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it possible.

**Premier Capital Plc  
Report and financial statements**

31 December 2016

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## Directors, officer and other information

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<i>Directors:</i>	Carmelo Hili ( <i>sive</i> ) Melo Carmel J. Farrugia Dr. Ann Fenech Massimiliano Lupica Victor Tedesco Tomasz Nawrocki
<i>Secretary:</i>	Dr. Karen Coppini
<i>Registered office:</i>	Nineteen Twenty Three, Valletta Road, Marsa, Malta
<i>Country of incorporation:</i>	Malta
<i>Company registration number:</i>	C 36522
<i>Auditor:</i>	Deloitte Audit Limited, Deloitte Place, Mriehel Bypass, Mriehel, Malta
<i>Principal bankers:</i>	HSBC Bank Malta p.l.c., Commercial Branch, 233, Republic Street, Valletta, Malta  AS DNB Banka, Skanstes Street 12, Riga, LV-1013, Latvia  BRD – Groupe Societe Generale S.A., 1-Ion Mihalache Boulevard, Sector 1, Bucharest, Romania

## Directors' report

Year ended 31 December 2016

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The directors present their report and the audited financial statements of the group and holding company for the year ended 31 December 2016.

### Principal activities

The group is engaged in the operations of McDonald's restaurants in Estonia, Greece, Latvia, Lithuania, Malta and Romania.

The company acts as an investment company and service provider to its subsidiary undertakings.

### Performance review

The group registered an increase in revenue from *Eur99,937,813* in 2015 to *Eur230,160,794* or an increase of 130.3% over prior year. This revenue growth was mainly achieved from the operation in Romania acquired in January 2016.

During the year under review, the group registered an operating profit of *Eur21,226,903* increasing from *Eur3,957,656* in 2015. After accounting for investment income and finance costs, the group registered a pre-tax profit of *Eur16,459,784* as opposed to *Eur1,696,299* in prior year 2015.

The group's net assets as at 31 December 2016 amounted to *Eur41,629,578* (2015 – *Eur17,739,081*). The group's net assets have been significantly impacted by the acquisition of the Romania operation in January 2016 as described in note 29. During the year, the company and the group also issued bonds of *Eur65,000,000* to the public as explained in note 24.

During the year under review, the company registered an operating loss of *Eur1,226,081* (2015 – *Eur1,018,333*). After accounting for investment income and finance costs, the company registered a pre-tax profit of *Eur9,021,650* (2015 – Loss of *Eur2,266,013*). The net assets of the company at the end of the year under review amounted to *Eur35,309,560* (2015 – *Eur15,445,210*).

The group measures the achievement of its objectives through the use of the following other key performance indicators:

#### *Financial Performance*

The group's current ratio (current assets divided by current liabilities), has improved from 50.7% at the end of 2015 to 142.2% at the end of 2016 due to the increase in cash reserves following the addition of the Romanian subsidiary and the proceeds of a bond issued during the year. The group uses this indicator as a measure of liquidity.

The group calculates the level of its free cash flow by reference to the net cash generated from operating activities less capital expenditure. The group's free cash flow at year end amounted to *Eur17,713,349*, as opposed to a free cash flow of *Eur509,540* at the end of the preceding year. This indicator measures how well the group turns profit into cash through the management of working capital and a disciplined approach to capital expenditure.

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## Directors' report (continued)

Year ended 31 December 2016

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### Performance review (continued)

#### *Financial Performance (continued)*

The group measures its performance based on EBITDA. EBITDA is defined as the group profit before net investment income and finance costs, taxation, depreciation and amortisation. During the year under review, EBITDA increased by 216.04% to *Eur*32,743,363 from *Eur*10,360,185, whereas the group's EBITDA margin increase from 10.4% to 14.2%.

During the year under review, the interest cover of the group improved from 4.4 times to 7.0 times. The interest cover represents the EBITDA divided by the net interest costs.

The debt to equity ratio of the group is monitored on a continuous basis. This stood at 2.48 times at the end of the year as opposed to 1.97 times in 2015. This indicator is computed by dividing the total interest bearing debt excluding bank overdrafts by the total equity of the group.

The gearing ratio of the group stood at 74.5% at the end of the year as opposed to 68.1% in 2015. Following the settlement of other financial liabilities, full repayment of the loan facility in Latvia and part repayment of loan facility in Romania by end of May 2017, the gearing ratio of the group is expected to improve to 66.4%.

#### *Non-financial Performance*

A key achievement for the group in 2016 was its ability to serve more customers than ever before since it commenced operations. The group registered year on year comparative guest count growth (excluding Romania) of 0.5%. With the addition of Romania, the group served a total of 105 million customers in 2016.

Customer satisfaction is monitored throughout the year via mystery shopper programmes that the group operates in all the markets whereby results are reviewed on a monthly basis by management at the market level.

The average number of employees increased from 2,688 to 5,842 by 117.3% during the year. This was mainly attributable to the acquisition of the Romania operation. The group runs a number of employee surveys to monitor employee satisfaction and commitment. Having high quality teams in place is essential to attain the company's business objectives.

### Review of the Business and Outlook

#### *Market Performance*

Overall group revenue increased by 130.3% compared to 2015, the main reason being the addition of the revenue of the Romanian subsidiary acquired early in the year. The market reporting the highest growth was Lithuania, with an overall growth of 6.7% on 2015. Estonia registered a growth of 4.7% when compared to 2015, Greece 3.7%, Latvia 3.3%, whilst Malta retracted by 2.3% as a result of one restaurant closed for the first five months of the year, then re-opened after relocation.

On a stand-alone basis, Romania registered a very positive year, registering double-digit turnover growth of 11.9% over 2015.

## Directors' report (continued)

Year ended 31 December 2016

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### Performance review (continued)

#### *Restaurants Portfolio*

During the year under review, besides adding 67 stores with the acquisition in Romania, the group continued to grow its portfolio, bringing up the total number of restaurants it operates to 133 by the end of the year (2015 – 63). Development activity included the opening of one restaurant in Greece, one restaurant in Malta, two new openings and one closure in Romania. The group also remodelled three existing restaurants in Romania and remodelled two restaurants in the Baltics.

#### *Future Outlook*

Looking ahead, the outlook for the group's business across all six markets is positive. Across, the Baltic States, Malta and in Romania, the McDonald's brand remains a market leader within the Informal Eating Out Sector and the group continue to grow its market share and broaden its user base through improving overall customers' restaurant experience. This indicates that the group expects to continue to grow its business in the coming years. Within the Greek market, McDonald's still faces strong competition with key players in the Informal Eating Out sector enjoying a higher market share, however the group managed to slightly improve its market share.

### Principal risks and uncertainties

The successful management of risk is essential to enable the group to achieve its objectives. The ultimate responsibility for risk management rests with the group's directors, who evaluate the group's risk appetite and formulate policies for identifying and managing such risks. The principal risks and uncertainties facing the group are included below:

#### *(a) Market and competition*

The group operates in a highly competitive environment and faces competition from various other entities. Technological developments also have the ability to create new forms of quickly evolving competition. An effective, coherent and consistent strategy to respond to competitors and changing market enables the group to sustain its market share and its profitability. The group continues to focus on service quality and performance in managing this risk.

#### *(b) Legislative risks*

The group is subject to numerous laws and regulations covering a wide range of matters. Failure to comply could have financial or reputational implications and could materially affect the group's ability to operate. The group has embedded operating policies and procedures to ensure compliance with existing legislation.

#### *(c) Talent and skills*

Failure to engage and develop the group's existing employees or to attract and retain talented employees could hamper the group's ability to deliver in the future. The group invests continuously in training its employees and undertakes regular reviews of the group's resource requirements.



## Directors' report (continued)

Year ended 31 December 2016

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### Principal risks and uncertainties (continued)

#### *(d) Economic and market environment*

Economic conditions have been challenging in recent years across the markets in which the group operates in particular in the Greek market. A significant economic decline in the informal eating out segment could impact the group's ability to continue to attract and retain customers. Demand for the group's products can be adversely affected by weakness in the wider economy which are beyond the group's control. This risk is evaluated as part of the group's annual strategy process covering the key areas of investment and development and updated regularly throughout the year. The group continues to make significant investment in innovation. The group regularly reviews its pricing structures to ensure that its products are appropriately placed within the markets in which it operates.

#### *(e) Brand and reputation risk*

Damage to the group's reputation could ultimately impede the group's ability to execute its corporate strategy. To mitigate this risk, the group strives continually to build its reputation through a commitment to sustainability, transparency, effective communication and best practices. The group works to develop and maintain its brand value.

#### *(f) Technology and business interruption*

The group relies on information technology in all aspects of its business. In addition, the services that the group offers to its customers are reliant on complex technical infrastructure. A failure in the operation of the group's key systems or infrastructure could cause a failure of service to its customers, thus negatively impacting its brand, and increased costs. The group makes significant investment in technology infrastructure to enable it to continue to support the growth of its business and has a robust selection and monitoring process of third-party providers.

#### *(g) Supply chain*

The group operates its own supply chain in the Baltics, Malta and Greece, whilst in Romania such function is outsourced. Supply chain relies on a number of McDonald's approved suppliers for the provision of its supplies. A significant failure within the supply chain could adversely affect the group's ability to deliver products and services to its customers, however the group has proper crisis management plans in place to mitigate such risk. Also a robust supplier selection process is in place and operated by McDonald's globally, with appropriate ongoing management and monitoring of key suppliers.

#### *(h) Customer service*

The group's revenues are at risk if it does not continue to provide the level of service expected by its customers. The group's commitment to customers is embedded in its values. The relevant employees undertake intensive training programmes to ensure that they are aware of, and abide by, the levels of service that are required by the group's customers.

## Directors' report (continued)

Year ended 31 December 2016

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### Principal risks and uncertainties (continued)

#### *(i) Political risk*

The group operates in many countries with differing economic, social and political conditions, which could include political unrest, strikes and other forms of instability. Changes in these conditions may adversely affect the group's business, results of operations, financial conditions or prospects. The group adapts to such risks by incorporating this risk into its business strategy.

#### *(j) Significant judgements and estimates*

Note 3 to the financial statements provides details in connection with the inherent uncertainties that surround the preparation of the financial statements and which require significant estimates and judgements.

#### *(k) Contingent liabilities*

Note 33 to the financial statements provides details in connection with the group's contingent liabilities.

### Financial risk management

Note 36 to the financial statements provides details in connection with the group's use of financial instruments, its financial risk management objectives and policies and the financial risks to which it is exposed.

### Results and dividends

The results for the year ended 31 December 2016 are shown in the statements of comprehensive income on page 13. The group's profit for the year after taxation was *Eur9,336,845* (2015 – *Eur1,325,605*), whilst the company's profit for the year after taxation was *Eur6,974,940* (2015 – Loss of *Eur1,591,410*). During the year, the directors declared an interim dividend of *Eur6,250,000* out of which *Eur1,250,000* were paid at year end. The directors do not recommend the payment of a final dividend.

### Post Balance Sheet Events

The relevant post balance sheet events are disclosed in note 38.

### Likely future business developments

The directors consider that the year end financial position was satisfactory and that the group is well placed to sustain the present level of activity in the foreseeable future.



## Directors' report (continued)

Year ended 31 December 2016

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### Directors

The directors who served during the period were:

Carmelo Hili (*sive*) Melo (Chairman)  
Richard Abdilla Castillo (resigned on 17 October 2016)  
Carmel J. Farrugia  
Dr. Ann Fenech  
Massimiliano Lupica  
Victor Tedesco  
Tomasz Nawrocki

In accordance with the company's articles of association all the directors are to remain in office.

### Going Concern

After reviewing the group's and company's budget for the next financial year, and other longer term plans, the directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements.

### Auditors

A resolution to reappoint Deloitte Audit Limited as auditor of the company will be proposed at the forthcoming Annual General Meeting.

Approved by the board of directors and signed on its behalf on 28 April 2017 by:



**Melo Hili**  
**Chairman**



**Victor Tedesco**  
**Director**



## Statement of directors' responsibilities

Year ended 31 December 2016

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The directors are required by the Companies Act (Cap. 386) to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the EU, which give a true and fair view of the state of affairs of the company and its group at the end of each financial year and of the profit or loss of the company and its group for the year then ended. In preparing the financial statements, the directors should:

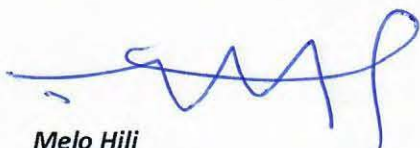
- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company and the group will continue in business as a going concern.

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and the group and which enable the directors to ensure that the financial statements comply with the Companies Act (Cap. 386). This responsibility includes designing, implementing and maintaining such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The directors are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Statement of responsibility pursuant to the Listing Rules issued by the Listing Authority

We confirm that to the best of our knowledge:

- a. In accordance with the Listing Rules, the financial statements give a true and fair view of the financial position of the company and its group as at 31 December 2016 and of their financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU; and
- b. In accordance with the Listing Rules, the Directors' report includes a fair review of the performance of the business and the position of the Issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.



**Melo Hili**  
**Chairman**



**Victor Tedesco**  
**Director**

## Corporate governance statement

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### Introduction

Pursuant to the Listing Rules as issued by the Listing Authority of the Malta Financial Services Authority, Premier Capital p.l.c (the 'company') is hereby reporting on the extent of its adoption of the Code of Principles of Good Corporate Governance (the 'Principles') contained in Appendix 5.1 of the Listing Rules.

The Board acknowledges that the Code does not dictate or prescribe mandatory rules but recommends principles of good practice. Nonetheless, the Board strongly believes that the Principles are in the best interest of the shareholders and other stakeholders since they ensure that the Directors, Management and employees of the group adhere to internationally recognised high standards of Corporate Governance.

The group currently has a corporate decision-making and supervisory structure that is tailored to suit the group's requirements and designed to ensure the existence of adequate checks and balances within the group, whilst retaining an element of flexibility, particularly in view of the size of the group and the nature of its business. The group adheres to the Principles, except for those instances where there exist particular circumstances that warrant non-adherence thereto, or at least postponement for the time being.

Additionally, the Board recognises that, by virtue of Listing Rule 5.101, the company is exempt from making available the information required in terms of Listing Rules 5.97.1 to 5.97.3; 5.97.6 and 5.97.7.

### The Board of Directors

The Board of Directors of the company is responsible for the overall long-term direction of the group, in particular in being actively involved in overseeing the systems of control and financial reporting and that the group communicates effectively with the market.

The Board of Directors meets regularly, with a minimum of four times annually, and is currently composed of six Members, three of which are completely independent from the company or any other related companies.

### Executive Directors

Victor Tedesco

### Non-Executive Directors

Carmelo Hili (*sive*) Melo (Chairman)

Richard Abdilla Castillo (resigned on the 17 October 2016)

Tomasz Nawrocki

### Independent Non-Executive Directors

Mr. Carmel J. Farrugia

Dr. Ann Fenech

Massimiliano Lupica



## Corporate governance statement (continued)

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### The Board of Directors (continued)

The Board Meetings are attended by the Chief Financial Officer of the group in order for the Board to have direct access to the financial operation of the group. This is intended to, inter alia, ensure that the policies and strategies adopted by the Board are effectively implemented.

The remuneration of the board is reviewed periodically by the shareholders of the company.

The company ensures that it provides directors with relevant information to enable them to effectively contribute to board decisions.

The directors are fully aware of their duties and obligations, and whenever a conflict of interest in decision making arises, they refrain from participating in such decisions.

### Audit Committee

The Terms of Reference of the Audit Committee, which were approved by the Listing Authority of the Malta Financial Services Authority, are modelled on the principles set out in the Listing Rules. The Audit Committee assists the Board in fulfilling its supervisory and monitoring responsibility by reviewing the group financial statements and disclosures, monitoring the system of internal control established by management as well as the audit processes.

The Board of Directors established the Audit Committee, which meets regularly, with a minimum of four times annually, and is currently composed of the following individuals:

Mr Massimiliano Lupica (Chairman)  
Mr Tomasz Nawrocki  
Mr Carmel J. Farrugia

This satisfies the requirement established by the Listing Rules that the Audit Committee is composed of non-executive directors, the majority of which being independent.

The Board considers Mr. Carmel J. Farrugia to be competent in accounting and/or auditing in terms of the Listing Rules. Furthermore, the Board considers that the Audit Committee, as a whole, to have relevant competence in the sector the Company is operating.

The Audit Committee met four times during the year 2016 and twice during 2017. Communication with and between the Secretary, top level management and the Committee is ongoing and considerations that required the Committee's attention are acted upon between meetings and decided by the Members (where necessary) through electronic circulation and correspondence.

## Corporate governance statement (continued)

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### Internal Control

While the Board is ultimately responsible for the group's internal controls as well as their effectiveness, the executive responsibility for the running of the company's business is vested in the Managing Director who reports directly to the Board. With the present reporting system the Board felt that the position of Chief Executive Officer is currently not required.

The group's system of internal controls is designed to manage all the risks in the most appropriate manner. However, such controls cannot provide an absolute elimination of all business risks or losses. Therefore, the Board, inter alia, reviews the effectiveness of the group's system of internal controls in the following manner:

1. Reviewing the group's strategy on an on-going basis as well as setting the appropriate business objectives in order to enhance value for all stakeholders;
2. Implementing an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Group objectives;
3. Appointing and monitoring the Managing Director whose function is to manage the operations of the group; and
4. Identifying and ensuring that significant risks are managed satisfactorily.
5. Company policies are being observed.

### Corporate Social Responsibility

The Board is mindful of and seeks to adhere to sound principles of Corporate Social Responsibility in daily management practices, which is also extended throughout the company's subsidiaries. There is continuing commitment to operate the business ethically at all times, while contributing to economic development and improving the quality of life of its employees and their families with the local community and society at large.

The subsidiary companies in Estonia, Greece, Latvia, Lithuania, Malta and Romania organise an annual 'McHappy Day' programme of events held over one month to fund-raise for local charity. A nominal amount is also donated from every 'McHappy' meal to charity.

The Latvia chapter of RMHC (Ronald McDonald House Charity), supported by the group, operates a state-of-the-art Mobile Care clinic which tours the country providing medical services to children in poorly served areas. It provides a range of medical services including ophthalmology, treatment for asthma and neurology. Working closely with the Children's Clinical University Hospital of Latvia, the Ministry of Health and the Latvian Union of Municipalities, the mobile care centre travels the Latvian countryside daily. In 2016 it provided 3,844 free medical exams to Latvian children mostly aged under 5 years.

After RMHC (Malta's Chapter) launched its plans in 2015 to set up a house run together with Malta charity Inspire to help children with special needs, a 360-square meter site was acquired and construction work began in late 2016. McDonald's in Malta will be one of the RMHC (Malta's Chapter) main benefactors.



