

COMPANY REGISTRATION NUMBER 01072921

PIZZA HUT (U.K.) LTD

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
3 DECEMBER 2017**

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PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

FINANCIAL STATEMENTS

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PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

THE STRATEGIC REPORT

The directors present their strategic report, the directors report and the audited financial statements of the company for the financial year from 5 December 2016 to 3 December 2017.

Principal Activities

The principal activity of the company during the financial year was trading as a restaurant operator. At the balance sheet date, Pizza Hut (U.K.) Ltd operated 262 restaurants (2016: 266).

Following several years of strong growth the casual dining sector has seen a decline in like-for-like sales over the last 12 to 18 months and by the end of 2017 growth was running below the rate of inflation. During this period there has been a decline in consumer confidence, which coupled with nominal wage growth and rising inflation has squeezed disposable income and impacted the consumer's appetite for discretionary spend. Compounding this impact has been the effect of the crowded market place following significant rollout activity over the last few years, the increase in delivery options and the impact of grab & go concepts.

In addition to the impact of weaker sales growth there has been pressures on margin due to rising labour costs (national living wage and apprenticeship levy), increased food costs (exacerbated by the weaker pound), higher business rates and the sector reliance on discounts and other offers to stimulate demand but which also impacts margin.

The softening sales, the increase in costs and the squeeze on margins has provided significant challenges to the sector, which are expected to continue in the short to medium term.

The resilience of Pizza Hut

Whilst the trading environment has become more challenging for the sector, Pizza Hut has been well placed to respond to the headwinds. Key attributes that provide Pizza Hut with resilience include the following:

- National Estate (Wide geography with range of retail, leisure and high street locations)
- Refurbished Estate (c. 80% restaurants refurbished)
- Value Led Offer
- Established Brand with strong following, and strong loyalty scheme
- Flexible Labour Model – Counter to Buffet to Full Service
- Sales & Labour Forecasting System to optimise labour & restaurant operations
- Attractive Product Margins
- Central support infrastructure to support Restaurants
- Capex programme largely discretionary and can be flexed

Pizza Hut Trading

The strength of Pizza Hut in responding to trading headwinds has been demonstrated by the trading results of 2017. Overall trading EBITDA was 7% ahead of last year despite softer sales. The focus of the business in optimising margin, controlling costs, unlocking capacity in peak times and flexing to fluctuations in trading provided strong foundations for responding to the softness in sales.

Sales of £225M (2016: £233M) were 3% lower than last year (in part due to 2016 having a 53 week period). On a like-for-like basis sales were 1.0% lower. Factors contributing to softer

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

THE STRATEGIC REPORT (*Continued*)

sales included previously referenced factors that impacted the sector, the warmer and drier conditions across spring and early summer and the cinema film slate that was less “family friendly” than previous years.

Whilst there was slightly higher discounting than the prior year, Pizza Hut made a conscious decision not to embark in wide-spread discounting that was seen across many of the competitors, but instead to continue with the “hyper-local” targeted approach to pricing and discounting via CRM, social media and other digital platforms.

Mitigation of the sales shortfall was across a range of cost lines, with significant benefit at margin level due to the delivery of direct cost savings. Significant benefit flowed from “improved sales forecasting” at restaurant level, which assisted in optimising scheduling for “right people at right time”, which mitigated cost increases, improved productivity, unlocked capacity at peak times & enabled the business to respond to fluctuations in trading. Effective scheduling also improves the flow of each shift, in turn optimising guest experience and driving their intent to return, all of which are important to building sales. Further focus on practices enabled improvement in “cost per plate” and “waste management”, driving benefits within cost of sales that helped to mitigate increasing ingredient costs.

Further mitigation was provided by continued focus and efficiencies across key restaurant cost lines as well as centrally within the Restaurant Support Centre.

Many of the factors that provided mitigation across 2017 will continue, and in some cases can be further optimised, which should provide further benefit for the future.

It is expected that the market will remain competitive and that demand will continue to be softer in the year ahead. The Pizza Hut plan assumes some uplift in sales for the year ahead however EBITDA growth is driven by a more efficient operation that “unlocks” further value at margin and EBITDA level. Should higher volumes be delivered, then additional upside to plan would be possible.

Financial Performance

The results of the company for the financial year are set out on page 10 and show an operating loss, excluding exceptional items, of £0.39 million (2016: £7.36 million profit). The key factors impacting year on year results include the increase in royalty rate under the franchise agreement and the impact of the prior year having a 53rd trading week.

