



25 July 2011

**DOMINO'S PIZZA UK & IRL plc**  
**INTERIM RESULTS FOR THE 26 WEEKS ENDED 26 JUNE 2011**

***IT'S WHAT WE DO***

Domino's Pizza UK & IRL plc ("Domino's", the "Company" or the "Group"), the leading pizza delivery company in the UK and Ireland, announces its results for the 26 weeks ended 26 June 2011.

**Financial Highlights**

- System sales<sup>1</sup> increased 9.0% to £258.4m (2010: £237.1m)
- Profit before tax<sup>2</sup> increased 14.8% to £20.1m (2010: £17.5m). Profit before tax after exceptional items was £19.0m (2010: £17.0m)
- Operating margin<sup>2</sup> of 19.8% (2010: 19.1%)
- Like-for-like sales<sup>3</sup> in 607 mature stores increased 2.4% (2010: 13.7% in 553 stores)
  - Like-for-like sales in the UK increased 3.4% (2010: 16.9%)
  - Like-for-like sales in the Republic of Ireland decreased by 8.4% (2010: (10.5%))
- Earnings per share<sup>2</sup>:
  - Basic earnings per share increased 14.4% to 9.20p (2010: 8.04p)
  - Diluted earnings per share increased 15.5% to 9.11p (2010: 7.89p)
- Total dividend increased 22.2% to 5.50p per share (2010: 4.50p)
- 22 new stores opened in the period (2010: 19) with one closure (2010: nil) resulting in a total of 688 stores as at 26 June 2011 (2010: 627). On track for 60 openings this year (2010: 57)
- Growth in e-commerce business of 50.9% (2010: 61.4%), resulting in total online sales of £85.0m (2010: £56.9m). Online sales accounted for 41.9% of UK delivered sales (2010: 32.7%) during the period
- Strong balance sheet with adjusted net debt<sup>4</sup> to annualised EBITDA of only 0.4:1 (2010: 0.5:1)
- Acquired 75% interest in the master franchise for Domino's Pizza in Germany at a cost of £8.6m
- Over 650 new jobs created in franchisee stores, expected to rise to around 1,800 by the year end.

Commenting on the results Chief Executive Officer, Chris Moore, said:

*"I am delighted to announce a good set of results in what can only be described as a very tough operating climate. It is a real achievement to deliver like-for-like sales growth of 2.4% across 607 stores against a comparative figure of 13.7% (553 stores) and a VAT rise of 2.5%.*

*“The coming months provide fantastic opportunities for the Company. While the first half of the year has been tough, we are delighted that we are still showing good growth in the UK and the latter half of the year comes with lower comparatives (9.9% for Q3 2010 against 17.2% for Q2 2010) so we are confident we will see our like-for-like sales grow more strongly in the next 26 weeks. Our marketing spend to the year end will be three times the amount for the second half of 2010 and, combined with some great new products and a heavyweight brand campaign in the coming months, we are very excited about the future.”*

1 Sales made by franchisees from all stores to the public

2 Pre-exceptional items

3 Like-for-like sales are sales in stores that were open before 27 December 2009

4 Excludes Domino's Leasing Limited and Domino's Pizza Germany's loans

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***A presentation to analysts will be held at 09.30 on 25 July 2011 at Numis Securities Ltd, The London Stock Exchange Building, 10 Paternoster Square, London, EC4M 7LT.***

**Notes to Editors:**

Domino's Pizza UK & IRL plc is the leading player in the fast-growing pizza delivery market and holds the exclusive master franchise to own, operate and franchise Domino's Pizza stores in the UK and the Republic of Ireland. The first UK store opened in Luton in 1985 and the first Irish store opened in 1991. In April 2011, the Group acquired a majority stake in the exclusive master franchise to own, operate and franchise Domino's Pizza stores in Germany.

As at 26 June 2011, there were 688 stores in the UK, Republic of Ireland and Germany. Of these, 543 stores are in England, 47 are in Scotland, 28 are in Wales, 18 are in Northern Ireland, one is on the Isle of Man, one is a mobile unit, 48 are in the Republic of Ireland and two are in Germany.

Founded in 1960, Domino's Pizza is one of the world's leading pizza delivery brands. Through its primarily franchised system, Domino's Pizza operates a global network of more than 9,350 Domino's Pizza stores in 70 international markets. Domino's Pizza has a singular focus – the home delivery of pizza, freshly made to order with high quality ingredients.

Customers in the UK can order online at [www.dominos.co.uk](http://www.dominos.co.uk) and customers in the Republic of Ireland can order online at [www.dominos.ie](http://www.dominos.ie). In addition, mobile customers can order by downloading Domino's free iPhone and Android apps.

**For photography, please visit the media centre at [www.dominos.uk.com](http://www.dominos.uk.com), contact the Domino's Press Office on +44 (0)1908 580732, or call MHP on +44 (0)20 3128 8100.**

## **Chairman's statement**

The first half of 2011 has been one of the toughest starts to the year that we have seen for quite some time. A combination of the economic climate – especially in the Republic of Ireland – hot weather and incredible like-for-like comparatives have given us a real challenge. However our franchisees, supported by a strong head office team, have shown their mettle and I'm delighted to be reporting another period of good growth.

System sales in the 26 weeks to 26 June 2011 have increased by 9.0% to £258.4m (2010: £237.1m) and the strength of our operational gearing is shown as our profit before tax and exceptional items has risen by 14.8% to £20.1m (2010: £17.5m). Our continued focus on what we do best – delivering great quality pizza with excellent service, supported by innovative marketing – has again produced a strong improvement in our financial performance.

In addition, the start of 2011 has seen us make our first move into an overseas market. Over the last few years we have considered a number of opportunities, but none offered the scale or long-term growth potential we were seeking. In the first half of this year, we realised these objectives with our acquisition of a 75% stake in Domino's Germany, which will give us the opportunity to continue growing our business into the distant future. We are looking forward to taking the lessons we have learned in the last 25 years into this new market and we are delighted that our International Development Director, Patricia Thomas, will spearhead this project with Brett Stallworthy moving from his position as Head of Franchise Support for the UK and Ireland to the role of Market Director for Germany.

Our new commissary, which opened in the last quarter of 2010 at West Ashland in Milton Keynes, is now fully operational and running well. The head office team will also be moving to the new site later this year providing a new heart for our business and the capacity we need to take us into the next decade and beyond.

Our franchise model continues to allow us to generate strong operating cash flows, which in turn have allowed us to increase the interim dividend by 22.2% to 5.50p (2010: 4.50p) and seen an increase in diluted earnings per share before exceptional items of 15.5% (2010: 27.1%). Over the past six months, we have bought back £1.8m of our shares as part of our ongoing share buyback programme. We will continue to follow this policy of returning surplus cash, not required to fund the growth of the business, to shareholders by way of dividends and share buybacks.

We are delighted that Lance Batchelor formally took up his new role as Deputy Chief Executive on 27 June. He is spending the first few months of his tenure visiting many of our franchisees and gaining a comprehensive understanding of the franchised model and our business as a whole. As the business grows so does the team and I would also like to officially welcome our two new non-executive directors, Syl Saller and Helen Keays, who I know will add a valuable extra dimension to our PLC Board when they join in September.

As ever, I would like to take this opportunity to thank our franchisees, their teams and our head office crew for an excellent performance in difficult market conditions. In partnership, we continue to purchase the best products at the best prices, produce the best fresh dough, hire great people and deliver delicious pizza, marketed in innovative ways, with excellent customer service. We are a people business and I am proud to work with such a fantastic team.

We have got great plans in place for the second half and, while the economic climate may still be tough, we are in a great place to tackle the challenges head on and deliver another good set of full year results.

**Stephen Hemsley**  
**Non-Executive Chairman**  
25 July 2011

## Chief Executive Officer's review

I am delighted to announce a good set of results in what can only be described as a very tough operating climate. It is a real achievement to deliver like-for-like sales growth of 2.4% across 607 stores against a comparative figure of 13.7% (553 stores) and a VAT rise of 2.5%. This is set against the backdrop of an extremely difficult economic environment in the Republic of Ireland and the impact of the VAT rise in the UK.

We have had much to celebrate in the first half, including our entry into the German market and the success of our new Domino's Stuffed Crust pizza. The latter is already approaching 15% of our total sales – a figure which is still rising and compares to our normal new product mix of around 7%.

