SPHERA

Q3 2017 Report

Name of the issuer: **Sphera Franchise Group S.A.**
Registered Office: **Bucharest, 239 Calea Dorobantilor, 2nd Floor, Sector 1, Romania**
Fax no.: 0040 21 201 1759
Unique Registration Code at the National Office of Trade Registry: **37586457**
Order number on the Trade Registry: **J40/7126/2017**
Subscribed and paid-in share capital: **RON 581,990,000**
Regulated market on which the issued securities are traded: **Bucharest Stock Exchange**

Note:

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

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

The following financial statements are unaudited.

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Summary of Interim Condensed Consolidated Financial Statements as at 30 September 2017 (unaudited)

Interim Condensed Consolidated Statement of Comprehensive Income for the nine months ended 30 September 2017 (unaudited)

(thousand RON)

	30 September 2017	30 September 2016	Change 2017/2016
Restaurant sales	401,353	300,482	33.6%
Restaurant expenses			
Food and material expenses	144,052	114,913	25.4%
Payroll and employee benefits	76,660	48,143	59.2%
Rent	28,490	19,803	43.9%
Royalties	22,958	17,699	29.7%
Advertising	20,807	14,615	42.4%
Other operating expenses, net	31,190	21,158	47.4%
Depreciation and amortization	8,580	6,260	37.1%
Restaurant operating profit	**68,616**	**57,891**	**18.5%**
General and administration expenses, net	24,491	16,534	48.1%
Operating profit	**44,125**	**41,357**	**6.7%**
Finance costs	1,152	820	40.5%
Finance income	129	73	76.7%
Profit before tax	**43,102**	**40,610**	**6.1%**
Income tax expense/(credit)	2,135	5,755	-62.9%
Profit for the period	**40,967**	**34,855**	**17.5%**
Attributable to:			
Equity holders of the parent	40,818	34,850	17.1%
Non-controlling interests	149	5	2880.0%
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax): Exchange differences on translation of foreign operations	(23)	(49)	-53.1%
Total comprehensive income for the period, net of tax	**40,944**	**34,806**	**17.6%**
Attributable to:			
Equity holders of the parent	40,795	34,801	17.2%
Non-controlling interests	149	5	2880.0%
Earnings per share, basic and diluted (RON/share)	1.1182	1.0059	11.2%

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Interim Condensed Consolidated Statement of Financial Position for the nine months ended 30 september 2017 (unaudited)

(thousand RON)

	30 September 2017	30 September 2016	Change 2017/2016
Assets			
Non-current assets	**155,503**	**54,246**	**186.7%**
Property, plant and equipment	91,991	47,551	93.5%
Intangible assets	61,485	6,365	866.0%
Trade and other receivables	163	-	n/a
Deposits for rent guarantee	1,368	290	371.7%
Deferred tax assets	496	40	1140.0%
Current assets	**56,545**	**65,399**	**-13.5%**
Inventories	7,545	5,744	31.4%
Trade and other receivables	6,118	8,780	-30.3%
Prepayments	3,195	1,907	67.5%
Cash and short-term deposits	39,687	48,968	-19.0%
Assets held for sale	195	-	n/a
Total assets	**212,243**	**119,645**	**77.4%**
Equity and liabilities			
Equity			
Issued capital	581,990	190	306210.5%
Share premium	(520,578)	-	n/a
Other capital reserves	-	19	n/a
Retained earnings	52,705	58,124	-9.3%
Foreign currency translation reserve	(64)	(41)	56.1%
Equity attributable to equity holders of the parent	**114,053**	**58,292**	**95.7%**
Non-controlling interests	41	(39)	-205.1%
Total equity	**114,094**	**58,253**	**95.9%**
Non-current liabilities	**34,826**	**16,304**	**113.6%**
Interest-bearing loans and borrowings	33,539	14,630	129.2%
Trade and other payables	1,287	1,674	-23.1%
Current liabilities	**63,323**	**45,088**	**40.4%**
Trade and other payables	45,967	37,292	23.3%
Interest-bearing loans and borrowings	17,356	7,796	122.6%
Total liabilities	**98,149**	**61,391**	**59.9%**
Total equity and liabilities	**212,243**	**119,645**	**77.4%**