Operating profit includes Trading EBITDA of £30.4 million (2016: £28.32 million), which was 7% ahead of last year and continues the healthy growth in business performance and financial economics that have been delivered by the business over the last few years.

The company reported net Exceptional Costs totalling £6.6 million (2016: £1.7 million). These are detailed on page 22 of the financial statements and include non-cash items such as provisions for dilapidations and onerous leases, including an adjustment to the discount rate.

The overall loss for the financial year was £7.84 million (2016: £2.77 million profit), which is the net effect of the items outlined above. The strong cash position of the company is reflected by a cash balance of £15.2 million at balance sheet date.

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

THE STRATEGIC REPORT (*Continued*)

KPI's

The primary KPIs followed by the company are Sales and Trading EBITDA, which excludes exceptional items, versus prior year.

The sales for the financial year were £225 million (2016: £233 million), which was c. 3% lower than last year. On a like for like basis the decline was 1.0%. Factors impacting performance are outlined in the Casual Dining Sector and Pizza Hut Trading sections earlier in this report.

Trading EBITDA, including central costs and excluding exceptional items, was £30.4 million (2016: £28.32 million), which was 7% ahead of prior year despite the softer sales. Factors driving the favourable performance included stronger margin and savings across a range of variable and fixed costs.

Strategic Highlights of 2017

Highlights for the year include:

- **New Site opening at White Rose Shopping Centre**

The focus of Pizza Hut over the last five years has been to consolidate, refurbish and strengthen the existing estate. Whilst many competitors have rapidly expanded via roll-out of new locations, it was Management's view that there was greater opportunity for Pizza Hut to focus on the existing estate.

With the consolidation and refurbishment largely completed Management are now looking at targeted and appropriate new site opportunities and White Rose Shopping Centre was the first new build since 2012. With a mix of retail and leisure (including an 11 screen cinema complex) this site was viewed as an appropriate addition to the Estate. Pizza Hut incorporated all the latest ideas from the reimage programme to ensure a stand out proposition, which includes a bar area that drives the Evening Vibe.

- **Refurbishment Programme**

The refurbishment programme continued in 2017 and by the end of year there were 214 restaurants reimaged (2016: 192), which represented c.80% of the Estate. Key sites reimaged during the year included Leicester Square (London), Stratford upon Avon, Edinburgh 3, Swindon 3 and Edinburgh Kinnaird Park.

- **Testing & rollout of a faster service model**

Testing of a "counter service" model was implemented in Coventry, with a further 11 sites rolled out by the end of 2017. The project is focused on restaurants with lower sales, and simplifies the operation with "greet & seat", "order and pay" at till point when you are ready to place your order, and self-serve condiments, drinks, salad and Ice Cream Factory. The concept is supported by a modest capital investment. Work continues on refining the model and further testing in 2018.

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FOR THE YEAR ENDED 3 DECEMBER 2017

THE STRATEGIC REPORT (*Continued*)

- **Launch of “Heart with Smart” programme**

Created by Pizza Hut, this programme is designed to strengthen compliance and brand standard whilst also providing direction to Restaurant Managers around the opportunities within their restaurant. Each restaurant has 4 un-announced visits per annum and includes a review of c.300 practices. The programme strengthens the Restaurant Manager's ability to cope with change, reinforces operational fundamentals, drives strength and consistency across the estate and links specific practices and behaviour. The programme allows the ability to collect valuable data and insights centrally providing a useful tool to unlock opportunities across the estate.

- **Our People**

A key strength of the business is the “restaurant team” and Pizza Hut continued to invest in its people strategy across 2017. People highlights included the continuation of the Apprenticeship programme (over 70 graduates to date), growth of team engagement via Yammer (over 4,500 members) and our commitment to our Charity partner, “Rethink Mental Illness”. Ongoing commitment to Heartstyles and the introduction of Heart with Smart all continue to build on capability, development and ongoing benefits for the team and the business. Focus on attrition, recruitment and on-boarding have also been areas of attention during 2017.

Estate Consolidation

Management has continued with the strategic objective of consolidating the estate and exiting restaurants that are under-performing or at date of lease expiry are not regarded as core to the business. Each closure decision considers the historic performance of the restaurant, the rent payable under the existing lease and whether there are any mitigating factors that would support a continuing operation. During the financial year the business exited 5 locations (2016: 6) and opened one new site at White Rose Shopping Centre in Leeds.