While many high street names have disappeared during recent months, our franchisees continue to set themselves apart from the crowd with their desire for further expansion. It gives me great pleasure that of the 22 new stores opened during the first six months of 2011 (2010: 19), 18 were opened by existing franchisees. These new stores created over 650 new jobs. For the first time in five years, we closed a store – but we will be relocating to a new site in the same area in the near future. During the past 12 months, we have opened 60 new stores and we remain firmly on track to achieve our aim of opening 60 new stores (2010: 57) by the end of the year, creating in the region of 1,800 new jobs during 2011.

## Passionate about Winning

In a tougher economic climate, it would be easy for our franchisees to reduce their commitment to local store marketing – but the old adage of when the going gets tough, the tough get going is certainly true at Domino's and our franchisees have seized this opportunity to boost their local marketing spend and gain local market share.

In addition, more and more stores are embracing social media on a local level too – enabling a closer relationship with their customers. Using Facebook and Twitter as well as posters in store to promote Foursquare and Facebook Deals offers, the stores provide valuable collateral to support national activity.

The continued use of short-term price-led tactical promotions keeps us in the customer repertoire and our recent sponsorship of *Red or Black*, the new ITV show that is set to be one of the TV events of 2011, will provide a major reminder of our presence at the start of the key autumn trading period.

The winning spirit permeates right through our franchisees and store teams and it was great to see the winner of our *Supervisor of the Year* award also take the title for the EMEA (European, Middle East and Africa) region. In addition, our *Rookie Manager of the Year* took the title for the EMEA region and the highly coveted International title too. Our record of proving that our teams are the best in the world is the envy of every international market and we look forward to a bit of healthy internal competition from our new German stores.

Lisa Tobias, one of our Scottish franchisees, also took a title during the period, when she was recognised as the Woman Franchisee of the Year at the first annual *Encouraging Women into Franchising Awards* and Colin Tomlin, franchisee of Worksop and Chesterfield, was presented with a *Derbyshire Education Business Partnership Award* for his work with Parkside Community School.

The awards have been rolling in for head office too with a *Revolution Award* for best use of affiliate marketing for our Facebook Superfans initiative and our social affiliate widget, two online awards in the *Experian Hitwise Top 10*, the *a4u Awards* (Affiliates 4 U) title for best use of social media and Lee Ginsberg caught the winning feeling too by taking the title of CFO of the Year at the *UK Stock Market Awards*.

## **Passionate about Service**

Our customers have continued to embrace the internet revolution and e-commerce is still one of our major drivers as we take ownership of this space in our sector. In May we launched our Android app and our iPhone app, which was released in September 2010, now accounts for 4.1% of all online orders. An iPad app is not far away and we anticipate that around two thirds of delivered sales will be ordered through one of our online platforms by 2015.

Online ordering continues to grow steadily and online system sales increased by 50.9% (2010: 61.4%) to £85.0m (2010: £56.9m). During the period, online sales accounted for 41.9% (2010: 32.7%) of UK delivered sales. This growth in online sales is further supported by extensive activity within the social media arena and we have been using Facebook to launch our new campaign pizzas with special offers that link directly to the customer's online ordering basket, as well as the use of QR (Quick Response) codes on our advertising that automatically take the customer to the Domino's online ordering site.

We continue to use Retail Eyes, a mystery customer programme, to provide an independent measure of our customer service and we are delighted that our Net Promoter Score (how likely a customer is to recommend you to others) has improved substantially over the last year. We are also delighted to see how our teams have responded to the challenge of launching Domino's Stuffed Crust and, despite being a more complex product to make, it has not impacted on the load times in store and our OTD time (the time taken from an order arriving to a pizza being ready for delivery) has improved to 13.4 minutes from 13.7 minutes.

Our focus on service and quality has provided useful material for our new brand campaign. For many years our advertising has communicated either new pizzas or value offers and we felt it was time to remind people just what it is that makes Domino's special. The new TV brand ad has been well received and is backed up in press and digital media by a series of ads focusing on the quality of our ingredients.

## **Passionate about Quality**

In tougher economic times, quality is often the first victim, but we remain resolute in our commitment to giving customers the best possible product every time. Our continued growth gives us a useful tool in negotiating prices in the current inflationary environment and we continue to have a true partnership approach with all our suppliers.

In January, we held our first ever supplier conference, giving us a chance to map out our plans for the future and how we need our suppliers to support them. We also launched our first ever supplier award. During the first half of the year, we moved nearly all of our ice-cream business to Ben and Jerry's – a move supported by marketing investment from brand owner Unilever, which gave us the opportunity of launching a Free Ice-Cream Friday promotion. This has resulted in a huge increase in customers ordering dessert – a move that we hope will lead to a permanent change in behaviour and incremental sales for our franchisees.

The first 26 weeks have seen some excellent product launches including Reggae Reggae – launched in conjunction with Levi Roots' Reggae Reggae sauce, as featured on *Dragons' Den* – and the freshly made Domino's Stuffed Crust. The latter is aimed at attracting those customers who still use our competitors because they like a stuffed crust pizza. We are confident that we have a better product and we anticipate the launch of Domino's Stuffed Crust will result in new customers coming to the brand. Our purchasing team has looked at the entire range of our products and there will be some very exciting additions and changes to both our toppings and our pizza range as a whole in the second half of the year.

Quality is not just about pizza and one of the other areas where we have looked to improve quality is in our IT infrastructure. During the period, we announced a programme to outsource some of our IT infrastructure which will result in a more resilient, more flexible system to protect this key element of our business going forward.

### **Passionate about Relationships**

The arrival of Lance Batchelor, on 27 June 2011, as Deputy Chief Executive has given us a perfect opportunity to revisit the franchisee/Group relationship. Lance will be looking at all elements of this relationship, in detail, over the next few months and we look forward to his findings. The relationship with our franchisees will always be fundamental to the success of the business and we value it highly.

Proof of the confidence our franchisees have in the brand can be seen in the continued demand for new stores, the number of store delivery area splits being made and in our progress into smaller towns across the UK. All of these areas are producing excellent results and, as a result of stores benefitting from high propensity target households with these new stores, we know our target of at least 1,200 stores by 2021 can be comfortably achieved.

Since the beginning of the year we have recruited four new franchisees (2010: six), welcomed one former franchisee back to the system and we now have Moto among our franchisees, with the opening of our first motorway service station store at Leigh Delamere East on the M4. The franchisee to store ratio currently stands at 5.2 (2010: 4.6). Applications to join the Domino's system continue to rise and we are seeing some very strong applicants come forward.

We have opened 22 new stores during the period (2010: 19) and have a great pipeline of stores with the necessary planning approval coming on board, thereby giving us the confidence that we are on track to hit our target of 60 during the full year. This will result in the creation of some 1,800 new jobs in 2011 taking the total number of store team members across the system to well over 20,000. We are delighted with our first foray into the motorway service sector and it has confirmed the potential of non-traditional locations.

As well as the relationship with our franchisees, we value the relationship with our customers. Facebook and Twitter provide very open and quick lines of communication and we work hard to address all the issues raised through these media within a short timeframe. Back in November we helped launch Pennies, the electronic charity box, whereby customers ordering online can round up their order to the nearest pound. It has had a staggering response, raising over £120,000 since its launch of which 75% goes to our corporate charity, Special Olympics Great Britain, with the remainder being shared among charities selected by the Pennies' trustees.

### **Going Forward**

The coming months provide fantastic opportunities for the Company. Our entry into Germany is well underway but, although we are learning very quickly about the nuances of our new market, it is early days. We now have a team in place in Berlin and plans are afoot to open at least four more stores by the year end, bringing the total to six stores. We will be marketing these stores locally and using low impact, low cost small commissaries to support them initially. The team in Germany is using the same methodology as we use in the UK and has studied the demographics across the country to ensure we open first in those towns and cities with the highest density of prospective pizza eaters.

As mentioned, Lance Batchelor has started in his new role as Deputy Chief Executive and is already active in the business, working with franchisees to understand their ambitions and how we can support those to mutual

benefit. He provides a valuable dimension to our management team and will be undertaking the full Franchise Development Programme in August.

