

Interim Financial Report

For the three-month period ended 31 March 2018 (Q1-2018)

Report date:	15-May-2018
Name of the issuing entity:	Sphera Franchise Group SA
Statutory seat:	Bucharest, Romania
Visiting address:	Bucharest, 239 Dorobanti Ave., 2 nd Floor, 1 st District, Romania
Phone no/Fax no:	0040 21 201 1757 / 0040 21 201 1759
Sole Registration Code:	RO 37586457
Order number with the Trade Registry:	J40/7126/2017
Subscribed and paid-in share capital:	RON 581,990,000
Number of shares in issue:	38,799,340
Number of listed shares:	9.831,753
Regulated market on which the issued securities are traded:	Bucharest Stock Exchange, Main Segment, Category Premium (Shares)
Symbol:	SFG

Note:

The following interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by European Union ("IFRS"). The following financial statements are unaudited.

Report concluded in compliance with: Law no. 24/2017 regarding the capital market and CNVM Regulation no. 1/2006 regarding the issuers and the securities operations.

Contact details:

Investor Relations

E-mail: investor.relations@spheragroup.com

Financial analysis of January – March 2018 results

1) Consolidated results

Summary of Interim Consolidated Statement of Comprehensive Income for the three-month period ended 31 March 2018 (unaudited)

Data in RON'000	Mar-18	Mar-17	Y/Y%	% of Sales		Δ%
			2018/2017	Mar-18	Mar-17	
Restaurant sales	170,232	111,726	52.4%			
Restaurant expenses	144,119	89,963	60.2%	84.7%	80.5%	4.1%
Food and material	61,909	41,566	48.9%	36.4%	37.2%	-0.8%
Payroll and employee benefits	33,010	19,300	71.0%	19.4%	17.3%	2.1%
Rent	12,416	8,071	53.8%	7.3%	7.2%	0.1%
Royalties	9,918	6,687	48.3%	5.8%	6.0%	-0.2%
Advertising	7,060	4,317	63.5%	4.1%	3.9%	0.3%
Other operating expenses, net	14,938	7,587	96.9%	8.8%	6.8%	2.0%
Depreciation and amortization	4,867	2,436	99.8%	2.9%	2.2%	0.7%
Restaurant operating profit	26,113	21,763	20.0%	15.3%	19.5%	-4.1%
General and administration expenses, net	12,350	7,270	69.9%	7.3%	6.5%	0.7%
Operating profit	13,764	14,493	-5.0%	8.1%	13.0%	-4.9%
Finance costs	487	141	245.1%	0.3%	0.1%	0.2%
Finance income	183	93	97.6%	0.1%	0.1%	0.0%
Profit before tax	13,459	14,445	-6.8%	7.9%	12.9%	-5.0%
Income tax expense	910	355	156.8%	0.5%	0.3%	0.2%
Profit for the period	12,549	14,090	-10.9%	7.4%	12.6%	-5.2%
EBITDA	18,836	17,230	9.3%	11.1%	15.4%	-4.4%

Breakdown of consolidated results by Group companies

Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons.Adj	SFG Cons.
Restaurant sales	131,007	29,962	2,188	4,123	2,544	5,949	(5,541)	170,232
Restaurant expenses	108,839	27,014	1,914	3,978	2,440	0	(67)	144,119
Food and material	50,363	8,452	954	1,215	975	0	(51)	61,909
Payroll and employee benefits	22,858	7,745	326	1,284	798	0	0	33,010
Rent	9,210	2,522	191	286	205	0	2	12,416
Royalties	7,821	1,670	130	246	51	0	0	9,918
Advertising	4,890	1,802	49	232	103	0	(15)	7,060
Other operating expenses, net	10,480	3,659	192	506	104	0	(3)	14,938
Depreciation and amortization	3,218	1,164	72	209	205	0	0	4,867
Restaurant operating profit	22,168	2,948	274	145	104	5,949	(5,474)	26,113
General and administration expenses, net	7,334	2,755	61	800	615	6,257	(5,474)	12,350
Operating profit	14,834	192	213	(656)	(512)	(308)	0	13,764
Finance costs	339	144	30	131	76	168	(401)	487
Finance income	455	46	5	0	0	78	(401)	183
Profit before tax	14,949	94	188	(787)	(587)	(398)	0	13,459
Income tax expense	732	347	19	(184)	28	(32)	0	910
Profit for the period	14,217	(252)	169	(603)	(615)	(367)	0	12,549
EBITDA	18,153	1,412	298	(447)	(307)	(273)	0	18,836

Consolidated sales of Sphera reached RON 170.2 million in the first quarter of 2018, representing an increase of 52.4% compared to the previous year. The main drivers for this performance were the growth in the sales of USFN Romania (KFC restaurants) (+19.6% Y/Y), which had a contribution of 19.2pp in the consolidated sales growth rate, and the consolidation of ARS (Pizza Hut restaurants) sales starting with June 2017, which contributed 26.8pp in the consolidated sales growth rate. Our KFC operations in Italy contributed 3.6pp in the consolidated sales growth rate, while Taco Bell operations in Romania contributed another 2.3pp in the consolidated sales growth rate.

