9 ACQUISITION OF BUSINESSES

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

	ANZ	Europe	Japan	Total
Number of stores acquired	17	10	4	31

	ANZ $'000	Europe $'000	Japan $'000	Total $'000
Fair value on acquisition				
Cash and cash equivalents	11	-	-	11
Inventories	147	-	-	147
Property, plant & equipment	3,191	1,196	677	5,064
Intangible assets	50	-	-	50
Total identifiable assets	3,399	1,196	677	5,272
Cash consideration	10,057	3,181	677	13,915
Less fair value of net identifiable assets	(3,399)	(1,196)	(677)	(5,272)
Goodwill	6,658	1,985	-	8,643

10 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

	30 December 2018 $'000	1 July 2018 $'000
Guarantees - Franchisee Loans and Leases	8,904	7,622
Total guarantees	8,904	7,622

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

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

OTHER

SPEED RABBIT PIZZA

There are various separate French legal proceedings by a competitor, Speed Rabbit Pizza (SRP) against subsidiary, Domino's Pizza France (DPF) (the main claim) and seven SRP franchisees against DPF and the relevant DPF franchisees (the local claims). The allegations are that DPF and its franchisees breached French laws governing payment time limitations and lending, thereby giving DPF and its franchisees an unfair competitive advantage. SRP claimed significant damages for impediment of the development of its franchise network, lost royalty income from SRP franchisees and harm to SRP's image. DPF and its franchisees denied liability and vigorously defended the claims. On 7 July 2014 the Court handed down its decision in the main claim, as well as in five of the local claims. All of the claims of SRP and the relevant SRP franchisees were dismissed.

SRP filed an appeal to these decisions in the Court of Appeal, which dismissed the appeal of SRP in the main claim on 25 October 2017 and the appeal of SRP and/or SRP franchisees in five local claims on 12 December 2018. SRP has filed an appeal from the decision in the main claim to the Cour de Cassation. It is not yet clear when a decision will be handed down by the Cour de Cassation, but it is expected to be by April 2019. For the sixth local claim, the Court found in favour of DPF at first instance in September 2016, and SRP filed an appeal from this decision to the Court of Appeal. On 30 January 2018, the Court of Appeal dismissed the appeal of SRP in the sixth local claim. The two SRP franchisees have filed an appeal from that decision to the Cour de Cassation. The seventh local claim has yet to be heard by the Court at first instance.

DPE denies all claims made and is vigorously defending the proceedings brought against it. DPE is confident of its legal and commercial position. Accordingly, no provision has been recognised as at 30 December 2018.

PIZZA SPRINT

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

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

Hearing of the claims at the first instance is expected to be on 25 March 2019 for all the Pizza Sprint proceedings (brought by the former and current franchisees and by the French Ministry for the Economy and Finance).

10 CONTINGENT LIABILITIES AND CONTINGENT ASSETS (CONTINUED)

OTHER (CONTINUED)

PRECISION TRACKING

As disclosed in note 27 Contingent Liabilities of the Annual Financial Report for the year ended 1 July 2018, DPE was involved with legal action with Precision Tracking Pty Ltd, Delivery Command Pty Ltd and the three directors of those two companies (collectively "PT").

During the current period DPE has settled this dispute with both parties agreeing to discontinue against each other their respective claims. Therefore, this matter is no longer considered a contingent matter.

GENERAL CONTINGENCIES

As a global business, from time to time DPE is also subject to various claims and litigation from third parties during the ordinary course of its business. The directors of DPE have considered such matters which are or may be subject to claims or litigation at 30 December 2018 and unless specific provisions have been made are of the opinion that no material contingent liability for such claims of litigation exist. The group had no other material contingent assets or liabilities.

11 SUBSEQUENT EVENTS

DIVIDENDS

On 19 February 2019 the directors of Domino's Pizza Enterprises Limited declared an interim dividend on fully paid ordinary shares in respect of the year ended 30 June 2019. The total amount of dividend is $53.6 million, which represents a partially franked dividend of 62.7 cents per share. The dividend has not been recognised as a liability in the condensed consolidated financial statements for the half-year ended 30 December 2018.

12 FINANCIAL INSTRUMENTS

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

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 December 2018.

30 December 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Financial assets				
Interest rate swaps	-	412	-	412
Total financial assets	-	412	-	412
Financial liabilities				
Cross currency interest rate swaps	-	1,586	-	1,586
Put option over non-controlling interest	-	-	83,116	83,116
Market access right	-	-	20,581	20,581
Contingent consideration	-	-	2,125	2,125
Total financial liabilities	-	1,586	105,822	107,408

12 FINANCIAL INSTRUMENTS (CONTINUED)

01 July 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Financial assets				
Forward foreign exchange contracts	-	150	-	150
Total financial assets	-	150	-	150
Financial liabilities				
Cross currency interest rate swaps	-	49	-	49
Put option over non-controlling interest	-	-	88,900	88,900
Market access right	-	-	32,498	32,498
Contingent consideration	-	-	2,125	2,125
Total financial liabilities	-	49	123,523	123,572

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

The only financial liabilities subsequently measured at fair value on Level 3 fair value measurement represent the fair value of the put option and market access right relating to the acquisition of Domino's Pizza Germany as well as contingent consideration relating to the acquisition of IPG Marketing Solutions Pty Ltd. No gain or loss for the half-year relating to these liabilities have been recognised in profit or loss.

The opening balance for the put option liabilities was $88.9 million and has a closing balance of $83.1 million.

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

VALUATION TECHNIQUES USED TO DERIVE LEVEL 2 AND 3 FAIR VALUES

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

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

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

PUT OPTION OVER NON-CONTROLLING INTEREST

The valuation technique used is the unlevered price/earnings multiple which requests future earnings to be estimated. The significant unobservable inputs include adjusted unlevered price/earnings multiple and the put option is exercisable 4 years from the acquisition date. The earnings and margins are based on management's experience and knowledge of the market conditions of the industry, with the higher the earnings the higher the fair value and the shorter the time period the lower the fair value.

MARKET ACCESS RIGHT

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

CONTINGENT CONSIDERATION IN A BUSINESS COMBINATION

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