While the first half of the year has been tough, we are delighted that we are still showing good growth in the UK and the latter half of the year comes with lower comparatives (9.9% for Q3 2010 against 17.2% for Q2 2010) so we are confident we will see our like-for-like sales grow more strongly in the next 26 weeks. Our marketing spend to the year end will be three times the amount for the second half of 2010 and, combined with some great new products and a heavyweight brand campaign in the coming months, we are very excited about the future.

We are now six months in to our Vision 2015 business plan and look forward to achieving all its challenging goals. We have a talented group of franchisees, a compelling business model and an excellent product, innovatively marketed and supported by great customer service so we look forward to satisfying our customers and shareholders as we head into the second half of the year.

**Chris Moore**  
**Chief Executive Officer**  
25 July 2011

## Chief Financial Officer's Review

### Overview

Against the backdrop of a very challenging first 26 weeks of the year in terms of the economic environment, the Group has recorded a very impressive set of results. During this period the consumer spending environment has remained uncertain due to the increase in the VAT rate and the negative sentiment created by the current economic climate. In trading terms the Group was up against exceptionally tough like-for-like growth of 13.7% for the prior year for the same period (17.2% in Q2 2010), driven in part by the Football World Cup and the third and last year of our *Britain's Got Talent* sponsorship. Trading conditions in the Republic of Ireland have remained extremely difficult and continued on the negative trend seen over the past few years.

During this period, the Group identified a very exciting opportunity for its long-term expansion and successfully completed the acquisition of a 75% stake in Domino's Pizza Germany.

System sales for the 26 weeks ended 26 June 2011 grew by 9.0% to £258.4m (2010: £237.1m), driven by the growth in like-for-like sales in 607 mature stores of 2.4% (2010: 13.7% in 553 stores) and the opening of 22 new stores (2010: 19) in the period under review.

Group operating margin, before exceptional items, for the 26 weeks under review was 19.8%, an increase of 70 basis points compared to the prior year (2010: 19.1%). This was achieved by the operational gearing that is evident in the business model and continuing focus and management of the cost base across the business.

As a result, operating profit, before operating exceptionals, was up 15.6% to £20.2m (2010: £17.5m). This strong profit growth is particularly encouraging given the modest growth in like-for-like sales.

Profit before tax and exceptional items for the period was £20.1m (2010: £17.5m), up 14.8% on the prior period. The ratio of profit before tax (before exceptional items) to system sales, a key ratio highlighting the strength of the underlying operational gearing of the business, grew to 7.8% for the 26 weeks ended 26 June 2011 (2010: 7.4%).

Diluted earnings per share before exceptional items grew by 15.5% to 9.11p (2010: 7.89p). The cash generative nature of the business remains strong, with net cash generated from operating activities of £11.8m (2010: £12.8m).

This strong performance, together with the resilience and predictability of future free cash flows, reinforces the Board's confidence in paying an interim dividend per share of 5.50p (2010: 4.50p), an increase of 22.2% on the prior year.

### Trading results

The increase in system sales of 9.0% to £258.4m (2010: £237.1m), has mainly been driven by:

- Like-for-like sales growth of 2.4% (2010: 13.7%)
- E-commerce sales growth of 50.9% (2010: 61.4%)
- 22 new store openings (2010: 19)
- New product development and launches, including the launch of our all new Domino's Stuffed Crust
- Marketing and promotional initiatives, including the launch of a new brand campaign *It's what we do*.

Group revenue, which includes revenues generated from royalties, fees on new store openings, food sales and rental income, as well as revenues from stores in subsidiary companies, grew by 11.8% to £102.2m (2010: £91.3m). The growth of Group revenues of 11.8% is higher than the system sales growth due to the success of the *One Two Free* deal at the start of the year, new product launches and other tactical promotions run by franchisees that have driven higher volumes of food sales from our commissaries.

The strategy we have adopted by locking into longer term fixed price contracts across the majority of our food lines has enabled us to ensure that the price of our overall basket has remained relatively stable. Where the business has been impacted by the rise in commodity prices, in particular wheat and oil, we have worked in partnership with our suppliers to offset or limit the resultant increase to a minimum. Other than increases in cheese prices, driven by the increase in the price of milk, and dough prices (at the start of 2011), a number of significant contracts have been renegotiated with minimal impact to the business. During the period under review, these food price increases were partially offset by the reduction in the cost of boxes, due to sourcing our boxes directly from the box suppliers themselves.

The business continues to strive to improve labour productivity at our commissaries and maintains tight control over central overheads. This strategy has resulted in a further widening of the operating margins as we have benefited from the higher volume flow through due to new store openings and increase in the like-for-like sales of the Group. We remain mindful of underlying food price inflationary pressures and aim to mitigate this with our ever increasing purchasing power, as well as the benefits that will arise from the continued re-engineering our supply chain. The action we have taken this year to lock into fixed price contracts will preclude any major food cost pressures on the system over the balance of the year.

Profit before tax after exceptional items was £19.0m (2010: £17.0m), up 11.8% on the prior period. Diluted earnings per share after exceptional items was 8.08p (2010: 7.62p), up 6.0% on the prior period.

### **Exceptional items**

Results for the 26 weeks ended 26 June 2011 include net exceptional costs of £1.7m (2010: £0.4m). The total amount has been excluded from the adjusted profits and earnings to show the underlying performance of the business. The exceptional costs for the 26 weeks ended 26 June 2011 comprise the following:

- **Operating exceptional items**
  - On 26 April 2011 the Group acquired a 75% stake in Intergrowth Enterprises Limited, the master franchise for Domino's Pizza Germany. On 9 June 2011, the company changed its name to DP Cyco Limited. The Group has incurred costs of £1.0m directly attributable to the acquisition
- **Non-operating exceptional items**
  - A profit on the sale of assets held for sale of £49k (2010: loss of £11k)
  - As a result of the acquisition of Domino's Leasing Limited in 2009, the Group has recognised £0.2m (2010: £0.2m) as an exceptional interest charge due to the unwinding of the discount on the deferred consideration of the transaction. This is a non-cash interest charge.

### **Interest**

The net finance charge for the 26 weeks ended 26 June 2011 was £0.3m (2010: £0.2m). The net finance charge includes £0.2m relating to the unwinding of the discount on the deferred consideration payable in relation to

the acquisition of Domino's Leasing Limited during 2009. During the prior year the Group capitalised the interest charged on the £25.0m five-year facility until the new commissary in Milton Keynes was completed in Q4 2010. Excluding the unwinding of the discount, the net interest charge is £0.1m higher than prior year as interest is now expensed.

## **Taxation**

The effective tax rate, before exceptional items, is 26.9% (2010: 28.6%). This is marginally higher than the underlying corporation tax rate of 26.5%, due to the impact of the FRS 20 charge for share schemes, which is disallowable for tax purposes as well as ineligible depreciation, partially offset by the impact of the lower tax rate applicable in the Group's Irish subsidiary. The lower effective tax rate compared to the prior year is mainly due to the reduction in the corporation tax rates year on year.

Including the impact of exceptional items, the effective tax rate was 31.4% (2010: 29.0%). The effective rate includes the tax impact of the following exceptional items:

- Effective 1 April 2011, the corporation tax rate reduced from 28.0% to 26.0%. The impact of this change has reduced the deferred tax asset relating to the acquisition of Domino's Leasing Limited in 2009 by £0.8m
- The taxation impact of the operating and non-operating exceptional items is a reduction of £0.2m (2010: £0.1m) in the overall corporation tax. This is due to the tax deductibility of the majority of the acquisition costs relating to the acquisition of a 75% stake in Domino's Pizza Germany.

## **Earnings per share**

Adjusted basic earnings per share before exceptional items for the 26 weeks ended 26 June 2011 of 9.20p was up 14.4% on the prior period (2010: 8.04p). Adjusted diluted earnings per share before exceptional items of 9.11p was up 15.5% on the prior period (2010: 7.89p).

Unadjusted basic earnings per share for the 26 weeks ended 26 June 2011 of 8.16p was up 5.0% on the prior period (2010: 7.77p). Unadjusted diluted earnings per share of 8.08p was up 6.0% on the prior period (2010: 7.62p).

## **Dividends**

We are pleased to declare an increase of 22.2% in the interim dividend to 5.50p (2010: 4.50p) per share. This continues to be in line with our strategy of returning surplus to shareholders.