## Corporate governance statement (continued)

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### Corporate Social Responsibility (continued)

In Romania, the local subsidiary supports the local Chapter of RMHC. There the charity runs two Ronald McDonald Charity Houses which accommodate children undergoing treatment and their family members free of charge. Two other Ronald McDonald Houses are in the pipeline and construction is planned to start in 2017.

The charity is represented in more than 60 countries and regions across the globe and is responsible for providing grants and services to children's well-being programmes around the world.

In carrying on its business, the group is fully aware of its obligation to preserving the environment and has put in place a number of policies aimed at respecting the environment and reducing waste.

### Relations with the market

The market is kept up to date with all relevant information, and the company regularly publishes such information on its website to ensure consistent relations with the market.

### Non-compliance with the code

#### *Principle 7: Evaluation of the board's performance*

Under the present circumstances, the board does not consider it necessary to appoint a committee to carry out a performance evaluation of its role as the board's performance is always under scrutiny of the shareholders of the company.

#### *Principle 8: Committees*

Under the present circumstances the board does not consider it necessary to appoint a remuneration committee and a nomination committee as decisions on these matters are taken at shareholder level.

#### *Principle 10: Institutional shareholders,*

This principle is not applicable since the company has no institutional shareholders.

**Approved by the Board of Directors and signed on its behalf on 28 April, 2017 by:**



**Melo Hili**  
Chairman



**Victor Tedesco**  
Director



## Statements of profit or loss and other comprehensive income

Year ended 31 December 2016

	Notes	2016 Eur	Group 2015 Eur	2016 Eur	Holding 2015 Eur
Revenue	5	230,160,794	99,937,813	1,128,012	1,128,012
Cost of sales	9	(181,161,650)	(82,442,950)	-	-
<b>Gross profit</b>		<b>48,999,144</b>	<b>17,494,863</b>	<b>1,128,012</b>	<b>1,128,012</b>
Other operating income		271,226	-	-	-
Selling expenses	9	(13,224,118)	(5,151,961)	-	-
Administrative expenses	9	(14,819,349)	(8,385,246)	(2,354,093)	(2,146,345)
Operating profit/(loss)		21,226,903	3,957,656	(1,226,081)	(1,018,333)
Investment income	6	344,305	90,177	13,112,370	969,789
Investment losses	7	(455,668)	-	-	-
Finance costs	8	(4,655,756)	(2,351,534)	(2,864,639)	(2,217,469)
Profit/(loss) before tax	9	16,459,784	1,696,299	9,021,650	(2,266,013)
Income tax (expense)/credit	12	(7,122,939)	(370,694)	(2,046,710)	674,603
<b>Profit/(loss) for the year</b>		<b>9,336,845</b>	<b>1,325,605</b>	<b>6,974,940</b>	<b>(1,591,410)</b>
<b>Other comprehensive income</b>					
<b>Items that will not be reclassified to profit or loss:</b>					
Gain on revaluation of property, plant and equipment		44,568	-	-	-
<b>Items that may be reclassified subsequently to profit or loss:</b>					
Increase in fair value of available-for-sale investments		125,175	134,022	125,175	134,022
Reversal of fair value upon disposal of available-for-sale investments		(85,765)	-	(85,765)	-
Exchange differences on translation of foreign operations		(221,418)	-	-	-
		(182,008)	134,022	39,410	134,022
<b>Total comprehensive income/(expense) for the year</b>		<b>9,199,405</b>	<b>1,459,627</b>	<b>7,014,350</b>	<b>(1,457,388)</b>
<b>Profit attributable to:</b>					
Owners of the Group and Company		8,295,643	1,325,605		
Non-controlling interests		1,041,202	-		
		9,336,845	1,325,605		
<b>Total comprehensive income attributable to:</b>					
Owners of the Group and Company		8,158,203	1,459,627		
Non-controlling interests		1,041,202	-		
		9,199,405	1,459,627		

## Statements of financial position

31 December 2016

	Notes	2016 Eur	Group 2015 Eur	2016 Eur	Holding 2015 Eur
<b>ASSETS AND LIABILITIES</b>					
<b>Non-current assets</b>					
Goodwill	3	25,679,138	16,591,999	-	-
Intangible assets	14	10,335,708	8,492,282	6,714,667	7,358,768
Property, plant and equipment	15	74,864,277	30,681,504	32,746	15,961
Other financial assets	17	-	1,281,095	-	1,281,095
Available-for-sale investments	17	-	1,757,493	-	1,757,493
Investment in subsidiaries	17	-	-	56,375,780	19,425,780
Loans and receivables	17	1,966,607	-	17,280,586	19,920,002
Deferred tax assets	16	802,777	2,495,290	-	1,943,710
Prepayments	18	2,114,217	1,439,846	254,584	-
		<u>115,762,724</u>	<u>62,739,509</u>	<u>80,658,363</u>	<u>51,702,809</u>
<b>Current assets</b>					
Inventories	19	3,924,040	3,011,095	-	-
Other financial assets	17	1,866,293	-	1,866,293	-
Loans and receivables	17	5,359,810	185,781	2,317,230	1,834,270
Trade and other receivables	20	2,527,938	1,388,505	2,080,723	1,549,721
Current tax asset		200,827	520,551	-	161,804
Cash and cash equivalents	28	62,113,317	4,362,715	42,997,087	45,392
		<u>75,992,225</u>	<u>9,468,647</u>	<u>49,261,333</u>	<u>3,591,187</u>
Non-current assets held for sale	17	1,596,154	-	1,596,154	-
<b>Total assets</b>		<u>193,351,103</u>	<u>72,208,156</u>	<u>131,515,850</u>	<u>55,293,996</u>
<b>Current liabilities</b>					
Trade and other payables	21	25,239,542	13,158,075	1,907,752	1,515,523
Debt securities in issue	24	7,384,036	-	7,384,036	-
Other financial liabilities	22	10,847,677	1,092,836	6,230,233	1,392,043
Bank overdrafts and loans	23	8,077,719	4,042,272	-	951,828
Current tax liabilities		1,881,200	383,805	297,653	-
		<u>53,430,174</u>	<u>18,676,988</u>	<u>15,819,674</u>	<u>3,859,394</u>
<b>Non-current liabilities</b>					
Bank loans	23	30,987,677	8,285,804	-	-
Debt securities in issue	24	64,071,224	24,394,893	64,071,224	24,394,893
Other financial liabilities	22	70,936	96,006	14,094,246	9,144,245
Provisions	27	319,870	-	-	-
Deferred tax liabilities	16	2,841,644	3,015,384	2,221,146	2,450,254
		<u>98,291,351</u>	<u>35,792,087</u>	<u>80,386,616</u>	<u>35,989,392</u>
<b>Total liabilities</b>		<u>151,721,525</u>	<u>54,469,075</u>	<u>96,206,290</u>	<u>39,848,786</u>
<b>Net assets</b>		<u>41,629,578</u>	<u>17,739,081</u>	<u>35,309,560</u>	<u>15,445,210</u>

## Statements of financial position (continued)

31 December 2016

	Notes	2016 Eur	Group 2015 Eur	2016 Eur	Holding 2015 Eur
<b>EQUITY</b>					
<i>Equity attributable to owners of the Group and Company:</i>					
Share capital	25	33,674,700	13,574,700	33,674,700	13,574,700
Exchange translation reserves		(209,693)	11,725	-	-
Fair value reserve		366,588	327,178	366,588	327,178
Other reserves	26	(496,179)	459,253	212,351	1,212,351
Retained earnings		5,386,626	3,366,225	1,055,921	330,981
Equity attributable to:					
Owners of the Group and Company		38,722,042	17,739,081	35,309,560	15,445,210
Non-controlling interest		2,907,536	-	-	-
<b>Total equity</b>		<b>41,629,578</b>	<b>17,739,081</b>	<b>35,309,560</b>	<b>15,445,210</b>

These financial statements were approved by the board of directors, authorised for issue on 28 April 2017 and signed on its behalf by:



**Melo Hili**  
Chairman



**Victor Tedesco**  
Director



## Statement of changes in equity

Year ended 31 December 2016

### Group

	Share capital	Exchange translation reserve	Fair value reserve	Other reserves	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur
<b>Balance at 1 January 2015</b>	13,574,700	11,725	193,156	(771,527)	4,001,400	17,009,454	-	17,009,454
Dividends (Note 13)	-	-	-	-	(1,730,000)	(1,730,000)	-	(1,730,000)
Loan earmarked for capitalisation	-	-	-	1,000,000	-	1,000,000	-	1,000,000
Profit for the year	-	-	-	-	1,325,605	1,325,605	-	1,325,605
Other comprehensive income	-	-	134,022	-	-	134,022	-	134,022
Total comprehensive income for the year	-	-	134,022	-	1,325,605	1,459,627	-	1,459,627
<b>Balance at 31 December 2015</b>	<b>13,574,700</b>	<b>11,725</b>	<b>327,178</b>	<b>230,780</b>	<b>3,366,225</b>	<b>17,739,081</b>	<b>-</b>	<b>17,739,081</b>
Movement in legal reserve (Note 26)	-	-	-	230,780	(230,780)	-	-	-
<b>Balance at 1 January 2016</b>	<b>13,574,700</b>	<b>11,725</b>	<b>327,178</b>	<b>459,253</b>	<b>3,366,225</b>	<b>17,739,081</b>	<b>-</b>	<b>17,739,081</b>
Non-controlling interests on business combination	-	-	-	-	-	-	1,932,728	1,932,728
Dividends (Note 13)	-	-	-	-	(6,250,000)	(6,250,000)	-	(6,250,000)
Dividends paid to non-controlling interests (Note 13)	-	-	-	-	-	-	(66,394)	(66,394)
Issue of share capital (Note 25)	20,100,000	-	-	(1,000,000)	-	19,100,000	-	19,100,000
Profit for the year	-	-	-	-	8,295,643	8,295,643	1,041,202	9,336,845
Other comprehensive income	-	(221,418)	39,410	44,568	-	(137,440)	-	(137,440)
Total comprehensive income for the year	-	(221,418)	39,410	44,568	8,295,643	8,158,203	1,041,202	9,199,405
Movement in other reserves (Note 26)	-	-	-	-	(25,242)	(25,242)	-	(25,242)
<b>Balance at 31 December 2016</b>	<b>33,674,700</b>	<b>(209,693)</b>	<b>366,588</b>	<b>(496,179)</b>	<b>5,386,626</b>	<b>38,722,042</b>	<b>2,907,536</b>	<b>41,629,578</b>

## Statement of changes in equity (continued)

Year ended 31 December 2016

### Holding company

	Share capital Eur	Retained earnings Eur	Fair value reserve Eur	Other reserve Eur	Total Eur
<b>Balance at 1 January 2015</b>	13,574,700	3,652,391	193,156	212,351	17,632,598
Dividends (Note 13)	-	(1,730,000)	-	-	(1,730,000)
Loan earmarked for capitalisation	-	-	-	1,000,000	1,000,000
Loss for the year	-	(1,591,410)	-	-	(1,591,410)
Other comprehensive income for the year	-	-	134,022	-	134,022
Total comprehensive income for the year	-	(1,591,410)	134,022	-	(1,457,388)
<b>Balance at 1 January 2016</b>	<b>13,574,700</b>	<b>330,981</b>	<b>327,178</b>	<b>1,212,351</b>	<b>15,445,210</b>
Dividends (Note 13)	-	(6,250,000)	-	-	(6,250,000)
Issue of share capital (Note 25)	20,100,000	-	-	(1,000,000)	19,100,000
Profit for the year	-	6,974,940	-	-	6,974,940
Other comprehensive income for the year	-	-	39,410	-	39,410
Total comprehensive income for the year	-	6,974,940	39,410	-	7,014,350
<b>Balance at 31 December 2016</b>	<b>33,674,700</b>	<b>1,055,921</b>	<b>366,588</b>	<b>212,351</b>	<b>35,309,560</b>



## Statements of cash flows

Year ended 31 December 2016

	<b>Group</b>		<b>Holding</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>Eur</b>	<b>Eur</b>	<b>Eur</b>	<b>Eur</b>
<b>Cash flows from operating activities</b>				
Profit / (Loss) before tax	16,459,784	1,696,299	9,021,650	(2,266,013)
<i>Adjustments for:</i>				
Depreciation and amortisation	11,516,459	6,402,529	654,588	669,359
Interest expense	4,413,908	2,364,848	2,431,947	2,389,582
Interest income	(256,509)	(67,798)	(2,049,645)	(967,716)
Acquisition related costs	455,668	-	-	-
Amortisation of bond issue expenses	241,848	57,907	241,848	57,907
Revaluation of interest rate swap	(25,071)	8,098	-	-
Loss/ (gain) on disposal of property, plant and equipment	480,780	(375,974)	9	1,000
Gain on available-for-sale investments	(62,725)	-	(62,725)	-
Dividend Income from subsidiaries	-	-	(11,000,000)	-
Gain on revaluation of property, plant and equipment	(44,568)	-	-	-
Impairment of property, plant and equipment	16,168	150,466	-	-
Operating profit before working capital movement	33,195,742	10,236,375	(762,328)	(115,881)
Movement in inventories	(160,713)	(71,626)	-	-
Movement in trade and other receivables	(299,224)	77,930	(785,586)	(786,765)
Movement in trade and other payables	4,717,425	193,902	392,229	41,034
Cash flows from operations	37,453,230	10,436,581	(1,155,685)	(861,612)
Interest paid	(4,481,662)	(2,303,780)	(1,723,306)	(1,609,196)
Income tax refund/(paid)	(4,520,632)	(352,577)	127,350	531,433
<i>Net cash flows from / (used in) operating activities</i>	<u>28,450,936</u>	<u>7,780,224</u>	<u>(2,751,641)</u>	<u>(1,939,375)</u>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	(10,839,927)	(7,303,687)	(27,281)	(4,374)
Proceeds from sale of property, plant and equipment	195,972	463,921	-	19,000
Purchase of intangible assets	(93,632)	(430,918)	-	-
Proceeds from sale of available for sale investments	-	523,750	-	-
Settlement of loans and receivables	-	-	2,934,684	5,765,068
Advances of loans and receivables	-	-	(6,465,222)	(4,039,085)
Advance of loan to non-controlling interest to finance business combination	(1,932,728)	-	-	-
Purchase of business combination	(56,144,305)	-	-	-
Cash and cash equivalents taken over on business combination	13,411,229	-	-	-
Interest received	256,509	67,798	285,869	256,130
Purchase of available for sale investments	(250,000)	(1,000,000)	(250,000)	(1,000,000)
<i>Net cash flows (used in) / from investing activities</i>	<u>(55,396,882)</u>	<u>(7,679,136)</u>	<u>(3,521,950)</u>	<u>996,739</u>
<b>Cash flows from financing activities</b>				
Re-purchase of own bonds	(241,848)	(52,820)	(241,848)	(52,820)
Proceeds from 3.75% Bond Issue 2026	46,818,520	-	46,818,520	-
Repayment of bank borrowings	(12,842,931)	(2,229,438)	-	-
Drawdowns from bank facilities	41,799,767	2,226,265	-	-
Dividends paid	(1,250,000)	(730,000)	(1,250,000)	(730,000)
Movement in other financial liabilities	(997,694)	-	4,788,191	-
Increase in share capital	19,100,000	-	-	-
Acquisition related expenses	(455,668)	-	-	-
Repayments to related parties	(6,633,157)	(1,127,217)	(280,990)	(425,856)
Advances from related parties	1,425,249	1,646,754	343,241	672,441
<i>Net cash flows from / (used in) financing activities</i>	<u>86,722,238</u>	<u>(266,456)</u>	<u>50,177,114</u>	<u>(536,235)</u>
<b>Net movement in cash and cash equivalents</b>	<u>59,776,292</u>	<u>(165,368)</u>	<u>43,903,523</u>	<u>(1,478,871)</u>
<b>Cash and cash equivalents at the beginning of the year</b>	<u>2,665,701</u>	<u>2,831,069</u>	<u>(906,436)</u>	<u>572,435</u>
<b>Exchange differences on translation of foreign operations</b>	<u>(328,676)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Cash and cash equivalents at the end of the year (note 28)</b>	<u>62,113,317</u>	<u>2,665,701</u>	<u>42,997,087</u>	<u>(906,436)</u>

## Notes to the financial statements

31 December 2016

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### 1. Company information and basis of preparation

Premier Capital plc is a public listed company incorporated in Malta with registration number C36522. The registered address of the company is Nineteen Twenty Three, Valletta Road, Marsa.

The financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss and available-for-sale financial assets which are stated at their fair values and in accordance with International Financial Reporting Standards as adopted by the EU. The significant accounting policies adopted are set out below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the company determines when transfers are deemed to have occurred between Levels in the hierarchy at the end of each reporting period.

### 2. Significant accounting policies

#### *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the holding company and entities controlled by the holding company (its subsidiaries). A subsidiary is an entity that is controlled by the company. The company controls an investee when the company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, in preparing these consolidated financial statements, appropriate adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the group entities.



## Notes to the financial statements

31 December 2016

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### 2. Significant accounting policies (continued)

#### *Basis of consolidation (continued)*

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets or liabilities of consolidated subsidiaries are identified separately from the group's equity therein. Non-controlling interests consists of the amount of those interests at the date of the original business combination and the non-controlling interests share of changes in equity since the date of the combination. Total comprehensive income is attributable to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

#### *Business combinations*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except where the exceptions to the recognition or measurement principles apply.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

## Notes to the financial statements

31 December 2016

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### 2. Significant accounting policies (continued)

#### *Business combinations (continued)*

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognised in profit or loss. Amounts previously recognised in other comprehensive income in relation to the acquiree are accounted for in the same manner as would be required if the interest were disposed of.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the holding company.

Where the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

#### *Goodwill*

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.



## Notes to the financial statements

31 December 2016

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### 2. Significant accounting policies (continued)

#### *Goodwill (continued)*

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### *Investment in subsidiaries*

A subsidiary is an entity that is controlled by the company. The company controls an investee when the company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Investments in subsidiaries, in the company's financial statements are stated at cost less any accumulated impairment losses. Dividends from the investments are recognised in profit or loss.

#### *Property, plant and equipment*

The group's property, plant and equipment are classified into the following classes – land and buildings, improvement to premises, motor vehicles, plant and equipment and other equipment. The holding company's property, plant and equipment are classified into motor vehicles and furniture, fixtures and other equipment.

Property, plant and equipment are initially measured at cost. Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. Expenditure on repairs and maintenance of property, plant and equipment is recognised as an expense when incurred.