Financial analysis of results

Consolidated sales of Sphera reached RON 401.4 million for the January-September 2017 period, representing an increase of 33.6% compared to the similar period of the previous year. The main reason for this performance was the growth in the sales of the KFC brand by 21.7%, which was due to the strong performance of our restaurants in Romania and Republic of Moldova, as well as to the opening of two stores in Italy in the first half of this year. In addition, the consolidated sales of Sphera for the January-September 2017 period also include sales of RON 35.6 million of Pizza Hut brand (additional information regarding the accounting treatment of this operation are provided in the notes to the financial statements, as well as in the Public Offering Prospectus).

Data in RON thousand	**30 September 2017**	**30 September 2016**	**Change 2017/2016**
Restaurant sales by brand			
KFC	365,776	300,482	21.7%
Pizza Hut (for the June-September period)	35,577		
Total restaurant sales	**401,353**	**300,482**	**33.6%**

Data in RON thousand	**30 September 2017**	**30 September 2016**	**Change 2017/2016**
Restaurant sales by region			
Romania	387,010	295,102	31.1%
Italy	8,213	-	
Republic of Moldova	6,131	5,380	14.0%
Total restaurant sales	**401,353**	**300,482**	**33.6%**

In Romania, the like-for-like sales of KFC restaurants grew by 13% year-on-year during the January-September 2017 period, driven by the superior performance of the Drive-Thru and foodcourt formats as well as of the restaurants located outside Bucharest.

Total sales of the Pizza Hut brand in Romania reached RON 81.2 million for the January-September 2017 period, representing an increase of 16.2% over the comparable period of the previous year, being mainly supported by higher sales on the delivery channel. During the same period, the like-for-like sales of Pizza Hut restaurants grew by 4% year-on-year.

Data in RON thousand	**30 September 2017**	**30 September 2016**	**Change 2017/2016**
Total Pizza Hut sales	**81,207**	**69,910**	**16.2%**

Source: Interim financial statements of ARS Romania.

Consolidated operational expenses reached RON 332.7 million for the January-September 2017 period, representing an increase of 37.2% over the comparable period of the previous year. As percentage of sales, operational expenses increased by 2.2pps year-on-year to 82.9% for the January-September 2017 period, driven mainly by an increase of 3.1pps in the cost of labour and of 0.7pps in other operating expenses, which were partly offset by a 2.4pps decrease in cost of food and materials. The main reason for the variation of these expenses was due to the increasing contribution of Pizza Hut Romania and KFC Italy operations into the consolidated statements of Sphera, as both exhibit higher cost of labour and lower cost of food and materials than the KFC Romania operations.

Data in RON thousand	30-sep-2017	30-sep-2016	Change 2017/2016	Percentage of sales 30-sep-2017	Percentage of sales 30-sep-2016
Restaurant expenses	**332,737**	**242,591**	**37.2%**	**82.9%**	**80.7%**
Food and material	144,052	114,913	25.4%	35.9%	38.2%
Payroll and employee benefits	76,660	48,143	59.2%	19.1%	16.0%
Rent	28,490	19,803	43.9%	7.1%	6.6%
Royalties	22,958	17,699	29.7%	5.7%	5.9%
Advertising	20,807	14,615	42.4%	5.2%	4.9%
Other operating expenses	31,190	21,158	47.4%	7.8%	7.0%
Depreciation	8,580	6,260	37.1%	2.1%	2.1%

EBITDA reached RON 54.0 million for the January-September 2017 period, up by 11.4% over the similar period of the previous year, while the operating profit reached RON 44.1 million, up by 6.7% over the similar period of the previous year. EBITDA margin decreased by 2.6pps to 13.5%, while the operating profit margin decreased by 2.8pps to 11.0%, both margins being mainly influenced by the increase of the restaurant operating expenses in total sales.