This dividend, which is 1.5 times covered by post-exceptional earnings (2010: 1.7 times), will be paid on 2 September 2011 to shareholders on the register as at 5 August 2011.

## **Cash flow and net debt**

Our strong operational cash flow continued with £13.1m (2010: £16.2m) of net cash generated from operations for the 26 weeks ended 26 June 2011.

During the period, outflows of £1.4m of corporation tax, £5.1m of capital expenditure and £3.2m of payments to Commerzbank were incurred.

£5.1m of capital expenditure was incurred during the period, of which £2.7m was spent on the new Milton Keynes head office, due to be completed in Q4 2011. In addition £3.2m of the deferred consideration due on the acquisition of Domino's Leasing Limited in 2009 was paid to Commerzbank.

The Group had a net decrease in cash and cash equivalents of £6.9m (2010: £0.4m) for the period under review.

At 26 June 2011, the Group's adjusted net debt was £15.6m (2010: £16.7m). The decrease of £1.1m is mainly due to the cash generation from the operating activities of the Group and the decrease in the corporation tax paid, partially offset by the deferred payments for the acquisition of Domino's Leasing Limited in 2009 and the increase in the final dividend paid in relation to the prior year.

The ratio of net debt to EBITDA was 0.4:1 (2010: 0.5:1), against a financial covenant of 2.5:1 for the facility. This highlights the Group's conservative policy towards financial leverage.

### **Banking facilities**

At 26 June 2011, the Group had a total of £43.0m of banking facilities, of which £3.3m was undrawn. Together with our £24.1m of cash, this gives us headroom of £27.4m. Against these facilities, and as noted above, the Group has only £15.6m adjusted net debt at the period end. The key facility required for the expenditure on the new Milton Keynes commissary is a £25.0m five-year facility which attracts an interest rate of LIBOR plus 50 bps. This facility, which expires on 20 December 2012, includes debt cover and interest cover covenants which are monitored and reported on a quarterly basis. The Group has been comfortably within these covenants at all times. This facility has been fully utilised as at 26 June 2011.

The Group also has a £13.0m seven-year term facility, which is mainly used for the purchase of shares into the EBT. This facility also has an interest rate of LIBOR plus 50 bps and expires on 31 January 2014. £12.0m of this facility has been utilised as at 26 June 2011.

DP Capital Limited, our subsidiary company which lends to the franchisees for their in-store equipment purchasing, has a £5.0m five-year facility of which £2.7m has been utilised as at 26 June 2011.

### **Capital employed**

Non-current assets increased in the 26 weeks to 26 June 2011 from £80.6m to £94.4m due to further capital expenditure of £2.7m on the new Milton Keynes head office and £13.3m increase in goodwill and intangible assets due to the acquisition of a 75% stake in Domino's Pizza Germany.

Current assets decreased from £54.1m to £49.9m in the 26 weeks to 26 June 2011 primarily due to a decrease in cash and cash equivalents of £7.0m partially offset by an increase of £3.7m in trade and other receivables.

Current liabilities decreased from £40.2m to £33.8m over the same period due to a decrease of £5.8m in trade and other payables.

Non-current liabilities increased from £53.8m to £56.1m due mainly to the minority shareholder loan in Domino's Germany of £2.2m.

## **Treasury management**

The treasury policy of the Group is determined and approved by the Board. The treasury activities are implemented and carried out in accordance with the Board approved policies.

## **Key Financial Risks and Uncertainties**

The key financial risks and uncertainties that affect the Group, which remain unchanged, are set out in the 2010 Financial Statements which are available on the Domino's Pizza website at [www.dominos.uk.com](http://www.dominos.uk.com).

Key financial risks faced by the Group include exposures to movement in:

- Interest rates
- Foreign exchange
- Commodity prices.

The banking facilities in place within the business, combined with the strong cash flows generated by the business, support the Directors' view that the Group has sufficient facilities available to meet its foreseeable working capital and funding requirements.

## **Conclusion**

We are pleased to report another strong period of growth especially when we take into account the extremely challenging economic environment, the continued uncertain consumer sentiment, higher commodity prices, the hottest April weather on record and the exceptionally high like-for-like comparatives we were up against. Once again the franchisees have shown their determination in delivering a quality product, at great value, in very tough market conditions.

We are also very excited to have identified and successfully completed the acquisition of a 75% stake in Domino's Pizza Germany. This exciting move into a new territory gives us access to the potential opportunity of 2,000 stores servicing around 150 million people in two of the world's leading economies. We will continue to do what we do best – make great quality pizzas, delivered with great customer service and marketed in interesting and innovative ways.

Our relentless focus on new product development and marketing innovation enables us to not only ensure that we continue to engage with our customers but that they can order their hot fresh pizzas in ways that suit them.

With 2010 being the last year of our *Britain's Got Talent* sponsorship, our national advertising spend will be weighted towards the second half of the year to support our exciting new products and brand advertising campaign.

The business model remains in good shape and, with low levels of expansionary capital over the next few years and rising free cash flows, we are well placed to continue our strategy of returning surplus funds to shareholders.

**Lee Ginsberg**  
**Chief Financial Officer**  
25 July 2011

## GROUP INCOME STATEMENT

		(Unaudited) 26 weeks ended 26 June 2011			(Unaudited) 26 weeks ended 27 June 2010			52 weeks ended 26 December 2010		
		Before exceptional items	Exceptional items (Note 6)	Total	Before exceptional items	Exceptional items (Note 6)	Total	Before exceptional items	Exceptional items (Note 6)	Total
		£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Revenue</b>	3	102,152	-	102,152	91,334	-	91,334	188,634	(485)	188,149
Cost of sales		(64,636)	-	(64,636)	(57,437)	-	(57,437)	(117,495)	-	(117,495)
<b>Gross profit</b>		37,516	-	37,516	33,897	-	33,897	71,139	(485)	70,654
Distribution costs		(6,363)	-	(6,363)	(5,315)	-	(5,315)	(11,539)	-	(11,539)
Administrative costs		(11,094)	(960)	(12,054)	(11,212)	(275)	(11,487)	(21,784)	(1,887)	(23,671)
Share of post tax profits of associates		20,059	(960)	19,099	17,370	(275)	17,095	37,816	(2,372)	35,444
		146	-	146	109	-	109	219	-	219
<b>Operating profit</b>	4	20,205	(960)	19,245	17,479	(275)	17,204	38,035	(2,372)	35,663
Profit / (Loss) on the sale of non-current assets and assets held for sale		-	49	49	-	(11)	(11)	-	(11)	(11)
<b>Profit before interest and taxation</b>		20,205	(911)	19,294	17,479	(286)	17,193	38,035	(2,383)	35,652
Finance income		175	-	175	99	-	99	196	-	196
Finance expense		(292)	(180)	(472)	(73)	(220)	(293)	(224)	(420)	(644)
<b>Profit before taxation</b>		20,088	(1,091)	18,997	17,505	(506)	16,999	38,007	(2,803)	35,204
Taxation	7	(5,397)	(573)	(5,970)	(5,010)	80	(4,930)	(10,878)	(261)	(11,139)
<b>Profit for the period</b>		14,691	(1,664)	13,027	12,495	(426)	12,069	27,129	(3,064)	24,065
Profit for the period attributable to:										
Owners of the parent				13,047			12,056			24,036
Non-controlling interests				(20)			13			29
				13,027			12,069			24,065
Earnings per share (post exceptional charges)										
-Basic (pence)	9			8.16			7.77			15.40
-Diluted (pence)	9			8.08			7.62			14.85
Earnings per share (pre exceptional charges)										
-Basic (pence)	9			9.20			8.04			17.36
-Diluted (pence)	9			9.11			7.89			16.75

## GROUP STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited) 26 weeks ended 26 June 2011 £000	(Unaudited) 26 weeks ended 27 June 2010 £000	52 weeks ended 26 December 2010 £000
<b>Profit for the period</b>	13,027	12,069	24,065
<b>Other comprehensive income:</b>			
Exchange differences on retranslation of foreign operations	52	(392)	(286)
Other comprehensive income for the period, net of tax	52	(392)	(286)
<b>Total comprehensive income for the period</b>	<b>13,079</b>	<b>11,677</b>	<b>23,779</b>
Total comprehensive income for the year attributable to:			
Owners of the parent	13,099	11,664	23,750
Non-controlling interests	(20)	13	29
	<b>13,079</b>	<b>11,677</b>	<b>23,779</b>