Land and buildings are held for use in the production or supply of goods or services or for administrative purposes. Subsequent to initial recognition, land and buildings are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Other tangible assets are stated at cost less any accumulated depreciation and any accumulated impairment losses.



## Notes to the financial statements

31 December 2016

### 2. Significant accounting policies (continued)

#### *Property, plant and equipment (continued)*

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

#### *Depreciation*

Depreciation commences when the depreciable assets are available for use and is charged to profit or loss so as to write off the cost, less any estimated residual value, over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	-	2.5% - 5% per annum
Improvements to premises	-	5% - 20% per annum <i>in line with lease expiry</i>
Motor vehicles	-	12.5% - 33.3% per annum
Plant and equipment	-	10% - 50% per annum
Furniture, fixtures and other equipment	-	10% - 25% per annum

No depreciation is charged on land.

The depreciation method applied, the residual value and the useful life are reviewed, and adjusted if appropriate, at the end of each reporting period.

#### *Intangible assets*

An intangible asset is recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the group and the cost of the asset can be measured reliably.

Intangible assets are initially measured at cost, being the fair value at the acquisition date for intangible assets acquired in a business combination. Expenditure on an intangible asset is recognised as an expense in the period when it is incurred unless it forms part of the cost of the asset that meets the recognition criteria or the item is acquired in a business combination and cannot be recognised as an intangible asset, in which case it forms part of goodwill at the acquisition date.

The useful life of intangible assets is assessed to determine whether it is finite or indefinite. Intangible assets with a finite useful life are amortised. Amortisation is charged to profit or loss so as to write off the cost of intangible assets less any estimated residual value, over the estimated useful lives. The amortisation method applied, the residual value and the useful life are reviewed, and adjusted if appropriate, at the end of each reporting period.

## Notes to the financial statements

31 December 2016

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### 2. Significant accounting policies (continued)

#### *Intangible assets (continued)*

Intangibles are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

#### (i) Support services licence

After initial recognition, support services licence is carried at cost less any accumulated amortisation and any accumulated impairment losses. Support services licence is written off to profit or loss by equal instalments over the term of the support services agreement with the subsidiaries, being 20 years.

#### (ii) Computer software

In determining the classification of an asset that incorporates both intangible and tangible elements, judgement is used in assessing which element is more significant. Computer software which is an integral part of the related hardware is classified as property, plant and equipment and accounted for in accordance with the group's accounting policy on property, plant and equipment. Where the software is not an integral part of the related hardware, this is classified as an intangible asset and carried at cost less any accumulated amortisation and any accumulated impairment losses. Computer software classified as an intangible asset is amortised on a straight-line basis over three to five years.

#### (iii) Acquired rights

Acquired rights are classified as intangible assets. After initial recognition, acquired rights are carried at cost less any accumulated amortisation and any accumulated impairment losses. Acquired rights are amortised on a straight-line basis over thirty-five to forty years.

#### (iv) Franchisee fees

After initial recognition, franchisee fees are carried at cost less any accumulated amortisation and any accumulated impairment losses. Franchisee fees are written off to profit or loss by equal instalments over the term of the franchisee agreement.



## Notes to the financial statements

31 December 2016

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### 2. Significant accounting policies (continued)

#### *Other financial instruments*

Financial assets and financial liabilities are recognised when the group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially recognised at their fair value plus directly attributable transaction costs for all financial assets or financial liabilities not classified at fair value through profit or loss.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the entity transfers the financial asset and the transfer qualifies for derecognition.

Financial liabilities are derecognised when they are extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

An equity instrument is any contract that evidences a residual interest in the assets of the holding company after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

#### (i) Trade and other receivables

Trade and other receivables are classified with current assets and are stated at their nominal value unless the effect of discounting is material, in which case trade receivables are measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

#### (ii) Investments

The group's investments are classified into the following categories - loans and receivables, financial assets at fair value through profit or loss and available-for-sale investments. The classification depends on the purpose for which the investments were acquired.

Financial assets at fair value through profit or loss are those that are held for trading purposes or those financial assets that are so designated upon initial recognition. After initial recognition, financial assets at fair value through profit or loss are measured at their fair value. Gains and losses arising from a change in fair value are recognised in profit or loss in the period in which they arise.



## Notes to the financial statements

31 December 2016

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### 2. Significant accounting policies (continued)

#### *Other financial instruments (continued)*

##### (ii) Investments (continued)

Where applicable, dividend income on financial assets at fair value through profit or loss is recognised with other dividend income, if any, arising on other financial assets. Where applicable, interest income on financial assets at fair value through profit or loss is disclosed separately within the line item investment income. Fair value gains and losses are recognised within the line items investment income or investment losses as appropriate.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that are held for trading or are designated upon initial recognition as at fair value through profit or loss or as available-for-sale financial assets or those for which the group may not recover substantially all of its initial investment other than because of credit deterioration.

After initial recognition, loans and receivables are recognised at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the financial asset is derecognised, or impaired, or through the amortisation process.

Available-for-sale financial assets are those non-derivative financial assets that are either designated in this category by the company or not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. After initial recognition, available-for-sale financial assets are measured at their fair value. Gains and losses arising from a change in fair value are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Interest calculated using the effective interest method is recognised in profit or loss.

When applying the effective interest method, the annual amortisation of any discount or premium is aggregated with other investment income receivable over the term of the instrument, if any, so that the revenue recognised in each period represents a constant yield on the investment.

##### (iii) Bank borrowings

Subsequent to initial recognition, interest-bearing bank loans are measured at amortised cost using the effective interest method. Bank loans are carried at face value due to their market rate of interest.

## Notes to the financial statements

31 December 2016

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### 2. Significant accounting policies (continued)

#### *Other financial instruments (continued)*

##### (iii) Bank borrowings (continued)

Subsequent to initial recognition, interest-bearing bank overdrafts are carried at face value in view of their short-term maturities.

##### (iv) Other borrowings

Subsequent to initial recognition, other borrowings are measured at amortised cost using the effective interest method unless the effect of discounting is immaterial.

##### (v) Trade and other payables

Trade and other payables are classified with current liabilities and are stated at their nominal value, unless the effect of discounting is material, in which case trade payables are measured at amortised cost using the effective interest method.

##### (vi) Shares issued by the company

Ordinary shares issued by the company are classified as equity instruments.

##### (vii) Derivative financial instruments

Derivative financial assets and derivative financial liabilities are classified as held for trading unless they are designated as effective hedging instruments. During the year under review and during the prior year, the group did not designate any of its derivative financial instruments in a hedging relationship for accounting purposes. After initial recognition, derivative financial instruments are measured at their fair value. Gains and losses arising from a change in fair value are recognised in profit or loss in the period in which they arise.

#### *Inventories*

Inventories are stated at the lower of cost and net realisable value. The group considers the nature and use of the inventory when calculating the cost of inventories.

Cost is calculated using the weighted average method and comprises expenditure incurred in acquiring the inventories and other costs incurred in bringing inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less the costs to be incurred in marketing, selling and distribution.



## Notes to the financial statements

31 December 2016

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### 2. Significant accounting policies (continued)

#### *Non-current assets held for sale*

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell. An impairment loss is recognised in profit or loss. Non-current assets are not depreciated (or amortised) while they are classified as held for sale.

#### *Provisions*

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are not recognised for future operating losses.

#### *Impairment*

At the end of each reporting period, the carrying amount of assets, including cash-generating units, is reviewed to determine whether there is any indication or objective evidence of impairment, as appropriate, and if any such indication or objective evidence exists, the recoverable amount of the asset is estimated.

Goodwill, intangible assets with an indefinite useful life and intangible assets that are not yet available for use are tested for impairment annually, irrespective of whether an indication of impairment exists.

In the case of financial assets that are carried at amortised cost or classified as available-for-sale investments, objective evidence of impairment includes observable data about the following loss events – significant financial difficulty of the issuer (or counterparty) or a breach of contract or it becoming probable that the borrower will enter bankruptcy or other financial reorganization or the company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the company would not otherwise consider.



## Notes to the financial statements

31 December 2016

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### 2. Significant accounting policies (continued)

#### *Impairment (continued)*

In addition to the above loss events, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

For loans and receivables, if there is objective evidence that an impairment loss has been incurred, the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced directly.

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative impairment loss that had been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment and is measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

In the case of other assets tested for impairment, the recoverable amount is the higher of fair value (which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date) less costs of disposal and value in use (which is the present value of the future cash flows expected to be derived, discounted using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset). Where the recoverable amount is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount, as calculated.

Where it is not possible to estimate the recoverable amount of an individual asset, then the recoverable amount of the cash-generating unit to which the asset belongs is determined. For cash-generating units, where the recoverable amount is less than the carrying amount, the carrying amount of the assets of the unit is reduced first to reduce the carrying amount of any goodwill allocated, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

Impairment losses are recognised immediately in profit or loss.

For loans and receivables, if, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly.

## Notes to the financial statements

31 December 2016

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### 2. Significant accounting policies (continued)

#### *Impairment (continued)*

In the case of other assets tested for impairment, an impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

An impairment loss recognised for goodwill is not reversed in a subsequent period. Impairment reversals are recognised immediately in profit or loss.

#### *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of value-added tax and discounts, where applicable. Revenue is recognised to the extent that it is probable that future economic benefits will flow to the company and these can be measured reliably. The following specific recognition criteria must also be met:

##### *Sale of goods*

Revenue from the sale of goods is recognised on the transfer of the risks and rewards of ownership, which generally coincides with the time of delivery, when the costs incurred or to be incurred in respect of the transaction can be measured reliably and when the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

##### *Provision of services*

Revenue from the provision of services is recognised in the period in which the services are rendered. For practical purposes, when services are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion.

##### *Interest income*

Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the assets net carrying amount.



## Notes to the financial statements

31 December 2016

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### 2. Significant accounting policies (continued)

#### *Revenue recognition (continued)*

##### Dividend income

Dividend income is recognised when the shareholder's right to receive payment has been established and provided that it is probable that the economic benefits will flow to the group and the amount of income can be measured reliably.

#### *Borrowing costs*

Borrowing costs include the costs incurred in obtaining external financing. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised from the time that expenditure for these assets and borrowing costs are being incurred and activities that are necessary to prepare these assets for their intended use or sale are in progress. Borrowing costs are capitalised until such time as the assets are substantially ready for their intended use or sale. Borrowing costs are suspended during extended periods in which active development is interrupted. All other borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

#### *Leases*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee.

All other leases are classified as operating leases. Lease classification is made at the inception of the lease, which is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provision of the lease.

Rentals payable under operating leases, less the aggregate benefit of incentives received from the lessor are recognised as an expense in profit or loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit.

#### *Taxation*

Current and deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly to equity, in which case the current or deferred tax is also dealt with in other comprehensive income or equity.

Current tax is based on the taxable result for the period. The taxable result for the period differs from the result as reported in profit or loss because it excludes items which are non-assessable or disallowed and it further excludes items that are taxable or deductible in other periods. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

## Notes to the financial statements

31 December 2016

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### 2. Significant accounting policies (continued)

#### *Taxation (continued)*

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets, including deferred tax assets for the carry forward of unused tax losses, are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill. Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither accounting profit nor taxable profit.

Deferred tax liabilities are not recognised for taxable temporary differences arising on investments in subsidiaries where the company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognised for deductible temporary differences arising on investments in subsidiaries where it is probable that taxable profit will be available against which the temporary difference can be utilised and it is probable that the temporary difference will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Current tax assets and liabilities are offset when the group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset when the company has a legally enforceable right to set off its current tax assets and liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.



## Notes to the financial statements

31 December 2016

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### 2. Significant accounting policies (continued)

#### *Employee benefits*

The group contributes towards the state pension in accordance with local legislation. The only obligation of the group is to make the required contributions. Costs are expensed in the period in which they are incurred.

#### *Currency translation*

The financial statements of the company are presented in its functional currency, the Euro, being the currency of the primary economic environment in which the company operates. In preparing the financial statements of each individual group entity, transactions in currency other than the respective entities' functional currency are recognised at the rate of exchange prevailing at the date of transaction.

Transactions denominated in currencies other than the functional currency are translated at the exchange rates ruling on the date of transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are re-translated to the functional currency at the exchange rate ruling at year-end. Exchange differences arising on the settlement and on the re-translation of monetary items are dealt with in profit or loss. Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured at fair value are re-translated using the exchange rate ruling on the date the fair value was measured.

Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured in terms of historical cost are not re-translated. Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

Foreign exchange gains and losses are included within operating profit, except in the case of significant exchange differences arising on investing or financing activities, which are classified within investment income, investment losses or finance costs as appropriate.

For the purpose of presenting consolidated financial statements, income and expenses of the group's foreign operations are translated to Euro at the average exchange rates. Assets and liabilities of the group's foreign operations are translated to Euro at the exchange rate ruling at the date of the statement of financial position. Exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. Such differences are reclassified from equity to profit or loss in the period in which the foreign operation is disposed of.

## Notes to the financial statements

31 December 2016

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### 2. Significant accounting policies (continued)

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purposes of the statement of cash flows and are presented in current liabilities in the statement of financial position.

#### *Dividends*

Dividends to holders of equity instruments are recognised as liabilities in the period in which they are declared.

Dividends to holders of equity instruments, or of the equity component of a financial instrument issued by the company, are recognised directly in equity. Dividends relating to a financial liability, or to a component that is a financial liability, are recognised as an expense in profit or loss and are presented in the statement of profit or loss and other comprehensive income with finance costs.

### 3. Judgements in applying accounting policies and key sources of estimation uncertainty

Other than as disclosed below, in the process of applying the group's accounting policies, management has made no judgements which can significantly affect the amounts recognised in the financial statements and, at the end of the reporting period, there were no key assumptions concerning the future, or any other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

The group reviews property, plant and equipment, intangible assets and loans and receivables to evaluate whether events or changes in circumstances indicate that the carrying amounts may not be recoverable. The company reviews intangible assets, investments in subsidiaries and loans and receivables to evaluate whether events or changes in circumstances indicate that the carrying amounts may not be recoverable. At the year-end there was no objective evidence of impairment in this respect.

In addition, the group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Determining whether the carrying amounts of these assets can be realised requires an estimation of the value in use of the cash-generating units. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Goodwill arising on a business combination is allocated, to the cash-generating units ("CGUs") that are expected to benefit from that business combination.



## Notes to the financial statements

31 December 2016

### 3. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

Reconciliation of reported goodwill is presented below:

	Group Eur
Cost	
At 01.01.2015 / 01.01.2016	16,591,999
Addition due to business combination (Note 29)	9,114,637
Difference on exchange on foreign operations	(27,498)
At 31.12.2016	<u>25,679,138</u>

The carrying amount of goodwill as at 31 December 2015 amounting to *Eur*16,591,999 is allocated to the Malta operations. As at 31 December 2016, goodwill amounting to *Eur*9,087,139 arose from the acquired operations of Romania.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. The directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

#### *CGUs for Malta operations*

The assessment of recoverability of the carrying amount of goodwill includes:

- forecasted projected cash flows for the next 5 years and projection of terminal value using the perpetuity method;
- growth rate of 1.5% (2015 – 2.4%); and
- use of 9.03% (pre-tax) (2015 – 12.96%) to discount the projected cash flows to net present values.

Based on the above assessment, the directors expect the carrying amount of goodwill to be recoverable and there is no impairment in value of the goodwill.

#### *CGUs for Romania operations*

The assessment of recoverability of the carrying amount of goodwill includes:

- forecasted projected cash flows for the next 5 years and projection of terminal value using the perpetuity method;
- growth rate of 2% ; and
- use of 13% (pre-tax) to discount the projected cash flows to net present values.

Based on the above assessment, the directors expect the carrying amount of goodwill to be recoverable and there is no impairment in value of the goodwill.

## Notes to the financial statements

31 December 2016

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### 4. Initial application of International Financial Reporting Standards and International Reporting Standards in issue but not yet effective

#### *Initial application of International Financial Reporting Standards*

IAS 1 Amendment – Disclosure Initiative in the current year, the Company and the Group have applied the Amendments to IAS 1 entitled “Disclosure Initiative.” These Amendments are effective for annual periods beginning on or after 1 January 2016. The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgement in presenting their financial reports. The application of these Amendments has not resulted in any significant impact to these financial statements.

#### *International Financial Reporting Standards in issue but not yet effective*

At the date of approval of these financial statements, a number of International Financial Reporting Standards were in issue but not yet effective. The directors are assessing the potential impact of these International Financial Reporting Standards on the group and company’s financial statements.

The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace IAS 39 ‘Financial Instruments: Recognition and Measurement’. IFRS 9 introduces a logical approach for the classification. The Standard supersedes all previous versions of IFRS 9. IFRS 9 introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single, forward-looking ‘expected loss’ impairment model that will require more timely recognition of expected credit losses. IFRS 9 is effective from 1 January 2018.

IFRS 15 *Revenue from Contracts with Customers* specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions being leases, financial instruments and insurance contracts. By virtue of an amendment issued on 11 September 2015, the effective date of the standard was deferred by one year to annual periods beginning on or after 1 January 2018 with earlier application being permitted.

IFRS 16 *Leases* sets out the principles for the recognition measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (‘lessee’) and the supplier (‘lessor’). The new standard requires lessees to recognise most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. IFRS 16 is effective for periods beginning on or after 1 January 2019. The standard has not been yet endorsed by the European Union.



## Notes to the financial statements

31 December 2016

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### 4. Initial application of International Financial Reporting Standards and International Reporting Standards in issue but not yet effective (continued)

#### *International Financial Reporting Standards in issue but not yet effective (continued)*

The Amendments to IAS 7, Statement of Cash Flows, are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after 1 January 2017, with earlier application being permitted. The Amendments have not as yet been endorsed by the European Union at the date of authorisation of these financial statements.

The directors anticipate that the adoption of other International Financial Reporting Standards that were in issue at the date of authorisation of these financial statements, but not yet effective, will have no material impact on the financial statements of the company or the Group in the period of initial application.

### 5. Segment information

The group operates one business activity which is the operation of the McDonald's restaurant business which activities are licensed under the terms of the franchise agreements awarded for each geographical location. The main line of activities are reported according to the geographical location. Each of these operating segments is managed separately as each of these lines requires local resources. All inter segment transfers for management services are carried out on a cost basis.

The accounting policy for identifying segments is based on internal management reporting information that is regularly reviewed by the chief operating decision maker.

Revenue reported below represents revenue generated from external customers. Revenue earned by the holding company amounting to *Eur1,128,012* (2015 – *Eur1,128,012*) relates to consultancy and support fees charged to subsidiaries. There were no intersegment sales in the year. The group's reportable segments under IFRS 8 are direct sales attributable to each country where it operates as a McDonald's development licensee.