Data in RON thousand	Mar-18	Mar-17	Change 2018/2017	Contribution to sales growth
Sales by companies (principal brand)				
USFN Romania (KFC)	131,007	109,529	19.6%	19.2%
USFN Moldova (KFC)	2,188	2,058	6.3%	0.1%
USFN Italy (KFC)	4,123	139	2873.6%	3.6%
ARS (Pizza Hut) ¹⁾	29,962	0		26.8%
CFF (Taco Bell)	2,544	0		2.3%
Other revenues ²⁾	408	0		0.4%
Total sales	170,232	111,726	52.4%	52.4%

Note: 1) Additional information regarding the accounting treatment of the consolidation of ARS into Sphera is provided in the Public Offering Prospectus. 2) Other revenues consist of revenues of Sphera stand-alone less consolidation adjustments.

Data in RON thousand	Mar-18	Mar-17	Change 2018/2017	Contribution to sales growth
Sales by region				
Romania	163,921	109,529	49.7%	48.7%
Italy	4,123	139	2873.6%	3.6%
Republic of Moldova	2,188	2,058	6.3%	0.1%
Total sales	170,232	111,726	52.4%	52.4%

Consolidated operational expenses reached RON 144.1 million in the first quarter of 2018, representing an increase of 60.2% compared to the previous year. As percentage of sales, operational expenses increased by 4.2pp year-on-year to 84.7% in the first quarter of 2018, driven mainly by a 2.1pp increase in the cost of labour, a 2.0pp increase in other operating expenses and 0.7pp increase in depreciation expense, which were partly offset by a 0.8pp decrease in cost of food and materials.

- Restaurant operating expenses for KFC Romania and KFC Moldova increased 3.4pp, of which 1.6pp came from cost of food and materials and 1.5pp from other operating expenses (the majority of which being accounted for by the newly-opened units);
- The consolidation of ARS contributed 1.3pp to the increase in the consolidated restaurant operating expenses (impact by main expense items: 1.6pp increase in the cost of labour, 0.8pp increase in other operating expenses and 0.4pp increase in advertising expenses, 1.9pp decrease in the cost of food and materials);
- KFC Italy operations contributed a negative 0.4pp to the change in the consolidated restaurant operating expenses (virtually the entire impact was triggered by improvement in cost of food and materials);
- Our Taco Bell operations contributed 0.2pp to the increase in the consolidated restaurant operating expenses, being driven by a 0.2pp impact in the cost of labour.

Data in RON thousand	Mar-18	Mar-17	Change 2018/2017	Percentage of sales	
				Mar-18	Mar-17
Restaurant expenses	144,119	89,963	60.2%	84.7%	80.5%
Food and material	61,909	41,566	48.9%	36.4%	37.2%
Payroll and employee benefits	33,010	19,300	71.0%	19.4%	17.3%
Rent	12,416	8,071	53.8%	7.3%	7.2%
Royalties	9,918	6,687	48.3%	5.8%	6.0%
Advertising	7,060	4,317	63.5%	4.1%	3.9%
Other operating expenses	14,938	7,587	96.9%	8.8%	6.8%
Depreciation	4,867	2,436	99.8%	2.9%	2.2%

Restaurant operating profit reached RON 26.1 million in the first quarter of 2018 (15.3% of sales), up 20% compared with the previous year (19.5% of sales), of which RON 22.2 million was accounted for by USFN Romania operations (0.4% below previous year) and another RON 2.9 million by ARS Romania.

General and administration expenses reached RON 12.3 million in the first quarter of 2018 (7.3% of sales), up 69.9% compared to previous year (6.5% of sales). Of the RON 5.1 million increase in this expense category, RON 4.1 million came from the consolidation of ARS, USFN Italy and CFF operations.

Data in RON thousand	Mar-18	Mar-17	Change 2018/2017	Percentage of sales	
				Mar-18	Mar-17
General and administration expenses (net), of which:	12,350	7,270	69.9%	7.3%	6.5%
Payroll and employee benefits	6,828	4,071	67.7%		
Third-party services	2,405	1,516	58.6%		
Depreciation and amortization	205	301	-31.9%		
Rent	738	292	152.7%		
Banking charges	635	291	118.2%		
Transport	742	271	173.8%		
Other expenses	797	528	50.9%		

EBITDA reached RON 18.8 million in the first quarter of 2018, up 9.3% than in the previous year, while operating profit reached RON 13.8 million, down 5.0% lower than in the previous year. The drop in the EBITDA margin (by 4.3pp to 11.1% in the first quarter of 2018) and operating profit margin (by 4.9pp to 8.1% in the first quarter of 2018) was mainly due to the decrease in the restaurant operating profit (down 4.2pp) and to a lesser extent by the increase in the general and administration expenses (by 0.8pp), as described before.

Net profit reached RON 12.5 million in the first quarter of 2018, being 10.9% lower than in the previous year. The reduction in the net profit margin, by 5.2pp to 7.4% of sales in the first quarter of 2018, was mainly driven by the 4.9pp decrease in the operating profit margin.