Future Outlook

Following substantial capital investment over the last 5 years Pizza Hut now has a consolidated and refurbished estate. Whilst there will continue to be targeted projects and initiatives the next few years are expected to be less capital intensive and more focused on further optimising the operating and economic model.

Our vision remains to be the “most loved place to work and eat” and this requires focus and commitment to the guest and our team members. Legendary pizza and icons, hassle free friendly service, a high energy uplifting environment and affordable value are key cornerstones for the guest proposition. Leadership, development and opportunity for our team members is high priority and an essential step in the journey forward.

We will continue to raise the bar on operational discipline and profit optimisation through tools, processes and people. We will also continue to invest in restaurant IT infrastructure and staff training to support the various initiatives referenced above.

Significant progress has been made in reshaping the restaurant estate for the future, and these innovations and initiatives will deliver strong performance growth opportunities for the business.

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FOR THE YEAR ENDED 3 DECEMBER 2017

THE STRATEGIC REPORT (*Continued*)

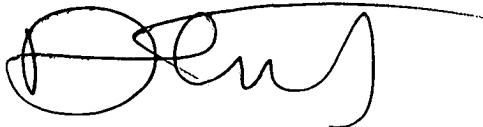
Principal Risks & Uncertainties

As a customer facing business, any risks to the UK economy as a whole, and in particular to consumer sentiment and spending could impact on overall performance of the company.

Whilst the principal risk to the business is lower guest volumes, the brand is relatively well positioned as a result of the overall affordability of the Pizza Hut (U.K.) Ltd offer. The risk to earnings performance can be mitigated by savings in labour, which reduce at lower volumes, and by controlling discretionary costs and capital expenditure.

Significant food and wage inflation are also risk factors, although the business can to a certain extent offset inflationary pressure through menu mix and moderate menu price increases.

The business is well placed to respond to the above risks, which was demonstrated during 2017 and which is highlighted in the "Resilience of Pizza Hut" section referenced earlier.

A handwritten signature in black ink, appearing to read 'A Platt', with a long horizontal line extending to the right.

Mr A Platt
Director

This report was approved by the board and signed on its behalf on 6 June 2018

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

THE DIRECTORS' REPORT

RESULTS AND DIVIDENDS

The loss for the financial year amounted to £7,844,000 (2016: profit of £2,767,000). The directors have not recommended a dividend (2016: nil).

DIRECTORS

The directors of the company who were in office during the financial year and up to the date of signing the financial statements were:

Mr J Hofma
Mr H Birts (resigned 20 April 2018)
Ms K Austin
Mr M Spencer
Mr A Walker (resigned 20 April 2018)
Mr A Platt (appointed 20 April 2018)
Ms S Marshall (appointed 20 April 2018)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

GOING CONCERN

The company's business activities together with the factors likely to affect its future development, performance, and position are set out in the sections above and in the strategic report. The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future being a period of 12 months from signing these financial statements. Accordingly they continue to adopt the going concern basis.

DISABLED EMPLOYEES

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

EMPLOYEE INVOLVEMENT

Throughout this financial year, Team Member engagement has remained a key focus for the business. Communication takes place through team, function, area, region and company meetings as well as regular newsletters and blogs from senior management.

Pizza Hut continues to engage team members via Yammer, which is a social networking tool that enables internal communications across the country. Team members can post photos, ask questions, share success stories and engage with one another. Team members are actively encouraged to share their views on anything in the business, and they are regularly canvassed for ideas and suggestions on business activity via roadshows, team meetings and social networking.

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

THE DIRECTORS' REPORT *(Continued)*

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

DIRECTORS' INDEMNITIES

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

THE DIRECTORS' REPORT *(Continued)*

POST BALANCE SHEET EVENTS

On 20 April 2018, Rutland and the management transferred 100% of their shareholding in PHH1 Limited to HWS 2 Limited.

On 20 December 2017, the nominal value of each of the ordinary shares of £1.00 each held by the Company was reduced by £0.99 to £0.01 thereby creating a distributable reserve of £70,789,950. Pizza Hut (U.K.) Limited paid an interim dividend of an aggregate amount of £15,084,746 to PHH2 Limited

FINANCIAL RISK MANAGEMENT POLICY

As a customer facing business, any risks to the UK economy as a whole, and in particular to consumer spending could impact on the overall performance of the company. However the brand is relatively well positioned as a result of the overall affordability of the Pizza Hut (U.K.) Ltd Restaurants offering. Significant food and wage inflation are also risk factors, although the business can to a certain extent offset inflationary pressure through moderate menu price increases. The risk to earnings performance can be mitigated by savings in labour, which reduce at lower volumes, and by controlling discretionary costs and capital expenditure.