The group operates in six principal geographical areas - Malta (country of domicile), Estonia, Greece, Latvia, Lithuania and, as from 2016, Romania.

#### *Measurement of operating segment profit or loss, assets and liabilities*

Segment profit represents the profit earned by each segment after allocation of central administration costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The accounting policies of the reportable segments are the same as the group's accounting policies described in note 2.

## Notes to the financial statements

31 December 2016

### 5. Segment information (continued)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities to consolidated totals are reported below:

#### Profit or loss before tax

	2016	2015
	Eur	Eur
Total profit for reportable segments	23,388,115	4,635,445
Elimination of inter segment profits	(33,431,016)	(3,608,512)
Unallocated amounts:		
Revenue	1,128,012	1,128,012
Administrative expenses	(2,759,882)	(2,220,967)
Investment Income	35,609,564	3,979,789
Finance costs	(7,475,009)	(2,217,468)
	<u>16,459,784</u>	<u>1,696,299</u>

#### Assets

	2016	2015
	Eur	Eur
Total assets for reportable segments	122,366,004	58,394,733
Elimination of inter segment receivables	(29,868,583)	(37,348,927)
Unallocated amounts:		
Goodwill	25,679,138	16,591,999
Intangible assets	6,714,667	7,358,768
Available for sale financial assets	-	1,757,493
Non current assets held for sale	1,596,154	-
Other financial assets	1,866,293	1,281,095
Loans and receivables	19,597,816	21,754,272
Trade and other receivables	2,080,723	1,549,721
Cash and cash equivalents	42,997,087	45,392
Other unallocated amounts	321,804	823,610
	<u>193,351,103</u>	<u>72,208,156</u>

The unallocated amounts in the intangible assets line include the support services licence amounting to *Eur*6,708,563 which relates to the Baltic market as disclosed in note 14. It is not possible to split this amount between the operating segments of Latvia, Lithuania and Estonia as this was acquired originally for the market as a whole.



## Notes to the financial statements

31 December 2016

### 5. Segment information (continued)

#### Liabilities

	2016	2015
	Eur	Eur
Total liabilities for reportable segments	25,904,665	14,015,970
Elimination of inter segment payables	(591,656)	(320,330)
Unallocated amounts:		
Trade and other payables	1,907,752	1,515,523
Other financial liabilities	10,847,677	1,092,836
Bank loans	39,065,396	10,631,062
Debt securities in issue	71,455,260	24,394,893
Deferred tax liabilities	2,221,146	2,450,254
Other unallocated amounts	911,285	688,867
	<u>151,721,525</u>	<u>54,469,075</u>

## Notes to the financial statements

31 December 2016

### 5. Segment Information (continued)

The group's revenue and results from continuing operations from external customers and information about its assets and liabilities by reportable segment are detailed below.

	Estonia 2016 Eur	Greece 2016 Eur	Latvia 2016 Eur	Lithuania 2016 Eur	Malta 2016 Eur	Romania 2016 Eur	Total 2016 Eur	Unallocated 2016 Eur	Eliminations and Adjustments 2016 Eur	Consolidated 2016 Eur
<b>Continuing operations</b>										
Revenue	18,488,043	25,017,544	19,366,121	19,480,483	20,661,500	127,147,103	230,160,794	-	-	230,160,794
Profit/(loss) before tax	2,491,200	(911,327)	1,375,130	2,383,951	562,180	17,486,981	23,388,115	26,502,685	(33,431,016)	16,459,784
<b>Depreciation and amortisation</b>										
Segment Assets	841,838	1,669,482	1,161,313	867,945	1,284,648	5,028,170	10,853,396	654,588	8,475	11,516,459
Property, plant and equipment	10,767,167	6,836,430	20,799,581	9,502,837	6,953,294	67,506,695	122,366,004	100,853,682	(29,868,583)	193,351,103
Intangible assets	4,838,926	8,294,896	7,081,903	6,006,000	5,619,933	43,818,266	75,659,924	32,748	(828,395)	74,864,277
Capital expenditure	6,126	255,511	306,670	206,926	363,718	2,398,270	3,537,221	6,714,667	83,820	10,335,708
Segment liabilities	823,425	2,357,815	630,977	678,240	2,174,294	4,241,527	10,906,278	27,281	-	10,933,559
Income	1,850,483	4,538,590	3,725,133	1,328,315	3,251,479	11,210,665	25,904,665	126,408,516	(591,656)	151,721,525
Income tax expense / (credit)	125,000	19,325	287,740	372,113	270,436	3,458,592	4,533,206	2,737,897	(148,164)	7,122,939



## Notes to the financial statements

31 December 2016

### 5. Segment Information (continued)

	Estonia 2015 Eur	Greece 2015 Eur	Latvia 2015 Eur	Lithuania 2015 Eur	Malta 2015 Eur	Total 2015 Eur	Unallocated 2015 Eur	Eliminations and Adjustments 2015 Eur	Consolidated 2015 Eur
<b>Continuing operations</b>									
Revenue	17,657,883	24,127,337	18,744,260	18,260,051	21,148,282	99,937,813	-	-	99,937,813
Profit/(loss) before tax	2,011,818	(559,963)	492,032	2,197,826	493,732	4,635,445	669,366	(3,608,512)	1,696,299
Depreciation and amortisation	851,309	1,630,312	1,079,329	728,818	1,434,928	5,724,696	669,359	8,474	6,402,529
Segment Assets	8,258,840	6,734,041	27,746,616	7,379,552	8,275,684	58,394,733	51,162,350	(37,348,927)	72,208,156
Property, plant and equipment	4,916,475	7,592,244	7,833,000	6,156,528	4,995,692	31,493,939	15,960	(828,395)	30,681,504
Intangible assets	3,614	273,928	124,143	282,743	356,791	1,041,219	7,358,769	92,294	8,492,282
Capital expenditure	698,494	3,199,484	1,013,851	1,770,935	1,047,467	7,730,231	4,374	-	7,734,605
Segment liabilities	1,208,357	4,299,467	3,506,514	1,216,867	3,784,765	14,015,970	40,773,435	(320,330)	54,469,075
Income tax expense / (credit)	375,000	(18,076)	43,608	351,733	293,032	1,045,297	(674,603)	-	370,694

## Notes to the financial statements

31 December 2016

### 6. Investment income

	2016	Group	2016	Holding
	Eur	2015	Eur	2015
		Eur		Eur
Interest income on				
bank deposits	37,825	2,200	25,633	2,073
Interest income from subsidiaries	-	-	1,963,667	899,918
Gains on derivative financial instrument	25,071	8,100	-	-
Gains on available for sale investments	62,725	12,079	62,725	-
Other interest income	60,345	66,907	60,345	66,907
Interest income from other related parties	158,339	891	-	891
Dividends from investments				
in subsidiaries	-	-	11,000,000	-
	<u>344,305</u>	<u>90,177</u>	<u>13,112,370</u>	<u>969,789</u>

### 7. Investment loss

	2016	Group	2016	Holding
	Eur	2015	Eur	2015
		Eur		Eur
Acquisition related costs	455,668	-	-	-
	<u>455,668</u>	<u>-</u>	<u>-</u>	<u>-</u>

### 8. Finance costs

	2016	Group	2016	Holding
	Eur	2015	Eur	2015
		Eur		Eur
Interest on bank				
overdraft and loans	1,717,366	457,093	13,112	8,155
Interest on bonds	1,858,474	1,700,490	1,858,474	1,700,490
Amortisation of bond issue expenses	241,848	57,907	241,848	57,907
Interest on amounts payable to subsidiaries	-	-	640,485	394,127
Interest on amounts payable to other				
related parties	30,384	5,370	25,124	5,370
Bank commissions	347,368	-	-	-
Other finance costs	460,316	130,674	85,596	51,420
	<u>4,655,756</u>	<u>2,351,534</u>	<u>2,864,639</u>	<u>2,217,469</u>



## Notes to the financial statements

31 December 2016

### 9. Profit/(loss) before tax

A list of expenses by nature making up the cost of sales, selling expenses and administrative expenses of the group and holding company is set out below.

	2016	Group	2016	Holding
	Eur	2015	Eur	2015
		Eur		Eur
Raw materials and consumables used	78,562,817	30,132,289	-	-
Changes in inventories of raw materials and consumables used	(912,945)	(71,626)	-	-
Advertising, promotion and other distribution costs	14,964,787	6,667,283	-	-
Amortisation of intangible assets (note 14)	1,128,903	760,175	644,101	657,611
Depreciation of property, plant and equipment (note 15)	10,387,557	5,642,354	10,487	11,748
Legal and professional fees	715,672	406,991	21,577	34,790
Management fees payable to ultimate parent (note 10)	360,000	360,000	360,000	360,000
Operating lease rentals (note 32)	11,516,952	6,866,595	42,040	46,476
Operating supplies	5,060,941	2,752,771	-	-
Royalties	14,154,967	5,590,336	-	-
Maintenance and repairs	3,307,396	1,045,208	-	-
Travelling expenses	1,021,142	645,092	176,782	167,633
Utilities and telephone expenses	7,440,948	4,547,300	27,401	25,653
Wages and salaries (note 11)	56,529,460	28,136,759	799,789	651,835
Office and general expenses	2,396,990	965,336	19,098	19,356
Other expenses	2,569,530	1,533,294	252,818	171,243
<b>Total</b>	<b>209,205,117</b>	<b>95,980,157</b>	<b>2,354,093</b>	<b>2,146,345</b>

## Notes to the financial statements

31 December 2016

### 9. Profit/(loss) before tax (continued)

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

	2016	Group	2016	Holding
	Eur	2015	Eur	2015
		Eur		Eur
Net exchange differences	68,626	64,058	-	-
Loss / (gain) on disposal of property, plant and equipment	480,780	(375,974)	9	1,000
Impairment loss on fixed assets	16,168	150,466	-	-
Reversal of impairment loss on fixed assets	(44,568)	-	-	-

The analysis of the amounts that are payable to the auditors and that are required to be disclosed are as follows:

#### Group

Total remuneration payable to the parent company's auditors in respect of the audit of the financial statements and the undertakings included in the consolidated financial statements amounted to *Eur46,200* (2015 – *Eur42,000*) and the remuneration payable to the other auditors in respect of the audits of the undertakings included in the consolidated financial statements amounted to *Eur117,688* (2015 – *Eur68,000*). Other fees payable to the parent company's auditors for tax services and for non-audit services other than tax services amounted to *Eur4,515* (2015 – *Eur5,190*) and *Eur42,550* (2015 – *Eur9,691*) respectively.

#### Holding company

Total remuneration payable to the parent company's auditors for the audit of the company's financial statements amounted to *Eur6,600* (2015 – *Eur6,000*). Other fees payable to the parent company's auditors for tax services and for non-audit services other than tax services amounted to *Eur2,010* (2015 – *Eur2,410*) and *Eur42,300* (2015 – *Eur6,616*) respectively.



## Notes to the financial statements

31 December 2016

### 10. Key management personnel compensation

	Group and Holding	
	2016	2015
	Eur	Eur
<b>Directors' compensation:</b>		
Short term benefits:		
Directors' remuneration	258,726	329,441
<b>Other key management personnel compensation:</b>		
Short term benefits:		
Salaries and social security contribution	377,016	282,774
	<u>635,742</u>	<u>612,215</u>

During the year under review, the company maintained professional indemnity insurance for its directors. The aggregate amount of premiums paid in respect thereof amounted to *Eur10,380* (2015 – *Eur9,671*). These amounts are included with administrative expenses.

Included within administrative expenses, are also management fees payable to the ultimate parent company amounting to *Eur360,000* (2015 – *Eur360,000*).

### 11. Staff costs and employee information

	2016	Group	2016	Holding
	Eur	2015	Eur	2015
		Eur		Eur
<b>Staff costs:</b>				
Wages and salaries	45,698,357	23,188,859	787,334	641,317
Social security costs	10,831,103	4,947,900	13,455	10,518
	<u>56,529,460</u>	<u>28,136,759</u>	<u>800,789</u>	<u>651,835</u>
Recharged to subsidiaries	-	-	(2,508)	-
Recharged from subsidiaries	-	-	1,508	-
	<u>56,529,460</u>	<u>28,136,759</u>	<u>799,789</u>	<u>651,835</u>

The above staff costs are exclusive of the directors' emoluments.

The average number of persons employed during the year by the group and the company excluding executive directors, was made up as follows:

	2016	Group	2016	Holding
	Number	2015	Number	2015
		Number		Number
Operations	5,631	2,537	-	-
Administration	211	151	10	9
	<u>5,842</u>	<u>2,688</u>	<u>10</u>	<u>9</u>

## Notes to the financial statements

31 December 2016

### 12. Income tax expense/(credit)

	2016 Eur	Group 2015 Eur	2016 Eur	Holding 2015 Eur
Current tax expense	5,421,874	1,118,113	332,108	25,185
Deferred tax expense/(credit)	1,701,065	(747,419)	1,714,602	(699,788)
	<u>7,122,939</u>	<u>370,694</u>	<u>2,046,710</u>	<u>(674,603)</u>

Tax applying the statutory domestic income tax rate and the income tax expense for the year are reconciled as follows:

	2016 Eur	Group 2015 Eur	2016 Eur	Holding 2015 Eur
Profit/ (Loss) for the year before tax	16,459,784	1,696,299	9,021,650	(2,266,013)
Tax at the applicable rate of 35%	5,760,924	593,705	3,157,578	(793,105)
Tax effect of:				
Non-deductability of depreciation and amortisation	868,134	155,013	-	-
Write off foreign tax	21,568	15,299	21,568	15,299
Effect of interest charged at 15%	(17,184)	(13,182)	(17,184)	(13,182)
Deferred tax not accounted for	(38,212)	-	-	-
Disallowable expenses	530,760	142,802	-	113,176
Effect of different tax rates of subsidiaries	(1,752,122)	(908,060)	-	-
Effect of flat rate foreign tax credit	(1,096,358)	-	(1,096,358)	-
Fair value gain not taxed	(21,954)	-	(21,954)	-
Non recoverable tax losses	278,280	-	-	-
Tax on dividends	2,504,062	375,000	-	-
Other differences	85,041	10,117	3,060	3,209
Income tax expense/(credit) for the year	<u>7,122,939</u>	<u>370,694</u>	<u>2,046,710</u>	<u>(674,603)</u>

The tax rate used for the 2016 and 2015 reconciliations is the corporate tax rate of 35% payable by corporate entities in Malta on taxable profits under tax law in Malta.



## Notes to the financial statements

31 December 2016

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### 13. Dividends

#### Group and Holding company

In respect of the current year a net final dividend of *Eur6,250,000* (*Eur18.56c* per ordinary share) (2015 – *Eur1,730,000* (*Eur12.74c* per ordinary share)) was paid to the ordinary shareholders of the holding company.

Furthermore, dividends amounting to *Eur11,066,394* (*Eur32.86c* per ordinary share) (2015 – nil) were paid by one of the subsidiaries, of which *Eur66,394* were attributable to non-controlling interest.

## Notes to the financial statements

31 December 2016

### 14. Intangible assets

#### Group

	Support services licence Eur	Computer software Eur	Acquired rights and franchise fee Eur	Other intangibles Eur	Total Eur
<b>Cost</b>					
At 01.01.2015	12,366,964	482,222	848,379	-	13,697,565
Additions	-	80,695	350,223	-	430,918
Disposals	-	(2,179)	(25,564)	-	(27,743)
At 01.01.2016	12,366,964	560,738	1,173,038	-	14,100,740
Additions	-	69,149	24,483	-	93,632
Acquired on business combination	-	93,707	2,555,999	35,074	2,684,780
Reclassification from property, plant and equipment	-	86,168	530,539	-	616,707
Disposals	-	(66,775)	(9,469)	-	(76,244)
Transfers	-	26,163	-	(26,163)	-
Exchange differences	-	(370)	(7,710)	185	(7,895)
<b>At 31.12.2016</b>	<b>12,366,964</b>	<b>768,780</b>	<b>4,266,880</b>	<b>9,096</b>	<b>17,411,720</b>
<b>Amortisation</b>					
At 01.01.2015	4,328,447	167,770	376,989	-	4,873,206
Provision for the year	618,352	114,526	27,297	-	760,175
Released on disposal	-	(2,179)	(22,744)	-	(24,923)
At 01.01.2016	4,946,799	280,117	381,542	-	5,608,458
Provision for the year	618,351	184,683	325,583	286	1,128,903
Reclassification from property, plant and equipment	-	38,305	375,480	-	413,785
Released on disposal	-	(64,533)	(7,690)	-	(72,223)
Exchange differences	-	54	(2,962)	(3)	(2,911)
<b>At 31.12.2016</b>	<b>5,565,150</b>	<b>438,626</b>	<b>1,071,953</b>	<b>283</b>	<b>7,076,012</b>
<b>Carrying amount</b>					
At 31.12.2015	7,420,165	280,621	791,496	-	8,492,282
<b>At 31.12.2016</b>	<b>6,801,814</b>	<b>330,154</b>	<b>3,194,927</b>	<b>8,813</b>	<b>10,335,708</b>



## Notes to the financial statements

31 December 2016

### 14. Intangible assets (continued)

#### Holding company

	Support services licence Eur	Computer Software Eur	Total Eur
<b>Cost</b>			
At 01.01.2015 / 31.12.2016	12,197,438	190,939	12,388,377
<b>Amortisation</b>			
At 01.01.2015	4,269,123	102,875	4,371,998
Provision for the year	609,876	47,735	657,611
At 01.01.2016	4,878,999	150,610	5,029,609
Provision for the year	609,876	34,225	644,101
At 31.12.2016	5,488,875	184,835	5,673,710
<b>Carrying amount</b>			
At 31.12.2015	7,318,439	40,329	7,358,768
At 31.12.2016	6,708,563	6,104	6,714,667

The amortisation expense on intangible assets has been included in the line item 'Administrative expenses' in the statement of profit or loss and other comprehensive income.

The acquired rights and franchise fees in relation to the group with a carrying amount of *Eur3,194,925* (2015 – *Eur791,496*) are amortised over the term of the franchise agreements in place with Mc Donalds's Corporation to operate the Mc Donald's brand in all markets. Generally, amortisation period will be twenty years.

The support services licence owned by the group and the holding company with a carrying amount of *Eur6,708,563* (2015 – *Eur7,318,439*) will be fully amortised within ten years, and relates to the licence paid to Mc Donald's Corporation to operate the Mc Donald's brand in the Baltic countries.