Net profit reached RON 41.0 million for the January-September 2017 period, up by 17.5% over the similar period of the previous year, on the back of lower profit tax expense as a result of the change in the profit tax system to a flat tax per restaurants' commercial area.

Data in RON thousand	30-sep-2017	30-sep-2016	Change 2017/2016	Percentage of sales 30-sep-2017	Percentage of sales 30-sep-2016
EBITDA	**53,994**	**48,456**	**11.4%**	**13.5%**	**16.1%**
Operating profit	**44,125**	**41,357**	**6.7%**	**11.0%**	**13.8%**
Profit before tax	**43,102**	**40,610**	**6.1%**	**10.7%**	**13.5%**
Profit for the period	**40,967**	**34,855**	**17.5%**	**10.2%**	**11.6%**

Analysis of the financial position

Consolidated total assets reached RON 212.2 million as at 30 September 2017, up 77.4% compared to 30 September 2016. This increase was mainly due to the increase in the tangible assets, especially related to the acquisition of ARS Romania as at 30 May 2017 (representing an increase in fixed assets of RON 60.8 million), but also to the opening of new KFC and Pizza Hut restaurants in Romania and Italy.

Current assets reached RON 56.5 million as at 30 September 2017, down 13.5% from 30 September 2016, which was mainly due to the reduction of the cash and short-term deposit position following the payment of dividends for the year 2016.

Total liabilities reached RON 98.1 million as at 30 September 2017, up 59.9% from 30 September 2016, of which the interest-bearing debt represented RON 50.9 million, up 127% from 30 September 2016. The significant increase in the banking debt was exclusively due to the financing of the investments in the new restaurants opened starting with the fourth quarter of 2016, in accordance with the company's development plan.

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Main financial ratios as at 30 September 2017

(Financial data in RON thousand)

Current ratio

Current assets / Current liabilities	=	56,545 / 63,323	= 0.89

Debt to Equity ratio

Interest-bearing debt / Equity	=	50,895 / 114,094	= 45%
Interest-bearing debt / Capital employed	=	50,895 / 164,948	= 31%

Trade receivables turnover (days)

Average receivables / Sales	=	7,449 / 401,353	= 5.01

Fixed asset turnover

Sales / Net fixed assets	=	401,353 / 155,503	= 2.58

APPENDIX 1

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 SEPTEMBER 2017 (UNAUDITED)

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017 (UNAUDITED)**

(thousand RON)

	30 September 2017	30 September 2016
Restaurant sales	401,353	300,482
Restaurant expenses		
Food and material expenses	144,052	114,913
Payroll and employee benefits	76,660	48,143
Rent	28,490	19,803
Royalties	22,958	17,699
Advertising	20,807	14,615
Other operating expenses, net	31,190	21,158
Depreciation and amortization	8,580	6,260
Restaurant operating profit	68,616	57,891
General and administration expenses, net	24,491	16,534
Operating profit	44,125	41,357
Finance costs	1,152	820
Finance income	129	73
Profit before tax	43,102	40,610
Income tax expense/(credit)	2,135	5,755
Profit for the period	40,967	34,855
Attributable to:		
Equity holders of the parent	40,818	34,850
Non-controlling interests	149	5
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):	(23)	(49)
Exchange differences on translation of foreign operations		
Total comprehensive income for the period, net of tax	**40.944**	**34.806**
Attributable to:		
Equity holders of the parent	40,795	34,801
Non-controlling interests	149	5
Earnings per share, basic and diluted (RON/share)	1.1182	1.0059

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2017 (UNAUDITED)

(thousand RON)