As permitted by Paragraph 1A of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and reports) Regulations 2008 certain matters which are required to be disclosed in the directors' report have been omitted as they are included in the strategic report on pages 1-5. These matters relate to principal activities, business review, future developments and risks and uncertainties.

DISCLOSURE OF INFORMATION TO AUDITORS

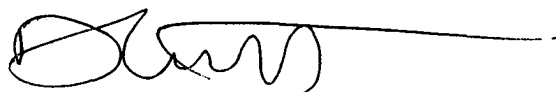
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and are deemed to be re-appointed under section 487(2) of the Companies Act 2006.

Registered office:
Building 1 Imperial Place
Elstree Way
Borehamwood
Hertfordshire
WD6 1JN

The financial statements on pages 11 to 28 were approved by the Board of Directors on 6 June 2018 and signed on behalf of board by



Mr A Platt
Director

PIZZA HUT (U.K.) LTD

Independent auditors' report to the members of Pizza HUT (U.K.) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Pizza Hut (U.K.) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 3 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 3 December 2017; the statement of comprehensive (loss)/income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

PIZZA HUT (U.K.) LTD

Independent auditors' report to the members of Pizza HUT (U.K.) Limited

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 3 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Matthew Mullins (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

St Albans

7 June 2018

PIZZA HUT (U.K.) LTD
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 3 DECEMBER 2017

		2017	2016
	Note	£000	£000
TURNOVER	5	225,210	232,719
Other operating income	6	<u>93</u>	<u>133</u>
		225,303	232,852
Operating costs	7	(232,315)	(227,202)
Operating (loss) / profit	9	<u>(7,012)</u>	<u>5,650</u>
Analysed as:			
OPERATING (LOSS) / PROFIT BEFORE EXCEPTIONAL ITEMS		(390)	7,355
Exceptional Items	11	<u>(6,622)</u>	<u>(1,705)</u>
OPERATING (LOSS) / PROFIT		(7,012)	5,650
Interest receivable and similar income	12	44	72
Interest payable and similar expenses	12	(544)	(500)
(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(7,512)	5,222
Tax on (loss) / profit	13	(332)	(2,455)
(LOSS) / PROFIT FOR THE FINANCIAL YEAR		<u>(7,844)</u>	<u>2,767</u>
Other Comprehensive income		-	-
TOTAL COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR		<u>(7,844)</u>	<u>2,767</u>

The notes on pages 14 to 28 form part of these financial statements.

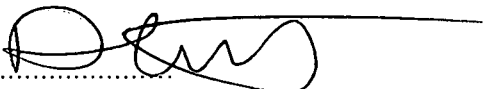
PIZZA HUT (U.K.) LTD

BALANCE SHEET

AS AT 3 DECEMBER 2017

	Note	2017 £000	2017 £000	2016 £000	2016 £000
FIXED ASSETS					
Intangible assets	14		631		721
Tangible assets	15		<u>63,751</u>		<u>69,930</u>
			64,382		70,651
CURRENT ASSETS					
Stocks	16	1,168		1,294	
Debtors	17	16,522		11,732	
Cash at bank and in hand		<u>15,236</u>		<u>17,440</u>	
		32,926		30,466	
CREDITORS: Amounts falling due within one year	18	<u>(37,511)</u>		(38,483)	
NET CURRENT LIABILITIES			<u>(4,585)</u>		<u>(8,017)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			59,797		62,634
PROVISIONS FOR LIABILITIES					
Deferred taxation	22		(762)		(721)
Other provisions	23		<u>(6,028)</u>		<u>(1,062)</u>
NET ASSETS			<u>53,007</u>		<u>60,851</u>
CAPITAL AND RESERVES					
Called up share capital	25		71,505		71,505
Accumulated losses			<u>(18,498)</u>		<u>(10,654)</u>
TOTAL SHAREHOLDERS' FUNDS			<u>53,007</u>		<u>60,851</u>

The financial statements on pages 11 to 28 were approved by the Board of Directors on 6 June 2018 and signed on behalf of the board by:


.....
Mr A Platt
Company Registration Number: 01072921

PIZZA HUT (U.K.) LTD

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 3 DECEMBER 2017

	Called-up share capital	Share Premium	Retained earnings	Total
	£000	£000	£000	£000
Balance as at 29 November 2015	71,505	-	(13,421)	58,084
Profit for the financial year	-	-	2,767	2,767
Other comprehensive income for the year	-	-	-	-
Balance as at 4 December 2016	71,505	-	(10,654)	60,851
Balance as at 4 December 2016	71,505	-	(10,654)	60,851
Loss for the financial year	-	-	(7,844)	(7,844)
Other comprehensive income for the year	-	-	-	-
Balance as at 3 December 2017	71,505	-	(18,498)	53,007

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Pizza Hut (U.K.) Ltd trades as a restaurant operator in the UK. At the balance sheet date, Pizza Hut (U.K.) Ltd operated 262 restaurants (2016: 266).