## Notes to the financial statements

31 December 2016

### 15. Property, plant and equipment

#### Group

Cost	Land and buildings	Improvements to premises	Motor vehicles	Plant and equipment	Other equipment	Total
	Eur	Eur	Eur	Eur	Eur	Eur
At 01.01.2015	16,983,792	10,668,204	445,065	27,498,967	6,702,361	62,298,389
Additions	1,000,372	1,337,429	4,000	3,191,057	1,770,829	7,303,687
Disposals	(20,436)	(201,137)	(71,280)	(1,407,950)	(577,151)	(2,277,954)
Transfers	(61,027)	54,534	-	76,724	(70,231)	-
At 01.01.2016	17,902,701	11,859,030	377,785	29,358,798	7,825,808	67,324,122
Additions	1,243,694	2,250,377	230,243	4,415,875	2,699,738	10,839,927
Acquired on business combination	30,374,340	2,236,985	635,307	11,322,646	118,805	44,688,083
Disposals	(254,070)	(574,824)	(244,011)	(1,519,305)	(821,864)	(3,414,074)
Transfers	691,577	297,372	12,543	(602,245)	(401,948)	(2,701)
Reclassification to intangible assets	(530,539)	-	-	-	(86,168)	(616,707)
Exchange differences	(97,341)	(18,450)	(3,585)	(47,859)	(721)	(167,956)
At 31.12.2016	49,330,362	16,050,490	1,008,282	42,927,910	9,333,650	118,650,694
<b>Accumulated depreciation</b>						
At 01.01.2015	8,167,876	6,788,533	289,266	14,567,602	3,078,882	32,892,159
Provision for the year	1,082,262	938,197	32,897	1,794,596	1,794,402	5,642,354
Released on disposal	(19,453)	(183,794)	(30,784)	(1,333,949)	(474,381)	(2,042,361)
Transfers	-	(1,251)	-	1,166	85	-
Impairment	-	-	-	-	150,466	150,466
At 01.01.2016	9,230,685	7,541,685	291,379	15,029,415	4,549,454	36,642,618
Provision for the year	2,749,509	764,704	188,573	4,447,343	2,237,428	10,387,557
Released on disposal	(62,583)	(506,047)	(141,748)	(1,425,901)	(621,235)	(2,757,514)
Transfers	(644,041)	622,113	12,548	8,537	(1,858)	(2,701)
Impairment	-	-	-	8,499	7,669	16,168
Reversal of impairment	(44,568)	-	-	-	-	(44,568)
Reclassification to intangible assets	(375,480)	-	-	-	(38,305)	(413,785)
Exchange differences	(10,841)	(7,632)	(1,389)	(21,111)	(385)	(41,358)
At 31.12.2016	10,842,681	8,414,823	349,363	18,046,782	6,132,768	43,786,417
<b>Carrying amount</b>						
At 31.12.2015	8,672,016	4,317,345	86,406	14,329,383	3,276,354	30,681,504
At 31.12.2016	38,487,681	7,635,667	658,919	24,881,128	3,200,882	74,864,277



## Notes to the financial statements

31 December 2016

### 15. Property, plant and equipment (continued)

#### Group (continued)

No interest has been capitalised by the group during 2016 and 2015. The group's property, plant and equipment with a carrying amount of *Eur64m* (2015 - *Eur31m*) are held as security in connection with bank borrowings.

#### *Impairment losses on property, plant and equipment*

The impairment losses on property, plant and equipment recognised in the statement of profit or loss and other comprehensive income during the year amounted to *Eur16,168* (2015 – *Eur150,466*). These impairment losses on property, plant and equipment are included within administrative expenses and relate to the Romanian and Lithuanian segments.

During 2016, land which was acquired on business combination has been revalued on acquisition of the Romania operating segment which resulted in an increase in revaluation of *Eur44,568*. This is shown through the revaluation reserve in other comprehensive income.

#### Holding

	Motor Vehicles Eur	Furniture, fixtures and other equipment Eur	Total Eur
<b>Cost</b>			
At 01.01.2015	50,000	134,978	184,978
Additions	-	4,374	4,374
Transfers	-	-	-
Disposals	(50,000)	-	(50,000)
At 01.01.2016	-	139,352	139,352
Additions	-	27,281	27,281
Disposals	-	(3,730)	(3,730)
<b>At 31.12.2016</b>	-	162,903	162,903
<b>Accumulated depreciation</b>			
At 01.01.2015	30,000	111,643	141,643
Provision for the year	-	11,748	11,748
Released on disposal	(30,000)	-	(30,000)
At 01.01.2016	-	123,391	123,391
Provision for the year	-	10,487	10,487
Released on disposal	-	(3,721)	(3,721)
<b>At 31.12.2016</b>	-	130,157	130,157
<b>Carrying amount</b>			
At 31.12.2015	-	15,961	15,961
<b>At 31.12.2016</b>	-	32,746	32,746

## Notes to the financial statements

31 December 2016

### 16. Deferred taxation

#### Group

	Opening balance Eur	Taken over on business combination Eur	Recognised in profit and loss Eur	Closing balance Eur
<b>Deferred tax assets</b>				
2015				
<i>Arising on:</i>				
Temporary differences on tangible assets	233,443	-	(26,676)	206,767
Unused tax losses	1,781,092	-	482,609	2,263,701
Other temporary differences	-	-	24,822	24,822
	<u>2,014,535</u>	<u>-</u>	<u>480,755</u>	<u>2,495,290</u>
2016				
<i>Arising on:</i>				
Temporary differences on tangible assets	206,767	(315,569)	175,302	66,500
Unused tax losses	2,263,701	-	(2,125,614)	138,087
Other temporary differences	24,822	497,861	75,507	598,190
	<u>2,495,290</u>	<u>182,292</u>	<u>(1,874,805)</u>	<u>802,777</u>
<b>Deferred tax liabilities</b>				
2015				
<i>Arising on:</i>				
Temporary differences on intangible assets	2,685,509	-	(235,255)	2,450,254
Temporary differences on property, plant and equipment	669,965	-	(19,585)	650,380
Other temporary differences	(73,426)	-	(11,824)	(85,250)
	<u>3,282,048</u>	<u>-</u>	<u>(266,664)</u>	<u>3,015,384</u>
2016				
<i>Arising on:</i>				
Temporary differences on intangible assets	2,450,254	-	(229,108)	2,221,146
Temporary differences on property, plant and equipment	650,380	-	39,695	690,075
Other temporary differences	(85,250)	-	15,673	(69,577)
	<u>3,015,384</u>	<u>-</u>	<u>(173,740)</u>	<u>2,841,644</u>

Deferred tax assets have been recognised for all unused tax losses, to the extent that it is probable that taxable profits will be available against which the losses can be utilised. The majority of the deferred tax asset arising on unutilised tax losses reverses when dividends are declared from the subsidiaries. The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised amounts to Eur61,204,278 (2015 – Eur19,362,547).



## Notes to the financial statements

31 December 2016

### 16. Deferred taxation (continued)

#### Holding

	Opening balance Eur	Recognised in profit or loss Eur	Closing balance Eur
<b>Deferred tax assets</b>			
2015			
<i>Arising on:</i>			
Unused tax losses	<u>1,479,177</u>	<u>464,533</u>	<u>1,943,710</u>
<b>2016</b>			
<i>Arising on:</i>			
Unused tax losses	<u>1,943,710</u>	<u>(1,943,710)</u>	<u>-</u>
<b>Deferred tax liabilities</b>			
2015			
<i>Arising on:</i>			
Temporary differences on intangible assets	<u>2,685,509</u>	<u>(235,255)</u>	<u>2,450,254</u>
<b>2016</b>			
<i>Arising on:</i>			
Temporary differences on intangible assets	<u>2,450,254</u>	<u>(229,108)</u>	<u>2,221,146</u>

Deferred tax assets have been recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. The deferred tax asset arising on unutilised tax losses reverses when dividends are declared from the subsidiaries.

## Notes to the financial statements

31 December 2016

### 17. Financial assets

#### (a) Investments in subsidiaries

	Holding Investments in subsidiaries Eur
<b>Cost</b>	
At 01.01.2015	19,425,781
Disposals	(1)
At 01.01.2016	19,425,780
Additions	36,950,000
<b>At 31.12.2016</b>	<b>56,375,780</b>

During 2015, the company disposed of its 1 share investment of *Eur1* in Premier Assets Malta Ltd following the merger of the latter into Premier Restaurants Malta Ltd.

In 2016, the company increased its investment in Premier Capital B.V., a direct subsidiary of the company, by means of a conversion of long-term loans amounting to *Eur36,950,000* into equity.

Details of the share capital, reserves and profit for the year for the company's direct subsidiaries is as follows:

Name of subsidiary	Share capital and reserves 2016 Eur	Profit for the year 2016 Eur	Share capital and reserves 2015 Eur	Profit for the year 2015 Eur
Premier Capital B.V.	<u>37,240,591</u>	<u>8,059,992</u>	<u>3,189,741</u>	<u>2,935,377</u>
Premier Restaurants Malta Limited	<u>3,171,684</u>	<u>273,534</u>	<u>2,898,152</u>	<u>186,129</u>



## Notes to the financial statements

31 December 2016

### 17. Financial assets (continued)

#### (a) Investments in subsidiaries (continued)

Details of the company's subsidiaries at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Registered address	Proportion of ownership interests and voting rights held by owners of the Company		Holding	Principal activity
		2016 %	2015 %		
Arcades Limited	Nineteen Twenty Three, Valletta Road, Marsa, Malta	100	100	Indirect	Operates McDonald's restaurants in Malta
AS Premier Restaurants Eesti	Ahtri tn 12, 6. korrus, Tallinn linn, Harju maakond, 10151, Estonia	99.99	99.99	Indirect	Operates McDonald's restaurants in Estonia
Premier Arcades Limited	Nineteen Twenty Three, Valletta Road, Marsa, Malta	100	100	Indirect	Holding Company
Premier Capital B.V.	Strawinskylaan 3127, 8th floor, 1007 ZX Amsterdam, The Netherlands	99.99	99.99	Direct	Holding Company
Premier Capital Delaware Inc	2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, United States	90	Nil	Indirect	Holding Company
Premier Capital Hellas S.A.	59, Al. Panagoulis Street, 15343 Agia Paraskevi, Athens Greece	99.99	99.99	Indirect	Operates McDonald's restaurants in Greece
Premier Capital SRL	4-8 Nicolae Titulescu Avenue, America House Building, West Wing, 5th Floor, 011141 Bucharest, Romania	90	Nil	Indirect	Holding Company
Premier Restaurants Malta Limited	Nineteen Twenty Three, Valletta Road, Marsa, Malta	100	100	Direct	Operates McDonald's restaurants in Malta
Premier Restaurants Romania SRL	4-8 Nicolae Titulescu Avenue, America House Building, West Wing, 5th Floor, 011141 Bucharest, Romania	90	Nil	Indirect	Operates McDonald's restaurants in Romania
Premier Restaurants, UAB	Tumeno g. 4, Vilnius LT-01109, Lithuania	99.99	99.99	Indirect	Operates McDonald's restaurants in Lithuania
"Premier Restaurants Latvia" SIA	6, Dunties Street, Riga LV-1013, Latvia	99.99	99.99	Indirect	Operates McDonald's restaurants in Latvia

## Notes to the financial statements

31 December 2016

### 17. Financial assets (continued)

#### (b) Non-controlling interest

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests.

Name of subsidiary	Registered address	Proportion of ownership interests held by non-controlling interests		Profit / (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2016 %	2015 %	2016 Eur	2015 Eur	2016 Eur	2015 Eur
Premier Capital SRL	4-8 Nicolae Titulescu Avenue, America House Building, West Wing, 5th Floor, 011141 Bucharest, Romania	10	Nil	(325,837)	-	1,606,891	-
Premier Restaurants Romania SRL	4-8 Nicolae Titulescu Avenue, America House Building, West Wing, 5th Floor, 011141 Bucharest, Romania	10	Nil	1,402,839	-	1,402,839	-
Premier Capital Delaware Inc	2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, United States	10	Nil	(35,800)	-	(35,800)	-
<b>Total</b>				<b>1,041,202</b>	<b>-</b>	<b>2,973,930</b>	<b>-</b>

## Notes to the financial statements

31 December 2016

### 17. Financial assets (continued)

#### (b) Non-controlling interest (continued)

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

#### Premier Capital SRL

	2016 Eur	2015 Eur
Current assets	609,500	-
Non-current assets	63,772,955	-
Current liabilities	(12,561,560)	-
Non-current liabilities	(23,684,698)	-
Equity attributable to owners of the Company	26,529,307	-
Non-controlling interests	1,606,891	-
	2016 Eur	2015 Eur
Revenue	12,347,570	-
Expenses	(2,961,078)	-
Profit / (loss) for the year	9,089,198	-
Profit / (loss) attributable to owners of the Company	9,415,035	-
Profit / (loss) attributable to owners of the non-controlling interests	(325,837)	-
Profit / (loss) for the year	9,089,198	-
Other comprehensive income attributable to owners of the Company	252,250	-
Other comprehensive income attributable to the non-controlling interests	28,028	-
Other comprehensive income for the year	280,278	-
Total comprehensive income attributable to owners of the Company	9,667,285	-
Total comprehensive income attributable to the non-controlling interests	(297,809)	-
Total comprehensive income for the year	9,369,476	-
Dividends paid to non-controlling interests	-	-
Net cash inflow / (outflow) from operating activities	9,749,763	-
Net cash inflow / (outflow) from investing activities	(39,151,135)	-
Net cash inflow / (outflow) from financing activities	29,255,340	-
Net cash inflow / (outflow)	(146,032)	-



## Notes to the financial statements

31 December 2016

### 17. Financial assets (continued)

#### (b) Non-controlling interest (continued)

##### Premier Restaurants Romania SRL

	2016 Eur	2015 Eur
Current assets	20,619,875	-
Non-current assets	47,467,683	-
Current liabilities	(11,471,659)	-
Non-current liabilities	(319,870)	-
Equity attributable to owners of the Company	54,893,190	-
Non-controlling interests	1,402,839	-
	2016 Eur	2015 Eur
Revenue	127,147,103	-
Expenses	(109,734,703)	-
Profit / (loss) for the year	14,028,389	-
Profit / (loss) attributable to owners of the Company	12,625,550	-
Profit / (loss) attributable to owners of the non-controlling interests	1,402,839	-
Profit / (loss) for the year	14,028,389	-
Other comprehensive income attributable to owners of the Company	78,907	-
Other comprehensive income attributable to the non-controlling interests	8,767	-
Other comprehensive income for the year	87,674	-
Total comprehensive income attributable to owners of the Company	12,704,457	-
Total comprehensive income attributable to the non-controlling interests	1,411,606	-
Total comprehensive income for the year	14,116,063	-
Dividends paid to non-controlling interests	-	-
Net cash inflow / (outflow) from operating activities	21,903,263	-
Net cash inflow / (outflow) from investing activities	(9,185,357)	-
Net cash inflow / (outflow) from financing activities	(12,337,617)	-
Net cash inflow / (outflow)	380,289	-

## Notes to the financial statements

31 December 2016

### 17. Financial assets (continued)

#### (c) Available-for-sale investments

##### Group

	Local listed debt Eur
<b>Fair value</b>	
At 01.01.2015	1,790,971
Additions	356,250
Increase in fair value	134,022
Disposal	(523,750)
At 31.12.2015	1,757,493
Additions	253,751
Increase in fair value	125,175
Disposal	(454,500)
Reversal of fair value on disposal	(85,765)
<b>At 31.12.2016</b>	<b>1,596,154</b>

##### Holding

	Local listed debt Eur
<b>Fair value</b>	
At 01.01.2015	1,267,221
Additions	356,250
Increase in fair value	134,022
At 31.12.2015	1,757,493
Additions	253,751
Increase in fair value	125,175
Disposal	(454,500)
Reversal of fair value on disposal	(85,765)
<b>At 31.12.2016</b>	<b>1,596,154</b>

The carrying amount of these financial assets amounting to *Eur1,596,154* (2015 – *Eur1,757,493*) represents investments in 2.3% - 4.5% Malta Government Stock 2028 - 2033. In 2015, the group disposed of its investment of *Eur523,750* held in local bonds issued by a related party which presented the group with opportunity for return through interest income.

## Notes to the financial statements

31 December 2016

### 17. Financial assets (continued)

#### (c) Available-for-sale investments (continued)

Available-for-sale financial assets have been earmarked by the company to build up the sinking fund in accordance with the prospectus (note 24). In 2016, the group and company disposed of financial assets amounting to *Eur454,500* in 2.5% - 4.1% Malta Government Stock 2034 – 2040. As at 31 December 2016, the carrying amount of these financial assets amounting to *Eur1,596,154* were also classified as non-current assets held for sale due to the liquidation of the sinking fund upon the full redemption of the 6.8% Bonds on 16 March 2017.

#### (d) Other financial assets

#### Group and Holding

	Eur
At 01.01.2015	581,321
Additions	1,056,024
Transfer to available-for-sale investments	(356,250)
At 31.12.2015	1,281,095
Additions	838,949
Transfer to available-for-sale investments	(253,751)
<b>At 31.12.2016</b>	<b>1,866,293</b>

At 31 December 2016 the company held funds of *Eur1,866,293* (2015 – *Eur1,281,095*) with Equity Wealth Solutions Limited (2015 – HSBC Bank Malta plc) as trustee of the funds allocated to the sinking fund in accordance with the prospectus (note 24). The change in trustee happened as a result of HSBC's decision to cease to offer trusteeship services to clients and has resigned as a trustee. In terms of the trust instrument, HSBC appointed Equity Wealth Solutions Limited as successor trustee. The funds bear interest at 2% (2015 – 2% per annum).