Data in RON thousand	Mar-18	Mar-17	Change 2018/2017	Percentage of sales	
				Mar-18	Mar-17
EBITDA	18,836	17,230	9.3%	11.1%	15.4%
Operating profit	13,764	14,493	-5.0%	8.1%	13.0%
Profit before tax	13,459	14,445	-6.8%	7.9%	12.9%
Profit for the period	12,549	14,090	-10.9%	7.4%	12.6%

Main financial ratios as at 31 March 2018

(presented in accordance with the requirements of the National Securities Commission Regulation No. 1/2006)

(Financial data in RON thousand)

Current ratio

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{66,505}{88,607} = 0.75$$

Debt to Equity ratio

$$\frac{\text{Interest-bearing debt}}{\text{Equity}} = \frac{38,419}{117,114} = 33\%$$

$$\frac{\text{Interest-bearing debt}}{\text{Capital employed}} = \frac{38,419}{155,533} = 25\%$$

Trade receivables turnover (days)*

$$\frac{\text{Average receivables}}{\text{Sales}} = \frac{9,117}{170,232} = 4.8$$

Fixed asset turnover*

$$\frac{\text{Sales}}{\text{Net fixed assets}} = \frac{170,232}{176,243} = 3.9$$

Note: Annualized values, based on NCS methodology.

2) Analysis of consolidated results for Q1-2018 compared with pro forma results for Q1-2017

Data in RON'000	Mar-18	Mar-17	Y/Y%	% of Sales		
			2018/2017	Mar-18	Mar-17	Δ%
Restaurant sales	170,232	138,970	22.5%			
Restaurant expenses	144,119	112,988	27.6%	84.7%	81.3%	3.4%
Food and material	61,909	49,138	26.0%	36.4%	35.4%	1.0%
Payroll and employee benefits	33,010	25,964	27.1%	19.4%	18.7%	0.7%
Rent	12,416	10,260	21.0%	7.3%	7.4%	-0.1%
Royalties	9,918	8,288	19.7%	5.8%	6.0%	-0.1%
Advertising	7,060	5,770	22.4%	4.1%	4.2%	0.0%
Other operating expenses, net	14,938	10,126	47.5%	8.8%	7.3%	1.5%
Depreciation and amortization	4,867	3,443	41.4%	2.9%	2.5%	0.4%
Restaurant operating profit	26,113	25,983	0.5%	15.3%	18.7%	-3.4%
General and administration expenses, net	12,350	10,586	16.7%	7.3%	7.6%	-0.4%
Operating profit	13,764	15,397	-10.6%	8.1%	11.1%	-3.0%
Finance costs	487	278	75.3%	0.3%	0.2%	0.1%
Finance income	183	131	39.4%	0.1%	0.1%	0.0%
Profit before tax	13,459	15,250	-11.7%	7.9%	11.0%	-3.1%
Income tax expense	910	705	29.1%	0.5%	0.5%	0.0%
Profit for the period	12,549	14,545	-13.7%	7.4%	10.5%	-3.1%
EBITDA	18,836	19,598	-3.9%	11.1%	14.1%	-3.0%

Pro forma sales of Sphera reached RON 170.2 million in the first quarter of 2018, up 22.5% compared to the previous year. The main driver for this performance were the growth in the sales of KFC Romania (up 19.6% Y/Y), which had a contribution of 15.5pp in the pro forma sales growth rate. ARS sales advanced 9.8% compared to the previous year and had a contribution of 1.9pp to the pro forma sales growth rate. At the same time, KFC Italy operations contributed 2.9pp, while Taco Bell operations contributed another 1.8pp in the pro forma sales growth rate.

Data in RON thousand	Mar-18	Mar-17	Change 2018/2017	Contribution to sales growth
Sales by companies (principal brand)				
USFN Romania (KFC)	131,007	109,529	19.6%	15.5%
USFN Moldova (KFC)	2,188	2,058	6.3%	0.1%
USFN Italy (KFC)	4,123	139	2873.6%	2.9%
ARS (Pizza Hut)	29,962	27,289	9.8%	1.9%
CFF (Taco Bell)	2,544	0		1.8%
Other revenues ¹⁾	408	(45)		0.3%
Total sales	170,232	138,970	22.5%	22.5%

Note: 1) Other revenues consist of revenues of Sphera stand-alone less other adjustments.

Data in RON thousand	Mar-18	Mar-17	Change 2018/2017	Contribution to sales growth
Sales by region				
Romania	163,921	136,773	19.8%	19.5%
Italy	4,123	139	2873.6%	2.9%
Republic of Moldova	2,188	2,058	6.3%	0.1%
Total sales	170,232	138,970	22.5%	22.5%

In Romania, the like-for-like sales of KFC restaurants grew by 11.8% Y/Y in the first quarter of 2018, driven by the continued strong performance of the Drive-Thru format as well as by the better performance of the restaurants located outside Bucharest. At the same time, the like-for-like sales of Pizza Hut restaurants grew by 1.6% Y/Y in the first quarter of 2018, despite the significant number of restaurants opened since

the beginning of year 2017 (6 units, of which 4 in Bucharest) and, like KFC, has enjoyed an overall stronger performance of the restaurants located outside Bucharest.