## GROUP BALANCE SHEET

		(Unaudited)	(Unaudited)	
		At	At	At
		26 June	27 June	26 December
	Notes	2011	2010	2010
		£000	£000	£000
<b>Non-current assets</b>				
Goodwill and intangible assets		15,904	1,211	2,234
Property, plant and equipment	10	51,042	44,038	47,378
Prepaid operating lease charges		502	535	570
Net investment in finance leases		6,157	6,611	6,558
Investments in associates		1,304	1,049	1,158
Deferred tax asset		19,508	25,760	22,658
		<u>94,417</u>	<u>79,204</u>	<u>80,556</u>
<b>Current assets</b>				
Inventories		4,170	2,892	5,054
Trade and other receivables		19,667	14,989	16,014
Net investment in finance leases		1,830	1,847	1,793
Prepaid operating lease charges		138	130	138
Cash and cash equivalents	5	24,128	23,450	31,128
		<u>49,933</u>	<u>43,308</u>	<u>54,127</u>
Non-current assets held for sale		890	1,003	938
		<u>145,240</u>	<u>123,515</u>	<u>135,621</u>
<b>Total assets</b>				
<b>Current liabilities</b>				
Trade and other payables		(25,882)	(24,565)	(31,707)
Deferred income		(77)	(77)	(77)
Financial liabilities	11	(1,831)	(1,849)	(1,793)
Deferred consideration		(2,463)	-	(4,346)
Current tax liabilities		(3,559)	(1,732)	(2,255)
		<u>(33,812)</u>	<u>(28,223)</u>	<u>(40,178)</u>
<b>Non-current liabilities</b>				
Provisions		(99)	(119)	(119)
Financial liabilities	11	(44,489)	(43,514)	(42,772)
Deferred income		(1,805)	(1,078)	(1,100)
Deferred consideration		(8,647)	(13,892)	(9,746)
Deferred tax liabilities		(1,094)	(53)	(44)
		<u>(89,946)</u>	<u>(86,879)</u>	<u>(93,959)</u>
<b>Total liabilities</b>				
<b>Net assets</b>				
		<u>55,294</u>	<u>36,636</u>	<u>41,662</u>
<b>Shareholder's equity</b>				
Called up share capital		2,531	2,514	2,514
Share premium account		15,077	8,788	9,592
Capital redemption reserve		412	398	406
Treasury share reserve		(1,151)	(6,380)	(5,526)
Currency translation reserve		1,065	907	1,013
Other reserve		3,432	-	-
Retained earnings		31,865	30,274	33,512
		<u>53,231</u>	<u>36,501</u>	<u>41,511</u>
<b>Equity shareholder's funds</b>				
Non-controlling interests		2,063	135	151
		<u>55,294</u>	<u>36,636</u>	<u>41,662</u>
<b>Total equity</b>				

## GROUP STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share Premium Account	Capital Redemption Reserve	Capital Reserve - Own shares	Currency Translation Reserve	Other Reserve	Retained Earnings	Equity Shareholder's Funds	Non- Controlling Interests	Total Equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 27 December 2009	<b>2,519</b>	<b>8,012</b>	<b>387</b>	<b>(7,200)</b>	<b>1,299</b>	-	<b>16,437</b>	<b>21,454</b>	<b>122</b>	<b>21,576</b>
Profit for the period	-	-	-	-	-	-	12,056	12,056	13	12,069
Other comprehensive income – exchange differences	-	-	-	-	(392)	-	-	(392)	-	(392)
Total comprehensive income for the period	-	-	-	-	(392)	-	12,056	11,664	13	11,677
Proceeds from share issue	6	776	-	-	-	-	-	782	-	782
Share buybacks	(11)	-	11	-	-	-	(2,308)	(2,308)	-	(2,308)
Share transaction charges	-	-	-	-	-	-	(124)	(124)	-	(124)
Vesting of LTIP grants	-	-	-	820	-	-	(820)	-	-	-
Share option and LTIP charge	-	-	-	-	-	-	569	569	-	569
Tax on employee share options	-	-	-	-	-	-	468	468	-	468
Equity dividends paid	-	-	-	-	-	-	(6,596)	(6,596)	-	(6,596)
Share buyback obligation	-	-	-	-	-	-	10,592	10,592	-	10,592
At 27 June 2010	<b>2,514</b>	<b>8,788</b>	<b>398</b>	<b>(6,380)</b>	<b>907</b>	-	<b>30,274</b>	<b>36,501</b>	<b>135</b>	<b>36,636</b>
Profit for the period	-	-	-	-	-	-	11,980	11,980	16	11,996
Other comprehensive income – exchange differences	-	-	-	-	106	-	-	106	-	106
Total comprehensive income for the period	-	-	-	-	106	-	11,980	12,086	16	12,102
Proceeds from share issue	8	804	-	-	-	-	-	812	-	812
Share buybacks	(8)	-	8	-	-	-	(2,278)	(2,278)	-	(2,278)
Share transaction charges	-	-	-	-	-	-	(5)	(5)	-	(5)
Vesting of LTIP grants	-	-	-	854	-	-	(854)	-	-	-
Share option and LTIP charge	-	-	-	-	-	-	863	863	-	863
Tax on employee share options	-	-	-	-	-	-	568	568	-	568
Equity dividends paid	-	-	-	-	-	-	(7,036)	(7,036)	-	(7,036)
At 26 December 2010	<b>2,514</b>	<b>9,592</b>	<b>406</b>	<b>(5,526)</b>	<b>1,013</b>	-	<b>33,512</b>	<b>41,511</b>	<b>151</b>	<b>41,662</b>
Profit for the period	-	-	-	-	-	-	13,047	13,047	(20)	13,027
Other comprehensive income – exchange differences	-	-	-	-	52	-	-	52	-	52
Total comprehensive income for the period	-	-	-	-	52	-	13,047	13,099	(20)	13,079
Proceeds from share issue	23	5,485	-	-	-	-	-	5,508	-	5,508
Share buybacks	(6)	-	6	-	-	-	(1,804)	(1,804)	-	(1,804)
Share transaction charges	-	-	-	-	-	-	(12)	(12)	-	(12)
Vesting of LTIP grants	-	-	-	4,375	-	-	(4,375)	-	-	-
Share option and LTIP charge	-	-	-	-	-	-	483	483	-	483
Tax on employee share options	-	-	-	-	-	-	158	158	-	158
Equity dividends paid	-	-	-	-	-	-	(9,144)	(9,144)	-	(9,144)
Contingent consideration	-	-	-	-	-	3,432	-	3,432	-	3,432
Non-controlling interest movement	-	-	-	-	-	-	-	-	1,932	1,932
At 26 June 2011	<b>2,531</b>	<b>15,077</b>	<b>412</b>	<b>(1,151)</b>	<b>1,065</b>	<b>3,432</b>	<b>31,865</b>	<b>53,231</b>	<b>2,063</b>	<b>55,294</b>