## Notes to the financial statements

31 December 2016

### 17. Financial assets (continued)

#### (e) Loans and receivables

	Group			Holding	
	Loans to other related parties Eur	Total Eur	Loan to subsidiaries Eur	Loans to other related parties Eur	Total Eur
<b>Amortised cost</b>					
At 01.01.2015	242,859	242,859	19,520,102	243,735	19,763,837
Increase	1,936,922	1,936,922	4,039,085	672,441	4,711,526
Assignment of debt	(345,135)	(345,135)	-	(345,135)	(345,135)
Repayments	(1,648,865)	(1,648,865)	(1,950,100)	(425,856)	(2,375,956)
At 01.01.2016	185,781	185,781	21,609,087	145,185	21,754,272
Increase	8,565,885	8,565,885	37,565,222	280,990	37,846,212
Capitalisation of loans	-	-	(36,950,000)	-	(36,950,000)
Repayments	(1,425,249)	(1,425,249)	(2,934,684)	(117,984)	(3,052,668)
<b>At 31.12.2016</b>	<b>7,326,417</b>	<b>7,326,417</b>	<b>19,289,625</b>	<b>308,191</b>	<b>19,597,816</b>
<b>Carrying amount</b>					
At 31.12.2015	185,781	185,781	21,609,087	145,185	21,754,272
Less: Amount expected to be settled within 12 months (shown under current assets)	(185,781)	(185,781)	(1,689,085)	(145,185)	(1,834,270)
Amount expected to be settled after 12 months	-	-	19,920,002	-	19,920,002
<b>At 31.12.2016</b>	<b>7,326,417</b>	<b>7,326,417</b>	<b>19,289,625</b>	<b>308,191</b>	<b>19,597,816</b>
Less: Amount expected to be settled within 12 months (shown under current assets)	(5,359,810)	(5,359,810)	(2,009,039)	(308,191)	(2,317,230)
Amount expected to be settled after 12 months	1,966,607	1,966,607	17,280,586	-	17,280,586

#### Loans to subsidiaries

#### Holding

Loans to subsidiaries amounting to *Eur*18,210,586 (2015 – *Eur*19,920,002) bear interest at the rate of 4.5% - 5% per annum whereas *Eur*1,079,039 (2015 – *Eur*1,689,085) are interest free. *Eur*17,280,586 (2015 – *Eur*19,920,002) are not expected to be settled within 12 months from the end of the reporting period whilst *Eur*2,009,039 (2015 – *Eur*1,689,085) are repayable on demand. All the loans to subsidiaries are unsecured.

## Notes to the financial statements

31 December 2016

### 17. Financial assets (continued)

(e) *Loans and receivables (continued)*

#### Loans to other related parties

##### Group

All loans to other related parties are unsecured. Loans amounting to *Eur7,030,307* (2015 – *EurNil*) bear interest at the rate of 4.5% - 5% per annum, whereas loans amounting to *Eur296,110* (2015 – *Eur185,781*) are interest free. *Eur5,359,810* (2015 – *Eur185,781*) of these loans are expected to be settled within 12 months from the end of the reporting period, whilst *Eur1,966,607* (2015 – *EurNil*) are repayable on demand.

##### Holding

Loans to other related parties amounting to *Eur308,191* (2015 – *Eur145,185*) are unsecured, interest free and repayable on demand.

### 18. Prepayments

These relate mainly to prepaid rents and guarantee deposits made by the company and the group's subsidiaries. As at the end of the reporting period, the group long term prepayments amount to *Eur2,114,217* (2015 – *Eur1,439,846*) after having recorded such prepayments within a twelve month period of *Eur147,724* (2015 – *Eur231,567*) as current assets. The holding company long term prepayments amount to *Eur254,584* (2015 – *EurNil*), none of which has been recorded within a twelve month period.

### 19. Inventories

	Group		Holding	
	2016	2015	2016	2015
	Eur	Eur	Eur	Eur
Raw materials and consumables	<u>3,924,040</u>	<u>3,011,095</u>	<u>-</u>	<u>-</u>

The amount of inventories recognised as an expense during the year amounted to *Eur77,649,872* (2015 – *Eur30,060,663*).

## Notes to the financial statements

31 December 2016

### 20. Trade and other receivables

	<b>Group</b>		<b>Holding</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>Eur</b>	<b>Eur</b>	<b>Eur</b>	<b>Eur</b>
Trade receivables	404,233	45,318	-	-
Other receivables	921,156	638,586	156,264	199,653
Amounts due from other related parties	127,195	12,910	-	-
Amounts due from subsidiaries	-	-	1,745,593	1,299,560
Prepayments and accrued income	1,075,354	691,691	178,866	50,508
	<u>2,527,938</u>	<u>1,388,505</u>	<u>2,080,723</u>	<u>1,549,721</u>

No interest is charged on trade and other receivables. The amounts due from related parties are unsecured, interest-free and are repayable on demand.

### 21. Trade and other payables

	<b>Group</b>		<b>Holding</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>Eur</b>	<b>Eur</b>	<b>Eur</b>	<b>Eur</b>
Trade payables	10,713,200	5,985,624	136,700	29,668
Other payables	3,042,564	923,213	47,798	33,744
Social security liabilities	1,483,982	889,843	27,304	21,667
VAT and other liabilities	2,194,501	1,669,336	-	-
Amounts due to other related parties	4,130	77,728	4,130	-
Amounts due to group companies	-	-	10,794	-
Accruals and deferred income	7,801,165	3,612,331	1,681,026	1,430,444
	<u>25,239,542</u>	<u>13,158,075</u>	<u>1,907,752</u>	<u>1,515,523</u>

No interest is charged on trade and other payables.



## Notes to the financial statements

31 December 2016

### 22. Other financial liabilities

	Group		Holding	
	2016	2015	2016	2015
	Eur	Eur	Eur	Eur
Amounts due to ultimate parent	5,000,000	-	5,000,000	-
Amounts due to other related parties	161,536	1,092,836	6,875	809,302
Amounts due to subsidiaries	-	-	15,317,604	9,726,986
Deferred consideration (note 29)	5,686,141	-	-	-
Derivative financial liability held for trading	70,936	96,006	-	-
	<u>10,918,613</u>	<u>1,188,842</u>	<u>20,324,479</u>	<u>10,536,288</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)	<u>(10,847,677)</u>	<u>(1,092,836)</u>	<u>(6,230,233)</u>	<u>(1,392,043)</u>
Amount due for settlement after 12 months	<u>70,936</u>	<u>96,006</u>	<u>14,094,246</u>	<u>9,144,245</u>

Other financial liabilities are repayable as follows:

	Group		Holding	
	2016	2015	2016	2015
	Eur	Eur	Eur	Eur
On demand or within one year	10,847,677	1,092,836	6,230,233	1,392,043
Between two and five years	70,936	96,006	14,094,246	9,144,245
	<u>10,918,613</u>	<u>1,188,842</u>	<u>20,324,479</u>	<u>10,536,288</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)	<u>(10,847,677)</u>	<u>(1,092,836)</u>	<u>(6,230,233)</u>	<u>(1,392,043)</u>
Amount due for settlement after 12 months	<u>70,936</u>	<u>96,006</u>	<u>14,094,246</u>	<u>9,144,245</u>

The balance due to ultimate parent by the group amounts to *Eur*5,000,000 is unsecured and interest free.

The balances due to other related parties by the group are unsecured, interest free and repayable on demand. In 2015, loan due to other related parties amounted to *Eur*800,000 and bore interest at the rate of 5% per annum.

Included in the amounts owed to subsidiaries by the company, is an amount of *Eur*14,094,246 (2015 – *Eur*9,144,245) which is unsecured and bear interest at the rate of 4.5% - 5% per annum. All other loans are interest-free.

## Notes to the financial statements

31 December 2016

### 22. Other financial liabilities (continued)

Deferred consideration of *Eur5,686,141* arises on business combination and is the amount due to McDonalds Corporation for the acquisition of Romania operating segment. The consideration bears interest at 3.45% and falls due within one year (note 29).

Derivative financial instruments of *Eur70,936* (2015 – *Eur96,006*) comprise an interest rate swap whereby one of the subsidiaries of the group had entered into a contract to swap the floating rate on bank loans (note 23) to a fixed rate. The interest rate swap is stated at fair value and is classified with financial liabilities classified as held for trading. The amount of *Eur70,936* (2015 – *Eur96,006*) is classified with non-current liabilities.

The notional principal amounts of the outstanding interest rate swaps at the end of the reporting period amounted to *Eur10,508,109* and the swap matures on the 26 August 2019.

At the end of the reporting period, the fixed interest rates on interest rate swaps amount to 0.535% (2015 – 0.535%). The floating rate is three-month EURIBOR. The interest rate swaps settle on a quarterly basis and the group settles the difference between the fixed and floating interest rates on a net basis.

### 23. Bank overdrafts and loans

	2016	Group	2016	Holding
	2016	2015	2016	2015
	Eur	Eur	Eur	Eur
Bank overdrafts	-	1,697,014	-	951,828
Bank loans	<u>39,065,396</u>	<u>10,631,062</u>	-	-
	<u>39,065,396</u>	<u>12,328,076</u>	-	<u>951,828</u>

## Notes to the financial statements

31 December 2016

### 23. Bank overdrafts and loans (continued)

Bank overdrafts and loans are repayable as follows:

	Group		Holding	
	2016	2015	2016	2015
	Eur	Eur	Eur	Eur
On demand or within				
one year	8,077,719	4,042,272	-	951,828
In the second year	7,800,074	7,689,503	-	-
In the third year	7,018,435	260,438	-	-
In the fourth year	6,911,183	273,354	-	-
In the fifth year	5,798,735	62,509	-	-
After five years	3,459,250	-	-	-
	<u>39,065,396</u>	<u>12,328,076</u>	<u>-</u>	<u>951,828</u>
Less: amount due for				
settlement within 12				
months (shown under				
current liabilities)	(8,077,719)	(4,042,272)	-	(951,828)
	<u>(8,077,719)</u>	<u>(4,042,272)</u>	<u>-</u>	<u>(951,828)</u>
Amounts due for settlement				
after 12 months	<u>30,987,677</u>	<u>8,285,804</u>	<u>-</u>	<u>-</u>

#### Holding

In 2015, the company took a new overdraft facility which had a balance as at year end of *Eur*951,828 with a facility limit of *Eur*1,000,000 and bearing interest at the rate of 3.25% per annum over the 3-month EURIBOR. The facility was secured by a first general hypothec over the assets of the company and was terminated during the year.

#### Group

The loan that SIA Premier Restaurants Latvia had taken from AS DNB Banka during 2012 has a drawdown limit of *Eur*17,500,000, of which *Eur*17,500,000 had been drawn down at year end (2015 – *Eur*17,500,000). During 2016, SIA Premier Restaurants Latvia managed to secure an additional loan of *Eur*3,500,000 within the same facility. The loan bears an adjusted interest rate of the 3-month EURIBOR +2.50% (2015 - +2.75%) and the maturity term of the loan has been extended up to June 2021. The loan is secured by a pledge agreement between the bank and the company, together with pledges over the Baltic subsidiaries' shares and a pledge over the subsidiaries' immovable and movable property. The balance on this loan at 31 December 2016 amounted to *Eur*10,797,175 (2015 – *Eur*9,550,220). The loan was settled on January 2017 with the proceeds of the newly issued debt securities as detailed in note 24.



## Notes to the financial statements

31 December 2016

### 23. Bank overdraft and loans (continued)

During 2016, Premier Capital Srl secured a loan from BRD – SG in Romania to partly finance the acquisition of McDonald's operations in the territory. The loan is denominated in local currency RON, for an amount equivalent to *Eur28,849,085* as at 31 December 2016. The facility has a term of six years and bears an interest rate of 3-month ROBOR +2.75%. The loan is secured by a pledge over the subsidiaries' immovable and movable property.

The remaining bank borrowings relate to an overdraft balance of *EurNil* (2015 – *Eur745,186*) of a group subsidiary in Malta, namely Premier Restaurants Malta Limited with a limit of *Eur1,000,000* (2015 – *Eur1,000,000*) and bearing interest at 250 basis point over the bank's base rate, presently 2.35% (2015: 2.35%) per annum.

Premier Restaurants Malta Limited also has an additional loan facility of *Eur1,250,000* of which *Eur1,250,000* had been drawn down as at 31 December 2015. During the year, the facility was settled in full (2015 – loan balance of *Eur1,080,842*). These facilities were secured by a first general hypothec over the assets of the subsidiary company, over those of related companies, as well as by guarantees provided by shareholders and related companies together with pledges on various insurance policies.

### 24. Debt securities in issue

	Group and Holding	
	2016	2015
	Eur	Eur
6.8% unsecured bonds redeemable 2017-2020	7,384,036	24,394,893
3.75% unsecured bonds redeemable 2026	64,071,224	-
	<u>71,455,260</u>	<u>24,394,893</u>

In April 2010 the company issued 250,000 6.8% bonds of a nominal value of *Eur100* per bond. The bonds are redeemable at their nominal value on 15 March 2020, subject to the issuer's option to redeem all or any part of the Bonds on any of the designated early redemption dates. The latter fall on any date between 16 March 2017 and 14 March 2020 as the Issuer may determine by giving thirty days prior notice to the Bondholders.

According to clause 20.11 of the bond issue prospectus dated 1 March 2010, "The issuer (Premier Capital p.l.c.) hereby undertakes that from the outset of the financial year commencing 1 January 2012, over a period of 8 years therefrom, build a sinking fund the value of which will by the end of such period be equivalent to 50% of the value of the issued bonds, thus creating a cash reserve from its annual surpluses to meet part of the redemption proceeds on the Redemption Date".

## Notes to the financial statements

31 December 2016

### 24. Debt securities in issue (continued)

The board has appointed Equity Wealth Solutions Limited (2015 – HSBC Bank Malta plc) as trustee of the funds allocated to the sinking fund in accordance with the prospectus.

In view of the sinking fund commitment, until 31 December 2016 the company redeemed *Eur359,000* (2015 – *Eur359,000*) in nominal value of bonds thereby reducing the sinking fund requirement by this amount. The company has also put aside funds in the form of cash (note 17d) and financial instruments (note 17c) amounting to in total *Eur3,462,447* (2015 – *Eur3,038,588*).

Interest on the bonds is due and payable annually on 15 March of each year.

In November 2016, the company issued 650,000 3.75% unsecured bonds of a nominal value of *Eur100* per bond. The bonds are redeemable at their nominal value on 23 November 2026. The proceeds raised from the Bond Issue will be used by the company for the following purposes:

- a maximum amount of *Eur24,641,000* will be used by the company for the purpose of acquiring 6.8% Bonds and to redeem any remaining bonds in issue as at 16 March 2017;
- *Eur13,300,000* to be used to repay bank facilities in Malta and Latvia;
- *Eur10,800,000* shall be used to settle a portion of bank borrowings in Romania;
- *Eur15,259,000* will be used to part finance the forthcoming capital expenditure of the group.

On issue of the 650,000 3.75% bonds, worth of *Eur17,244,900* were used for the part redemption of the *Eur25,000,000* 6.8% Bonds already in issue. The remaining amount of *Eur7,396,100* 6.8% Bonds were redeemed on 16 March 2017.

Following the full redemption of the 6.8% bonds on 16 March 2017, the sinking fund was consequently liquidated, as explained in note 17.

Interest on the bonds is due and payable annually on 23 November of each year.

The bonds are listed on the Official List of the Malta Stock Exchange. The carrying amount of the bonds is net of direct issue costs of *Eur12,064* (2015 – *Eur246,107*) for the 6.8% bonds and *Eur928,776* for the 3.75% bonds which are being amortised over the life of the bonds. The market value of debt securities on the last trading day before the statement of financial position date was *Eur7,489,291* (2015 – *Eur25,873,050*) for the 6.8% bonds and *Eur66,612,000* for the 3.75% bonds.



## Notes to the financial statements

31 December 2016

### 25. Share capital

	2016		2015	
	Authorised	Issued and called up	Authorised	Issued and called up
	Eur	Eur	Eur	Eur
400,000 ordinary shares of Eur100 each, of which 336,747 have been issued and called up	40,000,000	33,674,700	-	-
47,637 ordinary 'A' shares of Eur100 each, of which 45,249 have been issued and called up	-	-	4,763,700	4,524,900
47,637 ordinary 'B' shares of Eur100 each, of which 45,249 have been issued and called up	-	-	4,763,700	4,524,900
47,637 ordinary 'C' shares of Eur100 each, of which 45,249 have been issued and called up	-	-	4,763,700	4,524,900
	<u>40,000,000</u>	<u>33,674,700</u>	<u>14,291,100</u>	<u>13,574,700</u>

Save for the selection of directors in terms of Clause 55 of the Articles of Association of the company, ordinary shares in the company, irrespective of the class to which they belong, shall have equal rights as regards dividends and in all other respects each shareholder shall be entitled to one vote in general meetings for each of such shares held.

With effect from 19 October 2016 the company's share capital no longer remained classified into different classes of shares and was replaced by a single class of shares termed "Ordinary Shares". The total authorised share capital of the company was increased to *Eur40,000,000* divided into 400,000 Ordinary Shares of a nominal value of *Eur100* each. Similarly the issued share capital of the company was increased to *Eur33,674,700* divided into 336,747 Ordinary Shares of a nominal value of *Eur100* each.

Furthermore, the company issued and allotted 201,000 Ordinary Shares having a nominal value of *Eur100* each for a non-cash consideration to the ultimate parent company, Hili Ventures Limited, by the capitalisation of shareholders' loans granted to the company amounting to *Eur19,100,000*; and the capitalisation of a portion of the interim dividend amounting to *Eur1,000,000* declared with respect to the financial year ended 31 December 2015 but not distributed.



## Notes to the financial statements

31 December 2016

### 26. Other reserves

#### Group

	Legal reserve Eur	Revaluation reserve Eur	Other reserve Eur	Total Eur
Balance at 1 January 2015	291,148	-	(1,062,675)	(771,527)
Transfer from retained earnings	230,780	-	-	230,780
Loan earmarked for capitalisation	-	-	1,000,000	1,000,000
Balance at 1 January 2016	521,928	-	(62,675)	459,253
Gain on revaluation of property, plant and equipment	-	44,568	-	44,568
Capitalisation of loan	-	-	(1,000,000)	(1,000,000)
<b>Balance at 31 December 2016</b>	<b>521,928</b>	<b>44,568</b>	<b>(1,062,675)</b>	<b>(496,179)</b>

The legal reserve represents reserves created by the subsidiaries in Estonia and Lithuania pursuant to the legal requirements in these jurisdictions.

The revaluation reserve has been created from an increase in revaluation of property, plant and equipment coming from Romania (note 15).

The other reserve represents a cash capital contribution made by the parent company to one of its subsidiaries attributable to non-controlling interests amounting to *Eur*370,825, a loss offset reserve of *Eur*212,351, a loan earmarked for capitalisation of *Eur*1,000,000 and the effect of acquisition of part of a non-controlling interest amounting to *Eur*1,360,079. During the year 2015, the group gained full control in the subsidiary Premier Restaurants Malta Limited resulting in a movement in the other reserve of *Eur*455,878. During 2016, the loan earmarked for capitalisation amounting to *Eur*1,000,000 has been converted into an increase in share capital (note 25).

## Notes to the financial statements

31 December 2016

### 26. Other reserves (continued)

#### Holding

The other reserve represents a loss offset reserve amounting to *Eur212,351* for the purpose of offsetting any losses that may be incurred by the company from time to time and was created by a reduction of share capital in 2010.