The company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is Building 1, Imperial Place, Elstree Way, Borehamwood, WD6 1JN.

2. STATEMENT OF COMPLIANCE

The individual financial statements of Pizza Hut (U.K.) Limited have been prepared in compliance with United Kingdom accounting standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS102") and the Companies Act 2006.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS102 in these financial statements.

Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable UK accounting standards and the policies have been applied consistently between years.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Going concern

The company's business activities together with the factors likely to affect its future development, performance, and position are set out in the sections above. The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future being a period of 12 months from signing these financial statements. The company therefore continues to adopt the going concern basis.

Exemptions for qualifying entities under FRS 102

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.39 to 11.48A;
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.29;

This information is included in the consolidated financial statements of PHH1 Limited as at 3 December 2017 and these financial statements may be obtained from Building 1, Imperial Place, Elstree Way, Borehamwood, WD6 1JN.

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign Currency

The company's functional and presentation currency is pound sterling.

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents the amount receivable for services rendered, net of returns, discounts and value added taxes.

Rental Income

Rentals received under sublease agreements are credited to income on a straight-line basis over the lease term.

Exceptional items

The company classifies certain one-off charges or credits that have a material impact on the company's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the company.

Fixed assets

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs and borrowing costs capitalised.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset on a straight line basis as follows:

Land and buildings - effective life of the lease.

Fixtures and fittings - 3 years to 10 years.

Restaurants in course of construction

Capital costs are included in tangible fixed assets, and depreciated from the time that they are recognised as an asset on the fixed asset register and used in the business. Revenue costs are expensed as incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value on a first in, first out basis.

Operating lease agreements

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

Dilapidations

Provisions for dilapidations are provided when the company becomes obligated and the liability can be reliably estimated.

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Pension costs and other post-retirement benefits

The Company operates a number of defined contribution pension schemes. A defined contribution plan is a pension plan under which the company pays a fixed contribution into a separate entity. Once the contributions have been paid the company has no further payment obligation. The contributions are recognised as an expense as they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

Taxation including deferred taxation

Taxation expense for the period comprises of current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income. In this case tax is also recognised in other comprehensive income.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reported date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing differences.

Rent free periods

Where a rent free period is granted to the company, the accounting policy adopted is to charge the profit and loss account with a constant periodic rental over the term of the lease.

Operating rights

Operating rights, representing initial franchise fees payable for new restaurants, are amortised over a fixed period of 20 years. Initial fees receivable on franchise restaurants are recognised in the period of opening.

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

The recoverable amount of the asset (or asset's cash generating unit) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's (or asset's cash generating unit) continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account.

Thereafter any excess is recognised in profit or loss.

Financial instruments

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(Continued)*

Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow Group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

4. CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying the entity's accounting policies

Critical accounting estimates and assumptions

The company makes estimations and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Store closure provisions

When a restaurant becomes vacant or management take a decision to close early, the company provides for all unavoidable costs, net of anticipated cash inflows.

Onerous lease provision

Where a restaurants cash inflows do not meet its liabilities, and where a decision to close early has not been taken, the company provides for all unavoidable costs, net of anticipated cash inflows.

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)

4. CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATION UNCERTAINTY (*continued*)

Impairment

The company impairs its tangible assets for non-profit making restaurants, based on each restaurant's ability to cover its overheads.

Dilapidation

The restaurant units are leased based on a defined number of years, the estimated dilapidation cost are calculated based on the historical dilapidation payments made for restaurants where the lease has come to an end.