Pro forma operational expenses reached RON 144.1 million in the first quarter of 2018, representing an increase of 27.6% compared to the previous year. As percentage of sales, operational expenses increased by 3.4pp year-on-year to 84.7% in 2017, driven mainly by a 1.0pp increase in the cost of food and materials, a 0.7pp increase in cost of labour and 1.5pp increase in other operating expenses.

Data in RON thousand	Mar-18	Mar-17	Change 2018/2017	Percentage of sales	
				Mar-18	Mar-17
Restaurant expenses	144,119	112,988	27.6%	84.7%	81.3%
Food and material	61,909	49,138	26.0%	36.4%	35.4%
Payroll and employee benefits	33,010	25,964	27.1%	19.4%	18.7%
Rent	12,416	10,260	21.0%	7.3%	7.4%
Royalties	9,918	8,288	19.7%	5.8%	6.0%
Advertising	7,060	5,770	22.4%	4.1%	4.2%
Other operating expenses	14,938	10,126	47.5%	8.8%	7.3%
Depreciation	4,867	3,443	41.4%	2.9%	2.5%

Restaurant operating profit reached RON 26.1 million in the first quarter of 2018 (15.3% of sales), up 0.5% compared with the previous year (18.7% of sales), of which RON 22.2 million was accounted for by USFN Romania operations (0.4% below previous year) and another RON 2.9 million by ARS Romania (32% below previous year). Restaurant operating margin reached 3.5% for KFC Italy operations and 4.1% for Taco Bell operations.

General and administration expenses reached RON 12.3 million in the first quarter of 2018 (7.3% of sales), up 16.7% compared to previous year (7.6% of sales). Of the RON 1.8 million increase in this expense category, RON 1.4 million was accounted for by USFN Italy and Taco Bell operations.

Data in RON thousand	Mar-18	Mar-17	Change 2018/2017	Percentage of sales	
				Mar-18	Mar-17
General and administration expenses (net), of which:	12,350	10,586	16.7%	7.3%	7.6%
Payroll and employee benefits	6,828	6,098	12.0%		
Third-party services	2,405	2,191	9.8%		
Depreciation and amortization	205	334	-38.6%		
Rent	738	418	76.6%		
Banking charges	635	383	65.8%		
Transport	742	483	53.8%		
Other expenses	797	680	17.2%		

EBITDA reached RON 18.8 million in the first quarter of 2018, down 3.9% than in the previous year, while operating profit reached RON 13.8 million in 2017, down 10.6% lower than in the previous year. The drop in the EBITDA margin (by 3.0pp to 11.1% in the first quarter of 2018) and operating profit margin (by 3.0pp to 8.1% in the first quarter of 2018) was mainly due to the decrease in the restaurant operating profit (down 3.4pp), which was partly offset by a relative reduction in the general and administration expenses (by 0.3pp), as described above.

Net profit reached RON 12.5 million in the first quarter of 2018, being 13.7% lower than in the previous year. The reduction in the net profit margin, by 3.1pp to 7.4% of sales in the first quarter of 2018, was mainly driven by the 3.0pp decrease in the operating profit margin.

Data in RON thousand	Mar-18	Mar-17	Change 2018/2017	Percentage of sales	
				Mar-18	Mar-17
EBITDA	18,836	19,598	-3.9%	11.1%	14.1%
Operating profit	13,764	15,397	-10.6%	8.1%	11.1%
Profit before tax	13,459	15,250	-11.7%	7.9%	11.0%
Profit for the period	12,549	14,545	-13.7%	7.4%	10.5%

APPENDIX 1

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2018 (UNAUDITED) – SELECTED NOTES**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (UNAUDITED) – SELECTED NOTES

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (UNAUDITED)**

(thousand RON)

	Three-month period ended	
	31 March 2018	31 March 2017
	<hr/>	<hr/>
Restaurant sales	170,232	111,726
Restaurant expenses		
Food and material expenses	61,909	41,566
Payroll and employee benefits	33,010	19,300
Rent	12,416	8,071
Royalties	9,918	6,687
Advertising	7,060	4,317
Other operating expenses, net	14,938	7,587
Depreciation and amortization	4,867	2,436
	<hr/>	<hr/>
Restaurant operating profit	26,113	21,763
General and administration expenses, net	12,350	7,270
Operating profit	13,764	14,493
	<hr/>	<hr/>
Finance costs	487	141
Finance income	183	93
	<hr/>	<hr/>
Profit before tax	13,459	14,445
Income tax expense/(credit)	910	355
Profit for the period	12,549	14,090
	<hr/>	<hr/>
Attributable to:		
Equity holders of the parent	12,515	14,055
Non-controlling interests	34	35
Other comprehensive income		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>		
Exchange differences on translation of foreign operations	21	21
	<hr/>	<hr/>
Total comprehensive income for the period, net of tax	12,570	14,111
	<hr/>	<hr/>
Attributable to:		
Equity holders of the parent	12,534	14,075
Non-controlling interests	36	36

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (UNAUDITED) – SELECTED NOTES

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018 (UNAUDITED)

(thousand RON)