## GROUP CASHFLOW STATEMENT

	(Unaudited) 26 weeks ended 26 June 2011 £000	(Unaudited) 26 weeks ended 27 June 2010 £000	52 weeks ended 26 December 2010 £000
<b>Cash flows from operating activities</b>			
Profit before taxation	18,997	16,999	35,204
Net finance costs	297	194	448
Share of post tax profits of associates	(146)	(109)	(219)
Amortisation and depreciation	1,710	1,087	2,815
Impairment	-	-	82
(Profit) / Loss on disposal of non current assets	(49)	11	11
Share option and LTIP charge (including accelerated LTIP charge)	483	569	1,432
Decrease / (Increase) in inventories	911	(197)	(2,347)
Increase in receivables	(3,863)	(2,529)	(3,696)
(Decrease) / Increase in payables	(5,887)	135	7,304
Increase in deferred income	705	-	22
Decrease in provisions	(20)	(7)	(8)
<b>Cash generated from operations</b>	<b>13,138</b>	<b>16,153</b>	<b>41,048</b>
UK corporation tax	(1,187)	(3,387)	(5,107)
Overseas corporation tax paid	(169)	-	(349)
<b>Net cash generated by operating activities</b>	<b>11,782</b>	<b>12,766</b>	<b>35,592</b>
<b>Cash flows from investing activities</b>			
Interest received	175	88	196
Dividends received	-	21	21
Receipts from repayment of associate loan	15	36	(150)
Loans to franchisees	80	-	338
Payments to acquire finance lease assets	(791)	(730)	(1,749)
Receipts from repayment of franchisee finance leases	1,155	1,246	2,372
Purchase of property, plant and equipment	(4,223)	(5,199)	(9,862)
Acquisition of subsidiary – deferred consideration for Domino’s Leasing	(3,159)	-	-
Purchase of other non-current assets	(841)	(312)	(1,740)
Receipts from the sale of other non-current assets	300	60	60
<b>Net cash used by investing activities</b>	<b>(7,289)</b>	<b>(4,790)</b>	<b>(10,514)</b>
<b>Cash inflow before financing</b>	<b>4,493</b>	<b>7,976</b>	<b>25,078</b>
<b>Cash flow from financing activities</b>			
Interest paid	(274)	(66)	(224)
Issue of ordinary share capital	309	782	1,594
Purchase of own shares	(1,804)	(2,432)	(4,715)
New long-term loans	676	1,285	1,629
Repayment of long-term loans	(1,143)	(1,349)	(2,493)
Equity dividends paid	(9,144)	(6,596)	(13,632)
<b>Net cash used generated by financing activities</b>	<b>(11,380)</b>	<b>(8,376)</b>	<b>(17,841)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(6,887)</b>	<b>(400)</b>	<b>7,237</b>
Cash and cash equivalents at beginning of period	31,128	23,997	23,997
Foreign exchange loss on cash and cash equivalents	(113)	(147)	(106)
<b>Cash and cash equivalents at end of period</b>	<b>24,128</b>	<b>23,450</b>	<b>31,128</b>

## **NOTES TO THE GROUP INTERIM REPORT**

### **1. GENERAL INFORMATION**

Domino's Pizza UK & IRL plc is a public limited company ("Company") incorporated in the United Kingdom under the Companies Act (registration number 03853545). The Company is domiciled in the United Kingdom and its registered address is Domino's House, Lasborough Road, Kingston, Milton Keynes, MK10 0AB. The Company's Ordinary Shares are traded on the London Stock Exchange. Copies of the Interim Report are being sent to shareholders. Further copies of the Interim Report and Annual Report and Accounts may be obtained from the address above.

### **2. BASIS OF PREPARATION**

The interim financial information has been prepared on the basis of International Financial Reporting Standards ("IFRS"), as adopted by the European Union that are effective at 26 June 2011 and are consistent with the accounting policies adopted in the preparation of the Group's annual report and accounts for the 52 weeks ended 26 December 2010.

This interim report has been prepared in accordance with IAS 34 'Interim Financial Reporting'. The financial information contained in this interim statement does not constitute statutory accounts as defined by Section 435 of the Companies Act 2006.

The financial information for the 52 weeks ended 26 December 2010 has been extracted from the statutory accounts for the Group for that period. These published accounts were reported on by the auditors without qualification or an emphasis matter reference and did not include a statement under section 498(2) or (3) of the Companies Act 2006 and have been delivered to the Registrar of Companies.

The financial statements are prepared on the going concern basis. This is considered appropriate given the considerable financial resources of the Group together with long-term contracts with its master franchisor, its franchisees and its key suppliers.

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

#### **Changes in accounting policy**

New standards and interpretations applied by the Group are consistent with those disclosed in the Group's annual report and financial statements for the 52 weeks ended 26 December 2010, these do not have a material impact on this interim report.

## NOTES TO THE GROUP INTERIM REPORT

### 3. REVENUE

Revenue recognised in the income statement is analysed as follows:

	(Unaudited) 26 weeks ended 26 June 2011 £000	(Unaudited) 26 weeks ended 27 June 2010 £000	52 weeks ended 26 December 2010 £000
Royalties and sales to franchisees	95,082	84,930	175,280
Rental income on leasehold and freehold property	6,906	6,219	12,483
Finance lease income	164	185	386
	<u>102,152</u>	<u>91,334</u>	<u>188,149</u>

### 4. SEGMENT INFORMATION

For management purposes, the Group is organised into three geographical business units, United Kingdom, Ireland and Germany, based on the territories governed by the Master Franchise Agreement (“MFA”). Revenue included in the United Kingdom segment includes all sales (royalties, commissary sales, rental income and finance lease income) made to franchise stores located in the United Kingdom (excluding Northern Ireland). Revenue included in the Ireland segment includes all sales (royalties, commissary sales, rental income and finance lease income) made to franchise stores located in both Republic of Ireland and Northern Ireland. Revenue included in the Germany segment includes all sales (royalties, commissary sales, rental income and finance lease income) made to stores located in Germany.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Group financing (including finance costs and finance revenue) and income taxes are managed on a group basis and are not allocated to operating segments.

#### Operating Segments

	(Unaudited) 26 weeks ended 26 June 2011				(Unaudited) 26 weeks ended 27 June 2010			52 weeks ended 26 December 2010		
	Germany £000	Ireland £000	United Kingdom £000	Total £000	Ireland £000	United Kingdom £000	Total £000	Ireland £000	United Kingdom £000	Total £000
<b>Segment revenue</b>										
Sales to external customers	121	9,339	92,692	102,152	9,090	82,244	91,334	17,955	170,194	188,149
<b>Results</b>										
Segment result	(147)	1,857	17,389	19,099	2,130	14,965	17,095	3,991	31,453	35,444
Share of profit of associates	-	-	146	146	-	109	109	-	219	219
<b>Group operating profit</b>	(147)	1,857	17,535	19,245	2,130	15,074	17,204	3,991	31,672	35,663

## NOTES TO THE GROUP INTERIM REPORT

### 4. SEGMENT INFORMATION (continued)

Profit / (Loss) on the sale of non current assets and assets held for sale	-	-	49	49	-	(11)	(11)	-	(11)	(11)
	(147)	1,857	17,584	19,294	2,130	15,063	17,193	3,991	31,661	35,652
Net finance costs				(297)			(194)			(448)
<b>Profit before taxation</b>				<u>18,997</u>			<u>16,999</u>			<u>35,204</u>
<b>Assets</b>										
Segment assets	13,766	2,809	83,725	100,300	2,208	71,048	73,256	2,248	78,429	80,677
Equity accounted investments	-	-	1,304	1,304	-	1,049	1,049	-	1,158	1,158
Unallocated assets	-	-	-	43,636	-	-	49,210	-	-	53,786
<b>Total assets</b>	<u>13,766</u>	<u>2,809</u>	<u>85,029</u>	<u>145,240</u>	<u>2,208</u>	<u>72,097</u>	<u>123,515</u>	<u>2,248</u>	<u>79,587</u>	<u>135,621</u>

### 5. CASH AND CASH EQUIVALENTS

	(Unaudited) At 26 June 2011 £000	(Unaudited) At 27 June 2010 £000	At 26 December 2010 £000
Cash at bank and in hand	3,430	4,385	4,867
Short-term deposits	20,698	19,065	26,261
	<u>24,128</u>	<u>23,450</u>	<u>31,128</u>

## NOTES TO THE GROUP INTERIM REPORT

### 6. EXCEPTIONAL ITEMS

*Recognised as part of operating profit*

The Group has incurred the following exceptional charges during the financial period:

	(Unaudited) 26 weeks ended 26 June 2011 £000	(Unaudited) 26 weeks ended 27 June 2010 £000	52 weeks ended 26 December 2010 £000
Acquisition of Domino's Pizza Germany (Note 15)	960	-	-
Support provided to Irish stores	-	-	485
Accelerated LTIP charge	-	-	467
Restructuring and reorganisation costs	-	275	755
Accelerated depreciation and impairment	-	-	665
	<u>960</u>	<u>275</u>	<u>2,372</u>

#### *Acquisition of Domino's Germany*

Costs of £960,000 (2010: £nil) have been incurred during the period in relation to the acquisition of Intergrowth Enterprises Limited, the master franchisor for Domino's Pizza Germany. See note 15 for further details. The costs relating to the acquisition of Domino's Pizza Germany result in a £187,000 reduction in the Group's tax charge for the period.