	30 September 2017	31 December 2016
Assets		
Non-current assets	**155,503**	**54,246**
Property, plant and equipment	91,991	47,551
Intangible assets	61,485	6,365
Trade and other receivables	163	-
Deposits for rent guarantee	1,368	290
Deferred tax assets	496	40
Current assets	**56,545**	**65,399**
Inventories	7,545	5,744
Trade and other receivables	6,118	8,780
Prepayments	3,195	1,907
Cash and short-term deposits	39,687	48,968
Assets held for sale	195	-
Total assets	**212,243**	**119,644**
Equity and liabilities		
Equity		
Issued capital	581,990	190
Share premium	(520,578)	-
Other capital reserves	-	19
Retained earnings	52,705	58,124
Foreign currency translation reserve	(64)	(41)
Equity attributable to equity holders of the parent	**114,053**	**58,292**
Non-controlling interests	41	(39)
Total equity	**114,094**	**58,253**
Non-current liabilities	**34,826**	**16,304**
Interest-bearing loans and borrowings	33,539	14,630
Trade and other payables	1,287	1,674
Current liabilities	**63,323**	**45,087**
Trade and other payables	45,967	37,291
Interest-bearing loans and borrowings	17,356	7,796
Total liabilities	**98,149**	**61,391**
Total equity and liabilities	**212,243**	**119,644**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017 (UNAUDITED)

(thousand RON)	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	-	-	-	40,818	-	40,818	149	**40,967**
Other comprehensive income								
Translation differences	-	-	-	-	(23)	(23)	-	**(23)**
Total comprehensive income	**-**	**-**	**-**	**40,818**	**(23)**	40,795	149	**40,944**
Capital contribution from shareholders	1,500	-	-	-	-	1,500	-	**1,500**
Group reorganization	580,300	(519,495)	(19)	-	-	60,786	-	**60,786**
Costs related to reorganization and anticipated listing	-	(1,083)	-	-	-	(1,083)	-	**(1,083)**
Cash dividends	-	-	-	(46,237)	-	(46,237)	(69)	**(46,307)**
At 30 September 2017	**581,990**	**(520,578)**	**-**	**52,705**	**(64)**	**114,053**	**41**	**114,094**

	Issued capital	Share premium	Other capital reserves	Retained earnings	Foreign currency translation reserve	Total equity	Non-controlling interest	Total equity
As at 1 January 2016	**190**	**-**	**19**	**50,392**	**(122)**	**50,479**	**3**	**50,482**
Profit for the period	-	-	-	34,850	-	34,850	5	**34,806**
Other comprehensive income								
Translation differences	-	-	-	-	(49)	(49)	-	**(49)**
Total comprehensive income	**-**	**-**	**-**	**34,850**	**(49)**	**34,801**	**5**	**34,806**
Cash dividends	-	-	-	(40,961)	-	(40,961)	(13)	**(40,974)**
At 30 September 2016	**190**	**-**	**19**	**44,281**	**(170)**	**44,319**	**(5)**	**44,314**

SELECTED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE PERIOD ENDED 30 SEPTEMBER 2017

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 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 will render 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 has 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. SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Group in preparing its interim condensed financial statements.

2.1 Basis of preparation

The interim condensed financial statements of the Group have been prepared in accordance with International Financial Reporting Standards applicable to interim financial reporting as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) (IAS 34).

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.

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 of 31 December 2016.

The interim condensed consolidated financial statements for nine months 2017 included in this report are unaudited and an external limited review by an auditor was not performed.

2.2 Basis of consolidation

The interim consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 September 2017.