	31 March 2018	31 December 2017
Assets		
Non-current assets	180,192	176,123
Property, plant and equipment	108,305	105,220
Intangible assets	67,938	67,471
Deposits for rent guarantee	1,606	1,288
Deferred tax assets	2,343	2,144
Current assets	66,309	73,291
Inventories	8,185	8,509
Trade and other receivables	9,779	8,454
Prepayments	3,757	3,673
Cash and short-term deposits	44,588	52,655
Assets held for sale	195	195
Total assets	246,696	249,609
Equity and liabilities		
Equity		
Issued capital	581,990	581,990
Share premium	(520,578)	(520,578)
Other capital reserves	-	-
Retained earnings	55,705	43,191
Foreign currency translation reserve	(59)	(78)
Equity attributable to equity holders of the parent	117,058	104,525
Non-controlling interests	55	19
Total equity	117,113	104,544
Non-current liabilities	40,976	42,191
Interest-bearing loans and borrowings	38,419	39,520
Trade and other payables	2,557	2,671
Current liabilities	88,607	102,874
Trade and other payables	62,799	77,682
Interest-bearing loans and borrowings	25,808	25,192
Total liabilities	129,583	145,064
Total equity and liabilities	246,696	249,609

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (UNAUDITED) –
SELECTED NOTES

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (UNAUDITED)

<i>(thousand RON)</i>	Issued capital	Share premium	Other capital reserves	Retained earnings	Foreign currency translation reserve	Total equity	Non-controlling interest	Total equity
As at 1 January 2017	581,990	(520,578)	-	43,191	(78)	104,525	19	104,544
Profit for the period				12,515		12,515	34	12,549
Other comprehensive income					19	19	2	21
Translation differences	-	-	-	12,515	19	12,534	36	12,570
Total comprehensive income								
At 31 March 2018	581,990	(520,578)	-	55,705	(59)	117,058	55	117,113

<i>(thousand RON)</i>	Issued capital	Share premium	Other capital reserves	Retained earnings	Foreign currency translation reserve	Total equity	Non-controlling interest	Total equity
As at 1 January 2017	190	-	19	58,124	(41)	58,292	(39)	58,253
Profit for the period	-	-	-	14,055	-	14,055	35	14,090
Other comprehensive income					20	20	1	21
Translation differences	-	-	-	-	20	20	1	21
Total comprehensive income				14,055	20	14,075	36	14,111
At 31 March 2017	190	-	19	72,179	(21)	72,367	(3)	72,364

SELECTED NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018

1 CORPORATE INFORMATION

These interim condensed consolidated financial statements are prepared by Sphera Franchise Group SA and comprise its activities and those of its subsidiaries, together referred hereinafter as “SFG” or “the Group”.

Sphera Franchise Group SA (“the legal Parent”, or “Sphera”) was incorporated on 16 May 2017 as a joint stock company and is registered at No. 239 Calea Dorobanti, Bucharest, Romania.

The purpose of the Group reorganization from 2017 that resulted in the establishment of Sphera as the legal parent company of US Food Network SA (USFN), American Restaurant System SA (ARS), US Food Network SRL (USFN Italy or Italian subsidiary), US Food Network SRL (USFN Moldova or Moldavian subsidiary) and California Fresh Flavors SRL (Taco Bell) was to ensure a better coordination of activities and enhance value creation, by taking advantage of the synergies at group level and by achieving economies of scale. In terms of activities, Sphera took over gradually until the end of September 2017 certain activities as well as 105 employees from USFN and ARS and renders to the benefit of the Group entities services such as management services, marketing support, development, sales support, human resources and other services.

Sphera has become the parent company of USFN and ARS on 30 May 2017, following the contribution by shareholders of USFN and ARS of 99.9997% of the shares in the two companies in exchange for shares in Sphera. On 8 June 2017 and 14 June 2017, Sphera purchased the shares held by USFN in US Food Network SRL (Republic of Moldova) and respectively US Food Network SRL (Italy).

USFN was incorporated in 1994 as a joint stock company and is registered at No. 28-30 Gheorghe Magheru Boulevard, Bucharest, Romania. For the purpose of preparing IFRS consolidated financial statements, USFN has been identified as being the acquirer of ARS on 30 May 2017, in accordance with the requirements of IFRS 3. On this basis, the consolidated financial statements of SFG are a continuation of the consolidated financial statements of USFN.

ARS’ was incorporated in 1994 as a joint stock company and is registered at No. 5-7 Calea Dorobantilor Street, Bucharest, Romania.

The Moldavian subsidiary was incorporated in 2008 as a limited liability company and is registered at No. 45 Banulescu Bodoni Street, Chisinau, Republic of Moldova. The Group owns 80% of the company’s shares.

The Italian subsidiary was incorporated in 2016 as a limited liability company and is registered at No. 6 Via Pietro Paleocapa Street, Milano, Italy. The Group owns 100% of the company’s shares.

On 19 June 2017 Sphera set up a new subsidiary, California Fresh Flavors SRL (“Taco Bell”) and holds 9,999 shares of its 10,000 shares (99.99% holding). The company operates as a limited liability company and is registered at No. 239 Calea Dorobanti, Bucharest, Romania.