#### *Support provided to Irish stores*

As a result of the impact of the economic difficulties being experienced by franchisees in the Ireland operating segment, the Irish commissary agreed to provide additional support of £485,000 during the 52 weeks ended 26 December 2010. The additional support resulted in a £136,000 reduction in the Group's tax charge for the period.

#### *Accelerated LTIP charge*

During the 52 weeks ended 26 December 2010, the Group's IFRS 2 charge relating to reversionary interests in ordinary shares granted in 2008 increased as the performance targets had been achieved earlier than expected, resulting in an accelerated charge of £467,000. This acceleration had no impact on the Group's tax charge for the period.

#### *Restructuring and reorganisation*

Due to the rapid growth of the business and in particular the online platforms that are generating such significant growth in system sales, the Group undertook a strategic review of its entire IT structure and processes. As a result of this review, restructuring and reorganisation costs of £755,000 were incurred during the 52 weeks ended 26 December 2010 (26 weeks ended 27 June 2010: £275,000). The restructuring and reorganisation costs resulted in a £163,000 (26 weeks ended 27 June 2010: £80,000) reduction in the Group's tax charge for the period.

## NOTES TO THE GROUP INTERIM REPORT

### 6. EXCEPTIONAL ITEMS

*Recognised as part of operating profit (continued)*

#### *Accelerated depreciation and impairment*

As a result of the new Milton Keynes head office being on track for completion at the end of November 2011, the Group reconsidered the residual value and remaining life of the assets at the existing Milton Keynes head office. Consequently, during the 52 weeks ended 26 December 2010 the Group took an accelerated depreciation charge of £583,000 which resulted in a reduction of £163,000 in the Group's tax charge for the period.

During the 52 weeks ended 26 December 2010 the Group also undertook a review of the expected recoverable amount of its assets held for sale. As a result of the review an impairment of £82,000 was recognised in relation to one of the stores held for sale representing the difference between the previous carrying value and the recoverable amount. The impairment resulted in a £23,000 reduction in the Group's tax charge for the period.

*Recognised below operating profit*

#### **Profit on the sale of non-current assets and assets held for sale**

	(Unaudited) 26 weeks ended 26 June 2011 £000	(Unaudited) 26 weeks ended 27 June 2010 £000	52 weeks ended 26 December 2010 £000
Profit on sale of non-current assets held for sale	49	-	-
Loss on sale of other non-current assets	-	(11)	(11)
	<hr/>	<hr/>	<hr/>
	49	(11)	(11)

Non-current assets held for sale represent stores and their associated assets, which are currently being actively marketed for sale. There was one store disposed of during the period for a total cash consideration of £300,000 resulting in profit on disposal of £49,000. The impact of the profit on disposal on the Group's tax charge for the period is an increase of £13,000.

#### *Unwinding of discount*

Included within the finance cost is a charge of £180,000 (June 2010: £220,000, December 2010: £420,000) relating to the unwinding of the discount on the deferred consideration payable in relation to the acquisition of Domino's Leasing Limited on 1 July 2010.

All of these transactions related to the United Kingdom operating segment.

## NOTES TO THE GROUP INTERIM REPORT

### 7. INCOME TAX

	(Unaudited) 26 weeks ended 26 June 2011 £000	(Unaudited) 26 weeks ended 27 June 2010 £000	52 weeks ended 26 December 2010 £000
<b>Current income tax</b>			
Current income tax charge	2,770	1,683	4,875
<b>Deferred income tax</b>			
Relating to origination and reversal of temporary differences	3,200	3,247	6,264
Income tax expense	5,970	4,930	11,139

In his budget of 23 March 2011, the Chancellor of the Exchequer announced Budget tax changes, which have an effect on the Group's current and future tax position. The changes announced were further decreases to the standard rate of corporation tax from the originally proposed 27% to 26% effective 1 April 2011. For the purposes of this interim report the changes were considered 'substantively enacted' as the Chancellor announced these changes would be effective 1 April 2011. Therefore current tax is recognised for the period at 26.5% and deferred tax at 26%.

Future reductions are now planned to take the rate down by 1% per annum to 23% from 1 April 2014 and will be reflected in future accounts following substantive enactment.

As a result of this announcement, deferred tax balances are now recognised at a lower rate than in the prior year, which has resulted in an additional charge to tax of approximately £748,000 which increases the overall effective tax rate for the year.

### 8. DIVIDENDS PAID AND PROPOSED

	(Unaudited) 26 weeks ended 26 June 2011 £000	(Unaudited) 26 weeks ended 27 June 2010 £000	52 weeks ended 26 December 2010 £000
Declared and paid during the year			
Final dividend for 2009 4.25p (2008: 3.20p)	-	6,596	6,596
Interim dividend for 2010 4.50p (2009: 3.50p)	-	-	7,036
Final dividend for 2010 5.70p (2009: 4.25p)	9,144	-	-
	9,144	6,596	13,632

The directors propose an interim dividend of 5.50p per share of £8,878,000 (2010: 4.50p £7,031,000).

## NOTES TO THE GROUP INTERIM REPORT

### 9. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would have been issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	(Unaudited) 26 weeks ended 26 June 2011 £000	(Unaudited) 26 weeks ended 27 June 2010 £000	52 weeks ended 26 December 2010 £000
Profit for the period	13,027	12,069	24,065
Adjusted for – non-controlling interests	20	(13)	(29)
Profit attributable to owners of the parent	<u>13,047</u>	<u>12,056</u>	<u>24,036</u>

	(Unaudited) At 26 June 2011 No.	(Unaudited) At 27 June 2010 No.	At 26 December 2010 No.
Reconciliation of basic and diluted weighted average number of shares:			
Basic weighted average number of shares (excluding treasury shares)	159,857,575	155,199,205	156,083,007
Dilutive potential ordinary shares:			
Employee share options	856,556	1,000,522	949,492
Reversionary interests	797,031	2,097,392	4,782,514
Diluted weighted average number of shares	<u>161,511,162</u>	<u>158,297,119</u>	<u>161,815,013</u>

## NOTES TO THE GROUP INTERIM REPORT

### 9. EARNINGS PER SHARE (continued)

	(Unaudited) 26 weeks ended 26 June 2011 £000	(Unaudited) 26 weeks ended 27 June 2010 £000	52 weeks ended 26 December 2010 £000
Basic earnings per share	8.16	7.77	15.40
Diluted earnings per share	8.08	7.62	14.85

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these interim financial statements.

In addition, the performance conditions for reversionary interests granted over 3,751,611 (2010: 6,577,347) shares and share options granted over 2,264,818 (2010: 2,695,369) shares have not been met in the current financial period and therefore the dilutive effect of the number of shares which would have been issued at the period end have not been included in the diluted earnings per share calculation.

#### Earnings per share before exceptional items

The Group presents as exceptional items on the face of the income statement, those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better the trends in financial performance.

To this end, basic and diluted earnings from continuing operations per share is also presented on this basis and using the weighted average number of shares for both basic and diluted amounts as per the table above. The amounts for earnings per share from continuing operations before exceptional items are as follows:

	(Unaudited) 26 weeks ended 26 June 2011 £000	(Unaudited) 26 weeks ended 27 June 2010 £000	52 weeks ended 26 December 2010 £000
Adjusted basic earnings per share	9.20	8.04	17.36
Adjusted diluted earnings per share	9.11	7.89	16.75

## NOTES TO THE GROUP INTERIM REPORT

### 9. EARNINGS PER SHARE (continued)

Net profit before exceptional items and attributable to equity holders of the parent is derived as follows:

	(Unaudited) 26 weeks ended 26 June 2011 £000	(Unaudited) 26 weeks ended 27 June 2010 £000	52 weeks ended 26 December 2010 £000
Profit for the period	13,027	12,069	24,065
Adjusted for – non-controlling interests	20	(13)	(29)
Profit attributable to owners of the parent	13,047	12,056	24,036
Exceptional items after tax – attributable to owners of the parent	1,665	426	3,064
- Acquisition of Domino's Pizza Germany	960	-	-
- Support provided to Irish stores	-	-	485
- Accelerated LTIP charge	-	-	467
-Restructuring and reorganisation	-	275	755
- Accelerated depreciation and impairment	-	-	665
- Profit / (loss) on the sale of non current assets and assets held for sale	(49)	11	11
- Unwinding of discount	180	220	420
- Taxation impact	(174)	(80)	(509)
- Change in corporation tax rate – impact on deferred tax	748	-	770
Profit before exceptional items attributable to owners of the parent	14,712	12,482	27,100

### 10. PROPERTY, PLANT AND EQUIPMENT

#### Property, plant and equipment additions in the period

During the 26 weeks ended 26 June 2011, the Group acquired assets with a cost of £4.2m (2010: £5.2m). £0.4m (2010: £4.4m) of the additions in the period related to the investment in the new Milton Keynes commissary. £2.7m (2010: £nil) of the additions in the period related to the investment in the new Milton Keynes head office.