Control is achieved when the Group 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. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income,

expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

2.3 Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in profit or loss.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Where a business combination is effected primarily by exchanging equity interests, the acquirer is usually the entity that issues the equity. However, when a new entity is set up to issue equity shares to effect a business combination, the new entity has no economic substance and cannot be the acquirer. A combination between two or more entities that is structured so that a new entity issues equity instruments to the owners of the other entity(ies) is no different from a transaction in which one of the combining entities directly acquires the other(s). In such circumstances, the Group takes into consideration the following indicators in order to determine the acquirer:

- the relative size of the combining entities;
- relative voting rights after the combination;
- existence of a large minority voting interest in the combined entity if no other owner or organised group of owners has a significant voting interest;
- the composition of the governing bodies;
- the composition of the senior management of the combined entity ;
- the terms of the exchange of equity interests - the acquirer is usually the combining entity that pays a premium over the pre-combination fair value of the equity interests of the other combining entity or entities.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

2.4.1 Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.4.2 Fair value measurement

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the relevant notes.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
  Or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

2.4.3 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Restaurant revenue

Restaurant revenues are recognised when food and beverages are served. Revenues are recognised at fair value of meals and services delivered, net of value added tax charged to customers.

Rental income

Rental income is accounted for on a straight-line basis over the lease terms.

Interest income

Interest income or expense is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in ''Finance income'' in profit or loss.

2.4.4 Foreign currencies

The Group's 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The exchange rate RON – EUR as at 30 September 2017 and 31 December 2016 were:

	30 September 2017	31 December 2016
RON - EUR	**4.5991**	**4.5411**
RON - USD	**3.8977**	**4.3033**
RON - MDL	**0.2217**	**0.2174**

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.

2.4.5 Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and it establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for: all deductible temporary differences and the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and any unused tax losses that can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, no deffered tax is recognized, and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date 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 deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax (VAT and similar taxes)

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- Receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.6 Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Where appropriate, the cost of property, plant and equipment includes site preparation costs, installation costs and the cost of obtaining permits required to bring the asset ready for use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only 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.

The cost of property, plant and equipment also includes the cost of replacing parts of the property, plant and equipment.

All repair and maintenance costs are recognised in the profit or loss as incurred. The Group leases its restaurant locations by way of operating leases, which are not recognised in the Group's statement of financial position. The cost of improvements to leasehold assets is recognised as leasehold improvements and then depreciated as outlined below.

Costs directly related to purchasing of assets connected with opening restaurants in leased locations, including the costs of architecture design, legal assistance, wages and salaries, and benefits of employees directly involved in launching a given location are included in "property, plant and equipment". These assets are depreciated over the expected useful life of the restaurant.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Freehold buildings	40 years
Leasehold improvements	over the lease contract duration (usually 10 years, including first renewal period)
Computers and IT equipment	3 to 5 years
Vehicles	5 years
Other property, plant and equipment	2 to 10 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

The useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Start-up expenses for new restaurants

Start-up expenses for new restaurants represent costs related to the opening of new restaurant premises. Such expenses include rent and payroll expenses, new personnel training and other overhead expenses that arise before the opening of new restaurants. Start-up expenses for new restaurants are recognised as operating expense in the accounting period in which the related work was performed.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.7 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is, or contains a lease, if fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in profit or loss on a straight-line basis over the lease term. Depending on contractual terms, the operating lease payment amounts are calculated for each restaurant as either a percentage of revenue (i.e. sales levels) with a minimum fixed monthly payment or as a fixed monthly payment. Some lease agreements contain escalation clauses.

For leases with fixed escalating payments and/or fit-out works incentives received, the Group records rent expense on a straight-line basis over the lease term. Contingent rentals are based on sales levels in excess of stipulated amounts, and thus are not considered minimum lease payments and are included in rent expense when attainment of the contingency is considered probable (i.e. when Group’s sales occur).

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.4.8 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortised on a straight-line basis over the useful economic lives from 3 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. Gains or losses arising from de-recognition of an intangible asset

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Franchise rights

Franchise costs are incurred in obtaining franchise rights or licences to operate quick service and take-away restaurant concepts. They include the initial fee paid to the system franchisor when a new restaurant is opened or when the rights and licences are renewed. These are measured at cost less accumulated amortisation and accumulated impairment. Amortisation is on a straight line basis over the life of the applicable franchise or licence agreement, of 10 years.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

2.4.9 Impairment of non-financial assets, including goodwill

At each reporting date, management assesses whether there is any indication of impairment for property, plant and equipment or intangible assets. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in the statement of comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

For the purpose of impairment testing each restaurant is a cash generating unit.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit (CGU) (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

2.4.10 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale (AFS) financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

The Group's financial assets are represented by loans and receivables and cash and cash equivalents.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date on which the Group commits to purchase or sell the asset.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in profit or loss.