	Other reserve Eur
Balance at 1 January 2015	212,351
Loan earmarked for capitalisation	1,000,000
Balance at 1 January 2016	1,212,351
Capitalisation of loan	(1,000,000)
<b>Balance at 31 December 2016</b>	<b>212,351</b>

The loan that was earmarked for capitalisation in the other reserve as at 31 December 2015, was capitalised during the year. This represented a capital contribution from the shareholders and was unsecured, interest-free and repayable exclusively at the option of the company.

### 27. Provisions

As at 31 December 2016, the group recognised provisions for legal claims for an amount of *Eur319,870* arising from Romania. The provision represents the present value of management's best estimate of the outcome of the two current legal claims on which there is a dispute regarding the algorithm of the rental computation.

### 28. Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following amounts in the statement of financial position:

	Group		Holding	
	2016	2015	2016	2015
	Eur	Eur	Eur	Eur
Cash at bank and on hand	62,113,317	4,362,715	42,997,087	45,392
Bank overdrafts	-	(1,697,014)	-	(951,828)
	<u>62,113,317</u>	<u>2,665,701</u>	<u>42,997,087</u>	<u>(906,436)</u>

Cash at bank earns interest at floating rates based on bank deposit rates. The interest rate on the cash at bank in 2016 was 0% - 2% (2015 – 1% - 3%). The interest rate on bank overdrafts is disclosed in note 23.

## Notes to the financial statements

31 December 2016

### 29. Business combination

On 22 January 2016, the group acquired 90 percent shareholding in Premier Capital Romania Srl, an SPV company purposely set up to acquire 100 percent shareholding in the group of companies that operate the McDonald's restaurants in Romania. The acquired group is made of Premier Capital Delaware Inc. ('McD Delaware'), a non-trading holding company registered in Delaware US, and Premier Restaurants Romania Srl ('McD Romania') which operates the McDonald's restaurants in the territory.

McD Romania is headquartered in Bucharest, and operates 67 restaurants across the country. The acquisition is expected to increase the group's market portfolio and operations. Details of the purchase consideration is as follows:

#### Group

	2016 Eur
<b>Purchase consideration</b>	
Cash consideration paid	58,077,033
Deferred consideration (included in 'other financial liabilities')	5,686,141
	<u><u>63,763,174</u></u>

As already mentioned in note 23, the purchase consideration has been partly financed by a bank loan from BRD of *Eur37,049,767*, a cash injection of *Eur17,780,532* by the parent, Hili Ventures Limited and *Eur3,702,401* from group operating cash flows. The deferred consideration of *Eur5,686,141* included in other financial liabilities (note 22) was settled in January 2017 and bore an interest rate of 3.54%.

Acquisition related costs of *Eur455,668* have been excluded from the purchase consideration and are included within administrative expenses in the profit or loss (note 7).



## Notes to the financial statements

31 December 2016

### 29. Business combination (continued)

The assets and liabilities recognised as a result of the acquisition are as follows:

	2016 Eur
<b>Non-current assets</b>	
Intangible assets	2,684,780
Property, plant and equipment	44,688,083
Deferred tax asset	182,292
Prepayments	471,318
<b>Total non-current assets</b>	<b>48,026,473</b>
<b>Current assets</b>	
Inventories	752,232
Trade and other receivables	1,043,262
Cash and cash equivalents	13,411,229
<b>Total current assets</b>	<b>15,206,723</b>
<b>TOTAL ASSETS</b>	<b>63,233,196</b>
<b>Current liabilities</b>	
Trade and other payables	7,364,042
Current tax liabilities	915,877
<b>Total current liabilities</b>	<b>8,279,919</b>
<b>Non-current liabilities</b>	
Other financial liabilities	304,740
<b>TOTAL LIABILITIES</b>	<b>8,584,659</b>
<b>NET IDENTIFIABLE ASSETS ACQUIRED</b>	<b>54,648,537</b>
Add: goodwill	9,114,637
Purchase consideration	<b>63,763,174</b>

The goodwill arising on acquisition is in relation to synergies resulting from combining the operations of Romania and intangible assets that do not qualify for separate recognition. The goodwill is attributable to the profitability of the acquired business and it will not be deductible for tax purposes. There were no acquisitions in the year ending 31 December 2015.

The acquired business contributed revenues of *Eur127,147,103* and a profit before tax of *Eur17,486,981* to the group for the period 22 January 2016 to 31 December 2016. If the acquisition had occurred on 1 January 2016, consolidated revenue and consolidated profit before tax for the year ended 31 December 2016, would have been *Eur237,301,274* and *Eur17,857,729* respectively.

## Notes to the financial statements

31 December 2016

### 29. Business combination (continued)

The gross contractual amounts of trade and other receivables amount to *Eur1,043,262*. The best estimate at the acquisition date of cash flows is that all receivables will be collected.

The non-controlling interest (10% of Premier Capital Srl) recognised at the acquisition date was measured by reference to the cost of the shares of the non-controlling interest and amounted to *Eur1,932,728*.

The net cash outflow on acquisition of the subsidiary in Romania resulted as follows:

	2016 Eur
Consideration paid in cash	58,077,033
Less: cash and cash equivalent balances acquired	(13,411,229)
	<u>44,665,804</u>

### 30. Significant non-cash transactions

During 2016 there was the following significant non-cash transaction:

- a) As explained in note 17, the company increased its investment in its direct subsidiary, Premier Capital B.V., by conversion of long term loans amounting to *Eur36,950,000* into equity.
- b) As detailed in note 24, in November 2016, the company partly redeemed 6.8% Bonds amounting to *Eur17,244,900* by means of an issue of 650,000 3.75% Bonds at *Eur100* each.
- c) In note 25, the company issued and allotted 201,000 Ordinary Shares with a nominal value of *Eur100* each for a non-cash consideration to the ultimate parent company, Hili Ventures Limited, by the capitalisation of shareholders' loans granted to the company amounting to *Eur19,100,000*; and the capitalisation of a portion of the interim dividend amounting to *Eur1,000,000* declared with respect to the financial year ended 31 December 2015 but not distributed.

During 2015 there was the following significant non-cash transaction:

As explained in note 13, the company declared a dividend of *Eur1,000,000* to its shareholder, which amount has been earmarked for capitalisation and is included with equity.

## Notes to the financial statements

31 December 2016

### 31. Related party disclosures

Premier Capital p.l.c. is the parent company of the undertakings highlighted in note 17.

The ultimate parent company of Premier Capital p.l.c. is Hili Ventures Limited which is incorporated in Malta, having registered address Nineteen Twenty Three, Valletta Road, Marsa, and which produces consolidated financial statements available for public use. Copies of the consolidated financial statements may be downloaded from the website of both Premier Capital p.l.c. and Hili Ventures Limited.

The directors consider the ultimate controlling party to be Carmelo Hili, who during 2016 became the indirect owner of more than 50% (2015 – indirect owner of 50%) of the issued share capital of Hili Ventures Limited.

During the course of the year, the group and the company entered into transactions with related parties, as set out below.

#### Group

	2016			2015		
	Related party activity Eur	Total activity Eur	%	Related party activity Eur	Total activity Eur	%
Administrative expenses:						
<i>Related party transactions with:</i>						
Other related parties	1,595,554			1,733,536		
Key management personnel	635,742			612,215		
	<u>2,231,296</u>	<u>14,819,349</u>	<u>15</u>	<u>2,345,751</u>	<u>8,385,246</u>	<u>28</u>
Investment income:						
<i>Related party transactions with:</i>						
Subsidiaries						
Other related parties	158,339	344,305	46	891	90,177	1



## Notes to the financial statements

31 December 2016

### 31. Related party disclosures (continued)

#### Holding

	2016			2015		
	Related party activity	Total activity	%	Related party activity	Total activity	%
	Eur	Eur		Eur	Eur	
Revenue:						
<i>Related party transactions with:</i>						
Subsidiaries	<u>1,128,012</u>	<u>1,128,012</u>	<u>100</u>	<u>1,128,012</u>	<u>1,128,012</u>	<u>100</u>
Administrative expenses:						
<i>Related party transactions with:</i>						
Subsidiaries	-			26,262		
Ultimate parent	360,000			360,000		
Other related parties	62,195			67,416		
Key management personnel	<u>635,742</u>			<u>612,215</u>		
	<u>1,057,937</u>	<u>2,354,093</u>	<u>45</u>	<u>1,065,893</u>	<u>2,146,345</u>	<u>50</u>
Investment income:						
<i>Related party transactions with:</i>						
Subsidiaries	<u>12,963,667</u>			899,918		
Other related parties	-			891		
	<u>12,963,667</u>	<u>13,112,370</u>	<u>99</u>	<u>900,809</u>	<u>969,789</u>	<u>93</u>
Finance costs:						
<i>Related party transactions with:</i>						
Subsidiaries	<u>640,485</u>			394,127		
Other related parties	<u>25,124</u>			<u>5,370</u>		
	<u>665,609</u>	<u>2,864,639</u>	<u>23</u>	<u>399,497</u>	<u>2,217,469</u>	<u>18</u>

No expense has been recognised during the year arising from bad and doubtful debts in respect of amounts due by related parties.

The amounts due from/to related parties at year-end are disclosed in notes 17, 20, 21, 22, 25 and 26. Other than as disclosed in the respective notes, no guarantees have been given or received. The terms and conditions in respect of the related party balances do not specify the nature of the consideration to be provided in settlement.

As explained in note 17c, during the year 2014 the group purchased local bonds issued by a related party amounting to *Eur*523,750, which were sold during the year 2015.

Other related parties consist of related parties other than parent, entities with joint control or significant influence over the company, subsidiaries, associates, joint ventures in which the company is a venture and key management personnel of the company or its parent.

## Notes to the financial statements

31 December 2016

### 32. Operating leases

	Group		Holding	
	2016	2015	2016	2015
	Eur	Eur	Eur	Eur
<i>Operating leases recognised as expense for the year</i>				
Minimum lease payments under operating leases	8,521,237	5,563,655	42,040	46,476
Contingent rent	2,995,715	1,302,940	-	-
	<u>11,516,952</u>	<u>6,866,595</u>	<u>42,040</u>	<u>46,476</u>

The group is party to several operating lease agreements for lease of premises and land on which the restaurants in the Baltics, Malta, Greece and Romania are situated. The group also leases certain properties whereby it is committed to pay monthly payments to the lessor based on the sales of each particular restaurant. This is represented within contingent rent disclosed above, which is calculated as a percentage of revenues.

The majority of the lease agreements entitle the group's subsidiaries to have the right of first refusal when such leases come up for renewal. None of the lease agreements gives rights to the group's subsidiaries' to any purchase or escalation options, however restricting the same subsidiaries to further lease the properties to third parties.

At the end of the reporting period, the group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	Group		Holding	
	2016	2015	2016	2015
	Eur	Eur	Eur	Eur
Within one year	7,200,061	4,900,137	42,040	42,040
Between two to five years	21,613,254	16,217,815	98,017	140,057
Over five years	24,955,493	21,282,923	-	-
	<u>53,768,808</u>	<u>42,400,875</u>	<u>140,057</u>	<u>182,097</u>

### 33. Commitments

- (i) The subsidiaries operate under franchise agreements ('the Agreement') entered into with McDonald's International Property Company ('the Franchisor'). The franchise agreements are for a period of 20 years which allows the respective company to use the McDonald's system in the restaurants. These franchise agreements stipulate certain financial and non-financial obligations, including but not necessarily limited to, maintaining certain financial ratios, performing marketing and other activities. The subsidiaries are obliged to pay a royalty fee based on their annual net sales of the respective company on an annual basis.



## Notes to the financial statements

31 December 2016

### 33. Commitments (continued)

- (ii) Upon the expiration of these Agreements, the Franchisor shall have the right to purchase all of the equity interest in the Franchisee's McDonald's Restaurant business ("FMRB"). If the Franchisor elects to exercise its right to purchase FMRB, the Purchase price shall be equal to the Fair Market Value, as defined in the Agreement. In the event that the Franchisor does not exercise its right to purchase FMRB, it shall have the right to lease or sublease or purchase, as the case may be, the premises associated with the Restaurants from Franchisee at fair market rental or fair market price, as the case may be.
- (iii) At the end of the reporting period the group and the company had the following further capital commitments in respect of property, plant and equipment:

	Group		Holding	
	2016	2015	2016	2015
	Eur	Eur	Eur	Eur
Contracted but not provided for	-	239,340	-	-

### 34. Contingent liabilities

At the end of the reporting period, the company acted as a guarantor for bank facilities held in the name of its subsidiaries. The company guaranteed *Eur6,249,749* (2015 – *Eur4,999,499*) in favour of Premier Restaurants Malta Limited, and guaranteed the amount of *Eur17,500,000* (2015 – *Eur17,500,000*) in favour of SIA Premier Restaurants (subsidiary in Latvia), on the loan which the latter has with AS DNB Banka, which as at 31 December 2016 amounted to *Eur10,797,175* (2015 – *Eur9,550,220*).

Certain subsidiaries of the group, have also guaranteed the amount of *Eur8,107,189* (2015 – *Eur8,223,658*) in favour of related companies in connection with bank facilities of the respective related company.

### 35. Fair value of financial assets and financial liabilities

At 31 December 2016 and 2015 the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively approximated their fair values due to the short term maturities of these assets and liabilities.

The fair values of non-current financial assets and non-current financial liabilities that are not measured at fair value, other than the shares in subsidiary companies that are carried at cost, and the debt securities in issue (where fair value is disclosed in note 24), are not materially different from their carrying amounts due to the fact that the interest rates are considered to represent market rates at the year end.



## Notes to the financial statements

31 December 2016

### 35. Fair value of financial assets and financial liabilities (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3.

	Group and Holding Company			Total
	Level 1	Level 2	Level 3	
	Eur	Eur	Eur	Eur
<b>Financial assets</b>				
Local listed debt instruments				
As at 31.12.2015	1,757,493	-	-	1,757,493
As at 31.12.2016	1,596,154	-	-	1,596,154
<b>Financial liabilities</b>				
Derivative financial instruments				
As at 31.12.2015	-	96,006	-	96,006
As at 31.12.2016	-	70,936	-	70,936

The fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The fair value of the derivative financial instruments is established by using a valuation technique. Valuation techniques comprise discounted cash flow analysis. The valuation technique is consistent with generally accepted economic methodologies for pricing financial instruments. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the rates at end of the reporting period and the credit risk inherent in the contract.

The following table provides an analysis of financial instruments that are not measured subsequent to initial recognition at fair value, other than those with carrying amounts that are reasonable approximations of fair value and other than shares in subsidiary companies, grouped into Levels 1 to 3.

## Notes to the financial statements

31 December 2016

### 35. Fair value of financial assets and financial liabilities (continued)

#### Group

	Fair value measurement at end of reporting period using:				
	Level 1	Level 2	Level 3	Total	Carrying amount
	Eur	Eur	Eur	Eur	Eur
<b>Financial assets</b>					
<i>Loans and receivables</i>					
Receivables from other related parties					
As at 31.12.2015	-	185,781	-	185,781	185,781
<b>As at 31.12.2016</b>	-	5,359,810	1,966,607	7,326,417	7,326,417
<b>Financial liabilities</b>					
<i>Financial liabilities at amortised cost</i>					
Amounts due to other related parties	-	1,092,836	-	1,092,836	1,092,836
Bank loans	-	10,631,062	-	10,631,062	10,631,062
Debt securities	25,873,050	-	-	25,873,050	24,394,893
As at 31.12.2015	25,873,050	11,723,898	-	37,596,948	36,118,791
Amounts due to other related parties	-	161,536	-	161,536	161,536
Amounts due to ultimate parent	-	5,000,000	-	5,000,000	5,000,000
Other financial liabilities	-	5,686,141	-	5,686,141	5,686,141
Bank loans	-	39,065,396	-	39,065,396	39,065,396
Debt securities	74,101,291	-	-	74,101,291	71,455,260
<b>As at 31.12.2016</b>	74,101,291	49,913,073	-	124,014,364	121,368,333

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

## Notes to the financial statements

31 December 2016

### 35. Fair value of financial assets and financial liabilities (continued)

#### Holding

	Fair value measurement at end of reporting period using:				
	Level 1	Level 2	Level 3	Total	Carrying amount
	Eur	Eur	Eur	Eur	Eur
<b>Financial assets</b>					
<i>Loans and receivables</i>					
Receivables from subsidiaries	-	1,689,085	19,920,002	21,609,087	21,609,087
Receivables from other related parties	-	145,185	-	145,185	145,185
As at 31.12.2015	-	1,834,270	19,920,002	21,754,272	21,754,272
<b>Financial assets</b>					
<i>Loans and receivables</i>					
Receivables from subsidiaries	-	2,009,039	17,280,586	19,289,625	19,289,625
Receivables from other related parties	-	308,191	-	308,191	308,191
As at 31.12.2016	-	2,317,230	17,280,586	19,597,816	19,597,816
<b>Financial liabilities</b>					
<i>Financial liabilities at amortised cost</i>					
Amounts due to other related parties	-	809,302	-	809,302	809,302
Amounts due to subsidiaries	-	582,741	9,144,245	9,726,986	9,726,986
Debt securities	25,873,050	-	-	25,873,050	24,394,893
As at 31.12.2015	25,873,050	1,392,043	9,144,245	36,409,338	34,931,181
<b>Financial liabilities</b>					
<i>Financial liabilities at amortised cost</i>					
Amounts due to other related parties	-	6,875	-	6,875	6,875
Amounts due to ultimate parent	-	5,000,000	-	5,000,000	5,000,000
Amounts due to subsidiaries	-	1,223,358	14,094,246	15,317,604	15,317,604
Debt securities	74,101,291	-	-	74,101,291	71,455,260
As at 31.12.2016	74,101,291	6,230,233	14,094,246	94,425,770	91,779,739



## Notes to the financial statements

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### 36. Financial risk management

The exposures to risk and the way risks arise, together with the group's objectives, policies and processes for managing and measuring these risks are disclosed in more detail below.

The objectives, policies and processes for managing financial risks and the methods used to measure such risks are subject to continual improvement and development. Where applicable, any significant changes in the group's exposure to financial risks or the manner in which the group manages and measures these risks are disclosed below.

Where possible, the group aims to reduce and control risk concentrations. Concentrations of financial risk arise when financial instruments with similar characteristics are influenced in the same way by changes in economic or other factors. The amount of the risk exposure associated with financial instruments sharing similar characteristics is disclosed in more detail in the notes to the financial statements.

#### *Credit risk*

Financial assets which potentially subject the group to concentrations of credit risk, consist principally of loans and receivables, debt securities held, available-for-sale investments and cash at bank. Loan and receivables are presented net of an allowance for doubtful debts. An allowance for doubtful debts is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Cash at bank and the sinking fund are placed with reliable financial institutions with a credit rating of A1 at year end (2015 – A1).