#### Capital commitments

At 26 June 2011, the Group had capital commitments of £3.2m (2010: £0.6m) principally relating to the building of the new Milton Keynes head office (2010: the acquisition of property, plant and equipment for the new Milton Keynes commissary).

## NOTES TO THE GROUP INTERIM REPORT

### 11. INTEREST-BEARING LOANS AND BORROWINGS

#### Bank loans

The Group has entered into an agreement to obtain bank loans and mortgage facilities. These are secured by a fixed and floating charge over the Group's assets and an unlimited guarantee provided by the Company. At 26 June 2011 the balance due under these facilities was £12,035,000 (2010: £12,035,000) all of which is in relation to the Employee Benefit Trust. The loan bears interest at 0.50% (2010: 0.50%) per annum above LIBOR. The loan has a term of 7 years and matures on 31 January 2014. The limit for this facility is £13,000,000.

#### Bank revolving facility

The Group entered into an agreement on 20 December 2007 to obtain an additional revolving facility from Barclays Bank plc. The limit for this facility is £25,000,000. The balance drawn down on the facility at 26 June 2011 was £25,000,000 (June 2010: £25,000,000, December 2010: £25,000,000). The facility has a term of 5 years and matures on 20 December 2012. The loan bears interest at 0.50% (2010: 0.50%) per annum above LIBOR. The facility is secured by an unlimited cross guarantee between the Company, Dominos Pizza Group Limited, DPG Holdings Limited, DP Realty Limited and DP Developments Limited as well as negative pledges given by the Company, Dominos Pizza Group Limited, DPG Holdings Limited, DP Realty Limited and DP Developments Limited.

#### Other loans

The Group has an asset finance facility of £5,000,000 (2010: £5,000,000) with a term of 5 years. The balance drawn down on this facility and held within 'other loans' as at 26 June 2011 is £2,703,000 (June 2010: £3,135,000, December 2010 £2,732,000). The loans are repayable in equal instalments over a period of up to 5 years. The loans are secured by a limited guarantee and indemnity by the Company and Domino's Pizza Group Limited (limited to an annual sum of £300,000) and a mortgage charge over the assets financed. The interest rate on these loans is fixed at an average of 6.18% (2010: 7.65%).

#### Non-recourse loans

Non-recourse loans of £4,360,000 (June 2010: £5,194,000, December 2010: £4,798,000) were acquired with Domino's Leasing Limited. The loans are repayable over terms of up to six years and bear interest at 0.5% above LIBOR. The loans are secured over the related lease receivables and are only repayable provided the related lease receivables are settled in full.

Loans of £2,222,000 (2010: £nil) were acquired with Domino's Pizza Germany. These loans are repayable to the non-controlling interest in DP Cyco Limited. The loans are repayable over terms of between four and five years and bear interest at a fixed rate of 6% per annum.

### 12. SHARE-BASED PAYMENTS

The expense recognised for share-based payments in respect of employee services received during the 26 weeks to 26 June 2011 is £483,000 (2010: £569,000). This all arises on equity settled share-based payment transactions. There were no options or reversionary interests granted to employees during the period.

## NOTES TO THE GROUP INTERIM REPORT

### 13. RELATED PARTY TRANSACTIONS

During the 26 weeks ended 26 June 2011, the Group entered into transactions, in the ordinary course of business, with related parties. Transactions entered into, and trading balances outstanding at 26 June 2011 with related parties, are as follows:

	Sales to related party £000	Amounts owed by related party £000
Associates		
26 June 2011	1,240	237
27 June 2010	1,842	96
26 December 2010	3,930	493

### 14. ANALYSIS OF NET DEBT

	(Unaudited) At 26 June 2011 £000	(Unaudited) At 27 June 2010 £000	At 26 December 2010 £000
Bank loan EBT	12,035	12,035	12,035
Other loans	2,703	3,135	2,732
Bank revolving facility	25,000	25,000	25,000
Less: cash and cash equivalents	(24,128)	(23,450)	(31,128)
<b>Adjusted net debt</b>	<b>15,610</b>	<b>16,720</b>	<b>8,639</b>
Domino's Pizza Germany – Loan from non-controlling interest	2,222	-	-
Non-recourse loans – Domino's Leasing	4,360	5,194	4,798
<b>Net debt</b>	<b>22,192</b>	<b>21,914</b>	<b>13,437</b>

## NOTES TO THE GROUP INTERIM REPORT

### 15. BUSINESS COMBINATIONS

On 26th April 2011, the Group acquired 75% of the ordinary shares of Intergrowth Enterprises Limited, the master franchisor for Domino's Pizza Germany. On 9 June 2011, the company changed its name to DP Cyco Limited.

The acquisition has been accounted for using the purchase method of accounting. The financial statements include the results of DP Cyco Limited and its wholly owned subsidiary Domino's Pizza Germany GmbH (known collectively as 'Domino's Germany') for the period from the date of acquisition to the period end. The non-controlling interest is measured at the proportionate share of net assets.

The book and fair values of the identifiable assets and liabilities of Domino's Germany as at the date of acquisition were as follows:

	Previous carrying value £000	Provisional fair value to Group £000
Master franchise agreement	-	10,453
Property, plant & equipment	534	534
Inventory	11	11
Trade and other receivables	92	92
Cash and cash equivalents	41	41
Trade and other payables	(136)	(136)
Deferred tax liability	-	(1,045)
Financial liabilities	(2,222)	<u>(2,222)</u>
<b>Fair value of assets acquired</b>		7,728
Non-controlling interest		<u>(1,932)</u>
<b>Net assets acquired</b>		5,796
Goodwill		<u>2,835</u>
<b>Total acquisition cost</b>		<b><u>8,631</u></b>
Discharged by:		
Fair value of shares issued (1,320,000 at £3.94 )		5,199
Contingently issuable shares (880,000)		<u>3,432</u>
		<b><u>8,631</u></b>

Under the terms of the acquisition, the Group purchased a 75% interest in Domino's Germany for a total consideration of 2,200,000 ordinary shares, 1,320,000 payable on completion and a further 880,000 on the opening of the 35th Domino's store in Germany. There was no cash outflow arising on acquisition.

Costs of £960,000 directly attributable to the acquisition have been recognised in the income statement in accordance with IFRS 3R and are included within exceptional items (note 6). The goodwill arising on acquisition is in respect of the opportunities in the German market.

From the date of acquisition, Domino's Germany has contributed a net loss of £147,000 to the Group. If the combination had taken place at the beginning of the financial period, the profit before tax (excluding exceptional items) would have been £19,857,000 and revenue from continuing operations would have been £102,422,000.

## RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- a) the financial statements have been prepared in accordance with IAS 34;
- b) the interim management report includes a fair review of the information required by the Financial Statements Disclosure and Transparency Rules (DTR 4.2.7R) – indication of important events during the 26 weeks and their impact on the financial statements and description of principal risks and uncertainties for the remaining 26 weeks of the financial year; and
- c) the interim management report includes a fair review of the information required by DTR 4.2.8R – disclosure of related party transactions and changes therein.

On behalf of the Board

Christopher Moore  
Chief Executive Officer

Lee Ginsberg  
Chief Financial Officer

## **Independent review report to Domino's Pizza UK & IRL plc**

### **Introduction**

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 26 June 2011 which comprises the Group Income Statement, Group Statement of Comprehensive Income, Group Balance Sheet, Group Statement of Changes in Equity, Group Cashflow Statement and the related notes 1 to 15. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

### **Directors' Responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

### **Our Responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information 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 International Standards on Auditing (UK and Ireland) 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.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 26 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP  
Birmingham  
25 July 2011