5. TURNOVER

The turnover and profit on ordinary activities before taxation are attributable to the one principal activity of the company. An analysis of turnover is given below:

	2017 £000	2016 £000
United Kingdom	<u>225,210</u>	<u>232,719</u>

6. OTHER OPERATING INCOME

	2017 £000	2016 £000
Rent receivable	<u>93</u>	<u>133</u>

7. OPERATING COSTS

Year ended 3 December 2017

	Excluding exceptional items £000	Exceptional items £000	Total £000
Raw materials and consumables	(45,154)	-	(45,154)
Other external charges	(87,411)	(1,143)	(88,554)
Staff costs	(77,148)	-	(77,148)
Depreciation and other amounts written off tangible and intangible assets	<u>(15,980)</u>	<u>(5,479)</u>	<u>(21,459)</u>
Total operating costs	<u>(225,693)</u>	<u>(6,622)</u>	<u>(232,315)</u>

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

7. OPERATING COSTS *(continued)*

Year ended 4 December 2016

	Excluding exceptional items £000	Exceptional items £000	Total £000
Raw materials and consumables	(45,976)	-	(45,976)
Other external charges	(85,208)	(1,213)	(86,421)
Staff costs	(79,406)	-	(79,406)
Depreciation and other amounts written off tangible and intangible assets	(14,907)	(492)	(15,399)
Total operating costs	<u>(225,497)</u>	<u>(1,705)</u>	<u>(227,202)</u>

8. PARTICULARS OF EMPLOYEES

The average monthly number of staff employed by the company during the financial year amounted to:

	2017 No	2016 No
Office and Management	738	762
Restaurants	<u>7,295</u>	<u>7,752</u>
	<u>8,033</u>	<u>8,514</u>

The aggregate payroll costs of the above were:

	2017 £000	2016 £000
Wages and salaries	71,294	74,093
Social security costs	4,498	4,427
Other Pension costs	<u>1,356</u>	<u>886</u>
	<u>77,148</u>	<u>79,406</u>

Included within other pension cost are accruals of £150k (2016: £120k) in relation to defined contribution pension schemes.

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. OPERATING (LOSS) PROFIT

Operating (loss) / profit is stated after charging/(crediting):

	2017 £000	2016 £000
Depreciation of owned fixed assets	15,852	14,786
Amortisation of intangible fixed assets	111	115
Loss on disposal of fixed assets	334	846
Loss on disposal of intangible fixed assets	17	5
Operating lease costs:		
- Land and Buildings	24,867	25,595
Auditors' remuneration – audit of the financial statements	52	52
Auditors' remuneration – other fees:	7	7
- Taxation services		

10. DIRECTORS' REMUNERATION

The emoluments of those directors who are also directors of the parent company are disclosed in the financial statements of PHH2 Limited.

11. EXCEPTIONAL ITEMS

	2017 £000	2016 £000
Net exceptional (cost) / income on early lease termination	(4,735)	1,017
Impairment of tangible fixed assets	(1,098)	(1,636)
Advisor fees	(789)	(1,086)
	<u>(6,622)</u>	<u>(1,705)</u>

Lease termination income and costs - These costs relate to store closures which fall outside of the groups re-image programme which was identified and controlled by management as part of the turnaround strategy implemented at the time of Pizza Hut (U.K.) Ltd acquisition. These costs are offset by payments received in relation to early termination of leases and includes a provision for onerous leases.

Impairments – The impairment of the tangible fixed assets following a review in accordance with FRS 102 on a value in use basis using a pre-tax discount rate of 12%.

Advisor fees - Legal and adviser fees relating to a one-off strategic project.

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. NET INTEREST EXPENSE

Interest receivable and similar income

	2017 £000	2016 £000
Deposit Interest	(44)	(72)
	<u>(44)</u>	<u>(72)</u>

Interest payable and similar expenses

	2017 £000	2016 £000
Other Interest paid	211	161
Inter-company Interest	333	339
	<u>544</u>	<u>500</u>

13. TAX ON (LOSS) / PROFIT

(a) Analysis of charge in the financial year

	2017 £000	2016 £000
Current tax:		
In respect of the year;		
UK Corporation tax charge based on the results for the year at 19.32% (2016 - 20%)	541	2,014
Group relief	(295)	(318)
Under/(over) provision in prior years	45	215
Total current tax	<u>291</u>	<u>1,911</u>
Deferred tax:		
Origination of timing differences	41	352
Adjustment in respects of prior period	0	192
Total Deferred tax	<u>41</u>	<u>544</u>
Tax on (loss) / profit	<u>332</u>	<u>2,455</u>

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

13. TAX ON (LOSS) / PROFIT *(continued)*

(b) Reconciliation of tax charge

Tax expense for the financial year is lower (2016: higher) than the standard rate of corporation tax in the UK for the financial year ended 3 December 2017 of 19.32% (2016: 20.00%). The differences are explained below:

	2017 £000	2016 £000
(Loss) / Profit on ordinary activities before taxation	(7,512)	5,222
Current Tax at 19.32 % (2016 - 20%)	(1,451)	1,044
Expenses not deductible for tax purposes	1,125	106
Deferred tax not provided for capital allowances and depreciation	908	1,216
Corporation tax based on results for the	582	2,366
Group relief	(295)	(318)
Under/(over) provision in prior years	45	407
Total tax charge	332	2,455

Note on taxation:

The tax charge for the financial year has been reduced by £295k (2016: £318k) because of losses surrendered by the parent undertaking. No payment for this surrender is to be made by the company.

(c) Factors that may affect future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial.

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. INTANGIBLE ASSETS

	Operating Rights £000
Cost	
At 04 December 2016	4,186
Additions	38
Disposals	(53)
At 03 December 2017	<u>4,171</u>
Accumulated Amortisation	
At 04 December 2016	3,465
Charge for the financial year	111
On Disposals	(36)
At 03 December 2017	<u>3,540</u>
Net Book Value	
At 03 December 2017	<u>631</u>
At 04 December 2016	<u>721</u>

15. TANGIBLE ASSETS

	Land and buildings £000	Assets in the course of construction £000	Fixtures and Fittings £000	Total £000
COST OR VALUATION				
At 04 December 2016	124,325	2,915	79,908	207,148
Additions	1,464	3,536	6,105	11,105
Disposals	(1,799)	-	(3,728)	(5,527)
Transfers	4,051	(5,155)	1,104	-
At 03 December 2017	<u>128,041</u>	<u>1,296</u>	<u>83,389</u>	<u>212,726</u>
ACCUMULATED DEPRECIATION				
At 04 December 2016	78,789	-	58,429	137,218
Charge for the year	7,931	-	7,921	15,852
Disposals	(1,632)	-	(3,561)	(5,193)
Impairment charge	911	-	187	1,098
At 03 December 2017	<u>85,999</u>	<u>-</u>	<u>62,976</u>	<u>148,975</u>
NET BOOK VALUE				
At 03 December 2017	<u>42,042</u>	<u>1,296</u>	<u>20,413</u>	<u>63,751</u>
At 04 December 2016	<u>45,536</u>	<u>2,915</u>	<u>21,479</u>	<u>69,930</u>

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. STOCKS

	2017 £000	2016 £000
Ingredients	1,027	1,167
Merchandising	141	127
	<u>1,168</u>	<u>1,294</u>

17. DEBTORS

	2017 £000	2016 £000
Trade debtors	2,499	2,423
Amounts owed by group Undertakings	9,840	5,218
Other debtors	117	42
Prepayments and accrued income	4,066	4,049
	<u>16,522</u>	<u>11,732</u>

Amounts owed by group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. The amount also includes a loan subject to interest.

18. CREDITORS: Amounts falling due within one year

	2017 £000	2016 £000
Trade creditors	11,053	9,337
Amounts owed to group undertaking	-	-
Taxation and social security	7,800	9,893
Other creditors	2,642	3,397
	<u>21,495</u>	<u>22,627</u>
Accruals and deferred income	16,016	15,856
	<u>37,511</u>	<u>38,483</u>

On 9 February 2016, PHH 2 Limited and Pizza Hut (U.K.) Limited entered into a facility agreement with HSBC Bank plc pursuant to which HSBC Bank plc made a three year multicurrency revolving credit facility in an aggregate amount of up to £12,000,000 available to Pizza Hut (U.K.) Limited. This facility is provided for general corporate and working capital purposes of PHH 2 Limited and its subsidiaries and is supported by guarantees and security provided by Pizza Hut (U.K.) Limited and PHH 2 Limited. Interest is payable on drawn amounts at a rate of LIBOR or EURIBOR (as applicable) plus 2.50% per annum and a commitment fee is payable on undrawn amounts at a rate of 1% per annum.

In connection with the HSBC facility, the longstop redemption date for all loan notes issued by PHH 2 Limited was extended until 28 February 2019.

On 20 April 2018, Rutland and the management transferred 100% of their shareholding in PHH1 Limited to HWS 2 Limited and the facility agreements were renegotiated, now maturing 19 October 2023.

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. POST-EMPLOYMENT BENEFITS

The company provides a defined contribution scheme for its employees.