2 BASIS OF PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed unaudited financial statements of the Group as of and for the three-month period ended 31 March 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Romanian Lei (“RON”) and all values are rounded to the nearest thousand RON, except when otherwise indicated. Accordingly, there may be rounding differences.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (UNAUDITED) – SELECTED NOTES

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017.

The interim condensed consolidated financial statements for three-month period ended 31 March 2018 included in this report are unaudited and an external limited review by an auditor was not performed.

General accounting policies

The accounting policies and valuation methods adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of the new standards and amendments effective as of 1 January 2018; these new standards and amendments do not have a material effect on the Group's financial statements. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

Foreign currencies

The Group's interim condensed financial statements are presented in Romanian New Lei ("RON"), which is also the legal parent Company's functional currency, as well as that of USFN. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency (namely Moldavian Leu "MDL" for the Moldavian subsidiary and the Euro "EUR" for the Italian subsidiary).

The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

The exchange rate RON – EUR as at 31 March 2018 and 31 December 2017 were:

	<u>31 March 2018</u>	<u>31 December 2017</u>
RON – EUR	4.6576	4.6597
RON – USD	3.7779	3.8915
RON – MDL	0.2295	0.2283

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is classified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into RON at the rate of exchange prevailing at the reporting date and their revenues and expenses are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in the profit or loss.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (UNAUDITED) – SELECTED NOTES

3 GROUP INFORMATION

3.1 Investments in controlled companies

Details of the Group consolidated subsidiaries at 31 March 2018 and 31 December 2017 are as follows:

<u>Company name</u>	<u>Country of incorporation</u>	<u>Field of activity</u>	<u>Control 31 March 2018</u>	<u>Control 31 December 2017</u>
US Food Network SA	Romania	Restaurants	99.9997%	99.9997%
American Restaurant System SA	Romania	Restaurants	99.9997%	99.9997%
California Fresh Flavours SRL	Romania	Restaurants	99.9900%	99.9900%
US Foods Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%	100.0000%

The value of non-controlling interests in USFN and ARS as of 31 March 2018 is below 1 thousand RON therefore there are no other presentations thereof.

3.2 Business combinations

On 30 May 2017, Sphera acquired 99.9997% of the shares in USFN and ARS, in exchange for Sphera shares. As Sphera is a new entity with no significant activities, USFN has been identified as the acquirer of ARS, mainly due to its relative size, USFN being far larger than ARS. Since Sphera was not a business, the transition from USFN to Sphera as legal parent of the Group was accounted for as described in Note Issued Capital.

The fair values of the identifiable assets and liabilities of ARS as at the date of acquisition were:

	<u>Fair values recognised on acquisition</u>
Assets	
Property, plant and equipment	24,661
Intangible assets	2,874
Deposits for guarantees	235
Trade and other receivables	3,030
Inventories	1,198
Cash and cash equivalents	2,162
Assets held for sale	195
Liabilities	
Interest-bearing loans and borrowings	10,675
Trade and other payables	13,479
Total identifiable net assets at fair value	10,201
Goodwill arising on acquisition	50,585
Fair value of ARS business, equal to the nominal value of the shares issued by Sphera for the contribution of ARS shares	60,786

The fair value of the assets and liabilities acquired at the date of acquisition as well as the fair value of the business of ARS (based on which was effected the share capital increase of Sphera) were determined by an independent appraiser.

Goodwill arises from the acquired customer base and economies of scale expected from combining the operations of the Group and ARS.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (UNAUDITED) – SELECTED NOTES

4 OTHER OPERATING EXPENSES, NET

	Three-month period ended	
	31 March 2018	31 March 2017
Third-party services	4,750	2,206
Utilities	4,281	1,995
Maintenance and repairs	1,785	1,133
Cleaning supplies	1,084	676
Small-wares	1,106	576
Transport	828	378
Telephone and postage	148	97
Insurance	126	85
Net gain/(loss) on disposal of property, plant and equipment	55	21
Miscellaneous expenses and income, net	775	420
Provision for receivables, net	-	-
Total	14,938	7,587

5 GENERAL AND ADMINISTRATION EXPENSES, NET

	Three-month period ended	
	31 March 2018	31 March 2017
Payroll and employee benefits	6,828	4,071
Third-party services	2,405	1,516
Depreciation and amortization	205	301
Rent	738	292
Banking charges	635	291
Transport	742	271
Maintenance and repairs	127	128
Small-wares	153	167
Insurance	121	55
Advertising	108	52
Telephone and postage	114	76
Miscellaneous expenses and income, net	174	50
Total	12,350	7,270

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (UNAUDITED) – SELECTED NOTES

6 ISSUED CAPITAL

	31 March 2018	31 December 2017
Authorised shares		
Ordinary shares of 15 RON each	38,799,340	38,799,340
Share capital (RON thousand)	581,990	581,990

The shareholders of Sphera Franchise Group SA at 31 March 2018 and 31 December 2017, respectively are: Tatika Investments Ltd. (27.33%), M.B.L. Computers SRL (20%), Wellkept Group SA (16.34%), Anasa Properties SRL (10.99%) and free float (25.34%).