Credit risk with respect to trade receivables is limited due to the nature of the group's operations. Loans and receivables comprise amounts due from related parties. The group's and company's concentration to credit risk arising from these receivables is considered limited as there were no indications that these counterparties are unable to meet their obligations.

Management considers the credit quality of these financial assets as being acceptable.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the group's maximum exposure to credit risk without taking account of the value of any collateral obtained. Any guarantees are disclosed in note 34.

Quoted investments are acquired after assessing the quality of the related investments.

## Notes to the financial statements

31 December 2016

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### 36. Financial risk management (continued)

#### *Currency risk*

Foreign currency transactions arise when the group buys or sells goods or services whose price is denominated in foreign currency, borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency or acquires or disposes of assets, or incurs or settles liabilities, denominated in foreign currency.

The risk arising from foreign currency transactions is managed by regular monitoring of the relevant exchange rates and management's reaction to material movements thereto.

The functional currency of all the subsidiaries, except the Romanian entities, was the Euro both in the current year and in the prior year. Furthermore, the translation of the Romania entity, which has the Romanian Lei as its functional currency is recognised in the Group's other comprehensive income in accordance with the Group's accounting policies.

#### *Interest rate risk*

The group has taken out bank and debt securities to finance its operations as disclosed in notes 23 and 24. The interest rates thereon and the terms of such borrowings are disclosed accordingly. The effective interest rate on loans and receivables, other financial liabilities, bank borrowings, debt securities in issue and cash at bank are disclosed in notes 17, 22, 23, 24 and 28 respectively.

The group is exposed to cash flow interest rate risk on borrowings and debt instruments carrying a floating interest rate and to fair value interest rate risk on borrowings and debt instruments carrying a fixed interest rate to the extent that these are measured at fair value. Investments in equity instruments are not exposed to interest rate risk.

Management monitors the movement in interest rates and, where possible, reacts to material movements in such rates by adjusting its selling prices or by restructuring its financing structure. The group entered into an interest rate swap to hedge its exposure arising from floating interest rates on certain bank loans (2015 - the majority of its bank loans).

The carrying amounts of the group's financial instruments carrying a rate of interest at the reporting date are disclosed in the notes to the financial statements.



## Notes to the financial statements

31 December 2016

### 36. Financial risk management (continued)

#### *Interest rate risk (continued)*

##### Sensitivity analysis

The group has used a sensitivity analysis technique that measures the change in cash flows of the group's bank borrowings, net of cash at bank and on hand, at the end of the reporting period for hypothetical changes in the relevant market risk variables. The sensitivity due to changes in the relevant risk variables is set out below.

The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain market conditions. Actual results in the future may differ materially from those projected results due to the inherent uncertainty of global financial markets. The sensitivity analysis is for illustrative purposes only, as in practice market rates rarely change in isolation and are likely to be interdependent.

The estimated change in cash flows for changes in market interest rates are based on an instantaneous increase or decrease of 50 basis points at the end of the reporting period, with all other variables remaining constant.

The sensitivity of the relevant risk variables is as follows:

	Group		Holding	
	Profit or loss sensitivity		Profit or loss sensitivity	
	2016	2015	2016	2015
	Eur	Eur	Eur	Eur
Market interest rates - fair value	<u>+/- 168k</u>	<u>+/- 13k</u>	<u>+/- 215k</u>	<u>+/- 5k</u>

The sensitivity on profit or loss in respect of market interest rates is mainly attributable to bank loans.

#### *Liquidity risk*

The group and the company monitor and manage their risk to a shortage of funds by maintaining sufficient cash, by matching the maturity of both their financial assets and financial liabilities and by monitoring the availability of raising funds to meet financial obligations.

Funds are transferred within the group as and when the need arises. Management monitors liquidity risk by means of cash flow forecasts on the basis of expected cash flows over a twelve month period, which is adjusted monthly and monitored on a weekly basis, to ensure that any additional financing requirements are addressed in a timely manner.



## Notes to the financial statements

31 December 2016

### 36. Financial risk management (continued)

#### *Liquidity risk (continued)*

The group and the company are exposed to liquidity risk in relation to meeting the future obligations associated with their financial liabilities, which comprise principally trade and other payables, other financial liabilities and interest-bearing borrowings (refer to notes 21, 22, 23, and 24). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the company's and group's obligations.

At the end of the reporting period, the group reported a net current asset position of *Eur22,562,051* (2015 – liability of *Eur9,208,341*). This arose principally because the company issued debt securities of 3.75% 650,000 Bonds 2026 at a nominal value of *Eur100* each to settle 6.8% Bonds 2017-2020 amounting to *Eur17,244,900*, and the remaining balance of *Eur7,396,100* will be settled on maturity date and also because the group acquired the Romania segment which further contributed to the net current asset position of the group by *Eur9,148,216* before intra group eliminations and adjustments.

In line with the prior year, the group continued to finance a significant amount of capital expenditure from working capital. The group has invested a total of *Eur10,933,559* (2015 – *Eur6,484,605*) in property, plant and equipment without the need to resort to additional loan facilities.

As detailed in note 29, the group financed the acquisition of the Romania operations by means of a bank loan which at the end of the reporting period amounted to *Eur28,268,221* and by means of an advance from the ultimate parent of *Eur19,100,000* which have been converted into an increase in share capital (note 25).

The directors have reviewed cash flow projections that have been prepared for the next 12 months. The group budgets and cash flow forecasts assume that the group continues to operate within its current credit limits afforded by third party creditors and also a strategy to continue to invest in capital expenditure as far as possible from working capital for at least the next 12 months. Based on continued operating profitability, the directors are confident that the group will have no difficulty to continue to meet its commitments as and when they fall due.

As further disclosed in note 24, in terms of the prospectus, the company is required to build up a sinking fund, the value of which by the year prior to the redemption date of the bonds, be equivalent to 50% of the value of the bonds. In light of the part redemption of the 6.8% Bonds 2017-2020 amounting to *Eur17,244,900* and the redemption of the remaining amount of *Eur7,396,100* on 16 March 2017, both of which are financed through the issue of the 3.75% 650,000 Bonds 2026, the sinking fund requirement is no longer required and hence has been put into liquidation.

## Notes to the financial statements

31 December 2016

### 36. Financial risk management (continued)

#### *Liquidity risk (continued)*

The following maturity analysis for financial liabilities shows the remaining contractual maturities using the contractual undiscounted cash flows on the basis of the earliest date on which the group can be required to pay. The analysis includes both interest and principal cash flows.

#### Group

	On demand or within 1 year Eur	Within 2 - 5 years Eur	After 5 years Eur	Total Eur
<b>2016</b>				
<b>Non-derivative financial liabilities</b>				
Non-interest bearing	30,401,078	-	-	30,401,078
Variable rate instruments	8,830,114	30,298,469	3,514,337	42,642,920
Fixed rate instruments	15,558,561	9,750,000	76,927,055	102,235,616
Derivative financial liabilities	-	70,936	-	70,936
	<u>54,789,753</u>	<u>40,119,405</u>	<u>80,441,392</u>	<u>175,350,550</u>
<b>2015</b>				
<b>Non-derivative financial liabilities</b>				
Non-interest bearing	13,450,911	-	-	13,450,911
Variable rate instruments	4,411,239	8,705,941	-	13,117,180
Fixed rate instruments	2,475,588	30,016,845	-	32,492,433
Derivative financial liabilities	-	96,006	-	96,006
	<u>20,337,738</u>	<u>38,818,792</u>	<u>-</u>	<u>59,156,530</u>

## Notes to the financial statements

31 December 2016

### 36. Financial risk management (continued)

#### Liquidity risk (continued)

##### Holding

	On demand or within 1 year Eur	Within 2 - 5 years Eur	After 5 years Eur	Total Eur
<b>2016</b>				
<i>Non-derivative financial liabilities</i>				
Non-interest bearing	8,137,985	-	-	8,137,985
Fixed rate instruments	10,535,721	25,884,134	76,927,055	113,346,910
	<u>18,673,706</u>	<u>25,884,134</u>	<u>76,927,055</u>	<u>121,484,895</u>
<b>2015</b>				
<i>Non-derivative financial liabilities</i>				
Non-interest bearing	2,107,565	-	-	2,107,565
Variable rate instruments	951,828	-	-	951,828
Fixed rate instruments	2,932,800	40,989,940	-	43,922,740
	<u>5,992,193</u>	<u>40,989,940</u>	<u>-</u>	<u>46,982,133</u>

#### Derivative financial instruments

The group does not use derivative financial instruments for speculative purposes.

The group uses interest rate swaps to convert a proportion of its floating rate debt to fixed rates.

During the year under review and during the prior year, the company did not designate any of its derivative financial instruments in a hedging relationship for accounting purposes.

#### Capital risk management

The company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maximise the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the group consists of items presented within equity in the statement of financial position, debt securities and bank borrowings as disclosed in notes 23 and 24 and cash and cash equivalents as disclosed in note 28.



## Notes to the financial statements

31 December 2016

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### 36. Financial risk management (continued)

#### *Capital risk management*

The company's directors manage the capital structure and make adjustments to it, in light of changes in economic conditions. The capital structure is reviewed on an on-going basis. Based on recommendations of the directors, the company balances its overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debt.

The group's overall strategy remains unchanged from the prior year.

### 37. Comparative figures

The group and company has altered some comparative figures by reclassifying certain figures within the disclosure notes of other operating income (note 5) for the holding company, key management personnel (note 10) for both the group and holding company, and investment income (note 6) and operating leases (note 32) for the group.

Consultancy and support fees fall under the revenue classification of provision of services by the holding company to its subsidiaries and as such were reclassified from other operating income to revenue.

The key management personnel note has been amended to reflect the compensation received by people having authority and responsibility for planning, directing, and controlling the activities of the group and holding company, either directly or indirectly.

Under investment income, an amount of *Eur12,079* was wrongly classified under 'Gains on financial assets held for trading'. This was amended in current year to reflect correct classification under 'Gains on available for sale investments'.

An amount of *Eur4,963,029* has been reclassified from contingent rent to minimum lease payments under operating leases since these were wrongly classified under rent which is calculated on a variable basis depending on the revenue from the restaurants. As a result, the outstanding commitments under non-cancellable operating leases has been deducted by *Eur489,649* within one year, *Eur1,797,346* between two to five years and *Eur7,539,115* over five years.

## Notes to the financial statements

31 December 2016

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### 38. Events after the reporting period

As detailed in note 24, the group has utilised the newly issued debt securities of 3.75% unsecured Bonds 2026 as follows:

- In January 2017, the bank loan in Latvia with AS DnB Banka amounting to *Eur10,797,175* was fully settled (note 23), and
- In March 2017, the remaining balance of 6.8% Bonds 2017-2020 amounting to *Eur7,396,100* were fully settled (note 24).

On full redemption of the 6.8% Bonds 2017-2020, the sinking fund and the non-current assets held for sale which as at 31 December 2016 had a total carrying amount of *Eur3,462,447* were fully liquidated by March 2017 (note 24).

The deferred consideration arising on acquisition of the Romania operations amounting to *Eur5,686,141* was fully settled in January 2017 (note 29).



## Independent auditor's report

to the members of  
**Premier Capital p.l.c.**

### *Report on the Audit of the Financial Statements*

#### **Opinion**

We have audited the individual financial statements of Premier Capital p.l.c. (the Company) and the consolidated financial statements of the Company and its subsidiaries (together, the Group), set out on pages 13 to 89, which comprise the statements of financial position of the Company and the Group as at 31 December 2016, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Premier Capital p.l.c. and its Group as at 31 December 2016, and of the Company's and its Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and have been properly prepared in accordance with the requirements of the Companies Act (Cap. 386).

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### ***Impairment testing of goodwill allocated to the Group's Maltese operations in the consolidated financial statements***

Under IFRSs, the Group is required to annually test the amount of goodwill for impairment. Accordingly, this annual impairment test was significant to our audit because the amount of goodwill allocated to the Group's Maltese operations as at 31 December 2016 amounted to *Eur16.6m*, and this amount is material to the consolidated financial statements. In addition, the directors' assessment process is highly judgmental and is based on assumptions, such as forecast business growth rates, profit margins, weighted average cost of capital and effective tax rate, which are affected by expected future market or economic conditions.

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## Independent auditor's report

to the members of  
Premier Capital p.l.c.

### Key Audit Matters (continued)

#### ***Impairment testing of goodwill allocated to the Group's Maltese operations in the consolidated financial statements (continued)***

Our audit procedures to address the risk of material misstatement from this matter included:

- Involving an internal valuation specialist to assist us in evaluating the group's impairment methodology determined from value-in-use calculations and the key assumptions applied by the directors for this purpose.
- Assessing the reliability of the directors' forecasts through a review of actual performance against previous forecasts.
- Performing sensitivity analysis of the impairment testing calculations to changes in key inputs such as the projected growth rate and the weighted average cost of capital.
- Reviewing the impairment testing calculations for reasonability, mathematical accuracy and consistency.

We also focused on the adequacy of the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill.

The Group's disclosures about goodwill are included in Note 3, which specifically explains that the directors have assessed the carrying amount of goodwill as at 31 December 2016 to be recoverable and that there is no impairment in the value of the goodwill.

#### ***Impairment testing of investments in Maltese subsidiaries held by the Company in the individual financial statements***

Under IFRSs, the Company is required to assess whether there is any indication of impairment to the carrying amount of its investments in subsidiaries. As at 31 December 2016, the Company held investments in Maltese subsidiaries amounting to *Eur19.4M* which are measured at cost less impairment as disclosed in Note 3 to the financial statements, and this amount is material to the individual financial statements.

Our procedures to address the risk of material misstatement arising from this matter were carried out in conjunction with our audit procedures on the impairment testing of goodwill allocated to the Group's Maltese operations and are outlined above in the description of the key audit matter on the consolidated financial statements.

We also focused on the adequacy of the Company's disclosures in Note 3 about those assumptions to which the outcome of the impairment tests are most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of the investments in subsidiaries.

#### ***Acquisition accounting for significant acquisition in Romania in the consolidated financial statements***

In January 2016, the Group acquired a controlling interest in Premier Restaurants Romania SRL, which company operates the McDonald's food chain in Romania. This acquisition was a significant transaction for the Group representing an increase of *Eur54.8M* in the net assets of the Group as at 31 December 2016. This business combination was accounted for using the 'acquisition method', which requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.



## Independent auditor's report

to the members of  
**Premier Capital p.l.c.**

### Key Audit Matters (continued)

#### ***Acquisition accounting for significant acquisition in Romania in the consolidated financial statements (continued)***

Our procedures in respect of the risk of material misstatements arising from this matter included the following:

- Verifying the purchase consideration to the contract of acquisition.
- Performing testing on the purchase price allocation in order to ensure that all assets and liabilities acquired in the business combination were appropriately identified and valued.
- Verifying the recognized amounts in respect of goodwill on the acquisition and non-controlling interests by re-performing the calculation and involving an internal IFRS specialist to review whether the requirements of IFRS 3, *Business Combinations* were appropriately applied.

We also focused on the adequacy of the Group's disclosures in terms of IFRS. Details of the acquisition and resulting goodwill are disclosed in Note 29.

#### **Information Other than the Financial Statements and the Auditor's Report Thereon**

The directors are responsible for the other information. The other information comprises the Company information on page 1, the Directors' report on pages 2 to 7, the Statement of directors' responsibilities on page 8 and the Corporate Governance Statement on pages 9 to 12, but does not include the individual and consolidated financial statements and our auditor's report thereon.

Except for our opinion on the Directors' report in accordance with the Companies Act (Cap. 386) and on the Corporate Governance Statement in accordance with the Listing Rules issued by the Maltese Listing Authority, our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion 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, 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 in this regard.

With respect to the Directors' report, we also considered whether the Directors' report includes the disclosure requirements of Article 177 of the Companies Act (Cap. 386).

In accordance with the requirements of sub-article 179(3) of the Companies Act (Cap. 386) in relation to the Directors' report on page 2 to 7, in our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' report.



## Independent auditor's report

to the members of

Premier Capital p.l.c

### **Responsibilities of the Directors and the Audit Committee for the Financial Statements**

As explained more fully in the statement of directors' responsibilities on page 8, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Companies Act (Cap.386), and for such internal control as the directors 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 and the Group'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 and the Group or to cease operations, or have no realistic alternative but to do so.

The directors have delegated the responsibility for overseeing the Company's and the Group's financial reporting process to the Audit Committee.

### **Auditor's 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 auditor's 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 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.





## Independent auditor's report

to the members of  
**Premier Capital p.l.c**

### **Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the individual and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on Other Legal and Regulatory Requirements**

#### **Report on Corporate Governance Statement**

Pursuant to Listing Rule 5.94 issued by the Malta Financial Services Authority, in its capacity as the Listing Authority in Malta, the directors are required to include in the Company's annual financial report a Corporate Governance Statement explaining the extent to which they have adopted the Code of Principles of Good Corporate Governance set out in Appendix 5.1 to Chapter 5 of the Listing Rules, and the effective measures that they have taken to ensure compliance with those principles. The Corporate Governance Statement is to contain at least the information set out in Listing Rule 5.97.

Our responsibility is laid down by Listing Rule 5.98, which requires us to include a report to shareholders on the Corporate Governance Statement in the Company's annual financial report.

We read the Corporate Governance Statement and consider the implications for our report if we become aware of any information therein that is materially inconsistent with the financial statements or our knowledge obtained in the audit, or that otherwise appears to be materially misstated. We also review whether the Corporate Governance Statement contains at least the information set out in Listing Rule 5.97.

We are not required to, and we do not, consider whether the directors' statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

In our opinion, the Corporate Governance Statement set out on pages 9 to 12 has been properly prepared in accordance with the requirements of Listing Rules 5.94 and 5.97.

## Independent auditor's report

to the members of

**Premier Capital p.l.c**

### *Report on Other Legal and Regulatory Requirements (continued)*

#### **Matters on which we are required to report by exception**

Under the Companies Act (Cap. 386), we have responsibilities to report to you if in our opinion:

- Proper accounting records have not been kept;
- Proper returns adequate for our audit have not been received from branches not visited by us;
- The financial statements are not in agreement with the accounting records and returns; or
- We have been unable to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purpose of our audit.

We have nothing to report to you in respect of these responsibilities.

The engagement director on the audit resulting in this independent auditor's report is Annabelle Zammit Pace.



Annabelle Zammit Pace as Director  
in the name and on behalf of

**Deloitte Audit Limited**

Registered auditor  
Mriehel, Malta

28 April 2017