The amount recognised as an expense for the defined contribution scheme was:

	2017 £000	2016 £000
Current period contribution	1,353	886

20. RELATED PARTY DISCLOSURES

Pizza Hut (U.K.) Ltd pays a management fee to Rutland Partners LLP. During the financial year to 3 December 2017 it amounted to £150k (2016: £154k).

The company has taken advantage of the exemption provided by FRS102 from disclosing related party transactions with other companies within the PHH1 Limited Group on the basis that it is a wholly owned subsidiary and its ultimate parent publishes consolidated financial statements.

21. GUARANTEE

There is a charge over the assets of Pizza Hut (U.K.) Ltd for Loan Notes of £20.27 million, issued by PHH2 Ltd. The loan notes are repayable on 28 February 2019.

22. DEFERRED TAXATION

The movement in the deferred taxation provision during the financial year was:

	2017 £000	2016 £000
Provision brought forward	(721)	(177)
Profit and loss account movement arising during the year	(41)	(544)
Provision carried forward	<u>(762)</u>	<u>(721)</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	2017 £000	2016 £000
Lower depreciation on fixed assets over taxation allowance	(762)	(721)
	<u>(762)</u>	<u>(721)</u>

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. OTHER PROVISIONS

	Dilapidations	Onerous Lease	Total
	£000	£000	£000
At 04 December 2016	1,062	-	1,062
Charged to the profit and loss account	2,378	2,685	5,063
Utilised this year	(169)	-	(169)
Amortisation of discount	72	-	72
At 03 December 2017	<u>3,343</u>	<u>2,685</u>	<u>6,028</u>

Dilapidations provisions relate to the expected future exit costs of operating lease agreements. In the prior year, a provision was made in respect of the costs of future store closures. These costs were classified as exceptional as management were undergoing a re-image and portfolio rationalisation. In the current year, management have revised the estimated cost of exit, utilised some of the provision and amortised the discount, this has resulted in the increase of the provision.

Onerous lease provisions relate to leasehold properties where cash inflows are unable to meet its liabilities and the company provides for all unavoidable costs, net of anticipated income, to the earlier of break option or lease expiry.

24. COMMITMENTS

At 5 December 2016 and 3 December 2017 the company had annual commitments under non-cancellable operating leases as set out below.

	Land and buildings	
	2017	2016
	£000	£000
Operating lease which expire:		
Within 1 year	24,506	25,098
Within 2 to 5 years	75,292	82,220
After more than 5 years	48,390	60,046
	<u>148,188</u>	<u>167,364</u>

In relation to the amounts shown above, the company has sublease agreements with an income of £93,297 (2016: £103,100).

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

PIZZA HUT (U.K.) LTD

FOR THE YEAR ENDED 3 DECEMBER 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. CALLED UP SHARE CAPITAL

Authorised share capital:

	2017 £000	2016 £000
100,000,000 (2016: 100,000,000)		
Ordinary shares of £1 each	100,000	100,000

Allotted, called up and fully paid:

	2017		2016	
	No	£000	No	£000
Ordinary shares of 1p each	71,505,000	71,505	71,505,000	71,505

26. ULTIMATE PARENT COMPANY

The immediate parent of Pizza Hut (U.K.) Ltd is PHH2 Limited, a company registered in England and Wales.

Until 19 April 2018, the Ultimate parent company was PHH1 Limited, a company incorporated in England and Wales. On 20 April 2018, Rutland and the management transferred 100% of their shareholding in PHH1 Limited to HWS 3 Limited. Starting from this date, the Company become wholly-owned subsidiary of HWS 4 Limited, a company incorporate in England and Wales.

The address of the immediate and ultimate parent companies where the financial statements can be obtained from is Building 1 Imperial Place, Elstree Way, Borehamwood, Hertfordshire, WD6 1JN.

Until 19 April 2018, the Ultimate controlling party was deemed to be Rutland Partners LLP through its majority shareholding in PHH1 Limited. From 20 April 2018 the ultimate controlling party is deemed to be the management through their majority shareholding in HWS 4 Limited.

27. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 20 April 2018, Rutland and the management transferred 100% of their shareholding in PHH1 Limited to HWS 2 Limited.

On 20 December 2017, the nominal value of each of the ordinary shares of £1.00 each held by the Company was reduced by £0.99 to £0.01 thereby creating a distributable reserve of £70,789,950.

On 20 December 2017, Pizza Hut (U.K.) Limited paid an interim dividend of an aggregate amount of £15,084,746 to PHH2 Limited.