The following changes took place in 2017 as a result of the Group reorganization:

	<u>Share capital</u>	<u>Share premium</u>
Balance as at 1 January 2017 (including the hyperinflation adjustment)	190	-
Share capital contribution in cash upon set-up of Sphera	1,500	-
Increase of Sphera share capital upon contribution of ARS shares (at fair value of ARS business)	60,786	-
Increase of Sphera share capital upon contribution of USFN shares (at fair value of USFN business)	519,704	(519,704)
Sphera becoming legal parent of the Group	(190)	190
Reclassification of USFN legal reserves	-	19
Costs related to reorganization	-	(1,083)
Balance as at 31 December 2017	581,990	(520,578)

Due to the fact that USFN was identified as the acquirer of ARS and the consolidated financial statements of SFG were a continuation of the consolidated financial statements of USFN, the fair value of the USFN business could not increase the equity of the Group, thus there was a negative share premium recorded for the entire amount of the respective share capital increase of Sphera.

Starting November 9, 2017, 25.34% of the Group's shares (representing 9.831.753 shares), were admitted for trading on the Bucharest Stock Exchange following to a secondary public offer initiated by the shareholders Lunic Franchising and Consulting Ltd. and M.B.L Computers SRL

7 EBITDA

	Three-month period ended	
	31 March 2018	31 March 2017
Operating profit	13,764	14,493
Adjustments to bridge operating profit to EBITDA:		
Depreciation and amortization included in restaurant expenses	4,867	2,436
Depreciation and amortization included in general and administration expenses	205	301
EBITDA	18,836	17,230

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (UNAUDITED) – SELECTED NOTES

8 SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the restaurants' brands, as follows:

- KFC restaurants
- Pizza Hut restaurants.
- Taco Bell restaurants

For the three-month period ended 31 March 2018 the Group also had one more immaterial operating segment, being one Paul restaurant which is managed by USFN, and which was aggregated into the KFC segment.

The opening of the first Taco Bell restaurant took place on 12 October 2017.

The Board of Directors monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment operating profit and is measured consistently with "Restaurant operating profit" in the statement of comprehensive income in the consolidated financial statements.

Three-month period ended 31 March 2018	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	137,318	29,962	2,544	408	-	170,232
Inter-segment revenues	-	-	-	5,541	(5,541)	-
Operating expenses	122,927	29,769	3,056	6,257	(5,541)	156,468
Segment operating profit	14,391	193	(512)	(308)	-	13,764
Finance costs	-	-	-	487	-	487
Finance income	-	-	-	183	-	183
Income taxes	-	-	-	910	-	910
Net profit/(loss)	14,391	193	(512)	(1,523)	-	12,549
Total assets	174,746	37,972	6,350	30,871	(3,243)	246,696
Total liabilities	89,401	37,898	8,667	(3,140)	(3,243)	129,583

Inter-segment revenues are eliminated and reflected in the "Eliminations" column.

For the three-month period ended 31 March 2017 the only reportable segment was KFC (USFN also manages one pizza delivery point but its revenues, expenses, assets and liabilities were not significant enough to become a separate reporting segment).

Geographic information:

Revenue from external customers	Three-month period ended	
	31 March 2018	31 March 2017
Romania	163,921	109,529
Italy	4,123	139
Republic of Moldova	2,188	2,058
Total restaurant revenue	170,232	111,726

The revenue information above is based on the location of the customers.

APPENDIX 2

INTERIM PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 MARCH 2017 (thousand RON)

INTERIM PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 MARCH 2017 (thousand RON)

PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 MARCH 2017 (thousand RON)

	SFG (a)	ARS for the period 1 January – 31 March 2017 (b)	Intercompany elimination (c)	PPA effect (d)	Pro forma (e) = (a)+(b)+(c)+(d)
Restaurant sales	111,726	27,289	-45	-	138,970
Restaurant expenses					
Food and material expenses	41,566	7,585	-12	-	49,138
Payroll and employee benefits	19,300	6,664	-	-	25,964
Rent	8,071	2,189	-	-	10,260
Royalties	6,687	1,601	-	-	8,288
Advertising	4,317	1,453	-	-	5,770
Other operating expenses, net	7,587	2,571	-32	-	10,126
Depreciation and amortization	2,436	862	-	145	3,443
Restaurant operating profit	21,763	4,364	-	(145)	25,983
General and administration expenses, net	7,270	3,316	-	-	10,586
Operating profit	14,493	1,048	-	(145)	15,397
Finance costs	141	101	-	-	242
Finance income	93	3	-	-	95
Profit before tax	14,445	950	-	(145)	15,250
Income tax expense/(credit)	355	351	-	-	705
Profit for the period	14,090	599	-	(145)	14,545
Attributable to:					
Equity holders of Sphera	14,055	599	-	(145)	14,510
Non-controlling interests	35	-	-	-	35

INTERIM PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 MARCH 2017 (thousand RON)

	SFG (a)	ARS for the period 1 January – 31 March 2017 (b)	Intercompany elimination (c)	PPA effect (d)	Pro forma (e) = (a)+(b)+(c)+(d)
Other comprehensive income					
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>					
Exchange differences on translation of foreign operations	21	-	-	-	21
Total comprehensive income for the period, net of tax	14,111	599	-	(145)	14,566
Attributable to:					
Equity holders of Sphera	14,075	599	-	(145)	14,530
Non-controlling interests	36	-	-	-	36

INTERIM PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 MARCH 2017 (thousand RON)

1 PURPOSE OF PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

This interim condensed pro forma consolidated financial information was prepared to illustrate the consolidated operational performance of the Group for the three-month period ended 31 March 2017 as if the set-up of Sphera and the contribution of USFN shares and ARS shares to Sphera took place on 1 January 2017.

USFN and ARS had identical shareholder structure and also their key management personnel was in majority the same since 2012. Therefore, although from an IFRS perspective the criteria are not met in order to qualify as “under common control” (since none of the shareholders had control or common control), the presentation of the pro forma information is reflective of the manner in which the two business segments (KFC for USFN and Pizza Hut for ARS) were managed together.

The pro forma consolidated statement of comprehensive income describes a hypothetical situation and has been prepared solely for illustrative purposes and do not purport to represent what the actual consolidated results of operations of the Group would have been had the control been gained on the date assumed, nor are they necessarily indicative of future consolidated operational results.

In addition, the statements are based on available information and various assumptions that management believes to be reasonable. The actual results may differ from those reflected in the pro forma consolidated financial information for a number of reasons, including, but not limited to, differences between the assumptions used to prepare the pro forma consolidated financial information and actual amounts.

The interim pro forma consolidated financial information only consists of the interim pro forma consolidated statement of comprehensive income for the three-month period ended 31 March 2017 and selected information.

The interim statement of comprehensive income is based on the interim statement of comprehensive income for the three-month period ended 31 March 2017 included in the SFG interim condensed consolidated financial statements (unaudited) and ARS statement of comprehensive income for the period 1 January – 31 May 2017 (unaudited), with pro forma adjustments as described below. The SFG interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) (IAS 34 Interim Financial Reporting).

2 BASIS OF PREPARATION OF THE INTERIM CONDENSED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

2.1 ARS statement of comprehensive income for the period 1 January - 31 March 2017

On 30 May 2017, Sphera acquired 99.9997% of the shares in ARS, in exchange for Sphera shares. The consolidated statement of comprehensive income of SFG does not include the results of ARS, as the date of acquisition was 30 May 2017. As such, the pre-acquisition statement of comprehensive income of ARS for the period 1 January 2017 to 31 March 2017 has been added, as if the acquisition took place on 1 January 2017.

2.2 Pro forma adjustments: elimination of intercompany transactions

In the process of preparation of the interim pro forma consolidated statement of comprehensive income, pre-acquisition amounts for the period 1 January 2017 to 31 March 2017 from the statement of comprehensive income of ARS were added to the amounts from the SFG IFRS consolidated statement of comprehensive income for the three-month period ended 31 March 2017, thus the transactions carried out during the first three months of 2017 between the two entities had to be eliminated.

INTERIM PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 MARCH 2017 (thousand RON)

No synergies or integration costs following the acquisition of USFN Group and ARS by Sphera have been taken into consideration in the preparation of the interim pro forma consolidated financial information.

2.3 Purchase price allocation adjustments

Adjustments have been made to account for the effect of the purchase price allocation performed as of the date of acquisition of Sphera and ARS by USFN (30 May 2017). Specifically, there are fair value adjustments recorded for the property, plant and equipment of ARS. The adjustment recorded in the pro forma has been computed by applying the fair value adjustments to the property, plant and equipment of ARS (as determined on 31 May 2017) to their net book values on 1 January 2017 or from the date of acquisition in 2017, and by re-computing the depreciation expense for the period 1 January – 31 March 2017 based on the amounts thus adjusted.

2.4 Preparation of the selected information

With respect Note 3 EBITDA, the information presented in this note is based on amounts derived directly from the similar notes from the unaudited IFRS interim condensed consolidated financial statements of SFG for the three-month period ended 31 March 2017 and, respectively, the unaudited interim condensed financial statements of ARS for the three-month period ended 31 March 2017, from which is derived the statement of comprehensive income of ARS for the period 1 January – 31 March 2017, adjusted for the applicable pro forma adjustments. described above.

3 EBITDA

	SFG	ARS for the	Intercompany	PPA effect	Pro forma
	1 January -	period	elimination 1	1 January –	1 January
	31 March	1 January –	January –	31 March	–
	2017	31 March 2017	31 March	2017	31 March
	2017	2017	2017	2017	2017
Operating profit	14,493	1,048	-	(145)	15,397
Adjustments to bridge operating profit to EBITDA:					
Depreciation and amortization included in restaurant expenses	2,436	862	-	145	3,443
Depreciation and amortization included in general and administration expenses	301	33	-	-	334
EBITDA	17,230	1,943	-	-	19,173

EBITDA is one of the key performance measures monitored by senior management. EBITDA would be normalised to exclude any significant one-off items (either revenues or expenses) but no such exclusions were necessary for the three-month period ended 31 March 2017.