Receivables due in less than 12 months are not discounted.

De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a Group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either (a) the Group has transferred substantially all the risks and rewards of the asset, or
  (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and, to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognised to the extent of its continuing involvement in it. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

ii) Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a Group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a Group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Group of

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the losses arising from impairment are recognised in profit or loss in ''Finance costs'' for loans and in ''Other operating expenses'' for receivables. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If a write-off is later recovered, the recovery is credited to profit or loss in "Finance costs" for loans and in "Other operating expenses,net" for trade receivables.

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, financial liabilities measured at amortized cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of financial liabilities measured at amortised cost, net of directly attributable transaction costs.

The Group's financial liabilities include only financial liabilities measured at amortised cost (trade and other payables and loans and borrowings).

Subsequent measurement

After initial recognition, interest bearing loans and borrowings and any other long-term payables are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in profit or loss.

Trade and other payables with a maturity of 12 months or less are not discounted.

De-recognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and an intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4.11 Inventories

Inventories, which include food, beverages and other supplies, are stated at the lower of cost or net realisable value. Cost of inventory is determined on the weighted-average basis and includes expenditures incurred in acquiring inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense and reported as a component of cost of sales in the statement of comprehensive income in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories is recognised as an expense in the same component of the statement of comprehensive income as the consumption of the respective inventory, in the period the write-down or loss occurs.

2.4.12 Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits.

For the purpose of the statement cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

2.4.13 Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year. Prepayments to acquire current assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Prepayments to acquire property, plant and equipment are classified as construction in progress. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognized in profit or loss.

2.4.14 Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds. Any excess or deficit of the fair value of consideration received over the par value of shares issued is recognised as share premium.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

The Group recognises a liability to make cash or non-cash distributions to owners of equity when the distribution is authorised and the distribution is no longer at the discretion of the Group. As per the corporate laws of Romania, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

2.4.15 Royalties

Royalties in connection to franchise rights are recognised as an expense as restaurants revenue is earned.

2.4.16 Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) 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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

2.4.17 Employee benefits

The Group, in the normal course of business, makes payments on behalf of its employees for pensions (defined contribution plans), health care, employment and personnel tax which are calculated according to the statutory rates in force during the year, based on gross salaries and wages. Food allowances, travel expenses and holiday allowances are also calculated according to the local legislation.

The cost of these payments is charged to the statement of comprehensive income in the same period as the related salary cost. Accruals are created for holiday allowances if there are non-used holidays according the local legislation.

The Group does not operate any other pension scheme or post-retirement benefits plan and consequently, has no obligation in respect of pensions.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of asset or liability affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Classification of lease agreements

A lease is classified as a finance lease if it transfers to the Group substantially all the risks and rewards incidental to ownership, otherwise it is classified as an operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. If the lease term is longer than 75 percent of the economic life of the asset, or if at the inception of the lease the present value of the minimum lease payments amounts to at least 90 percent of the fair value of the leased asset, the lease is classified by the Group as finance lease, unless it is clearly demonstrated otherwise.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Useful lives of property and equipment

The Group assesses the remaining useful lives of items of property and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 ''Accounting Policies, Changes in Accounting Estimates and Errors''. These estimates may have a material impact on the amount of the carrying values of property and equipment and on depreciation recognised in profit or loss.

In particular, the Group assesses for its operating leases that generally have an initial term of 5 years with renewal option for another 5 years, that the leasehold improvements' useful life is of 10 years due to the fact that historically most of such leases have been renewed after the initial term of 5 years, that the refurbishment needed after the first 5 years is of significantly less value compared to the initial set-up, and that 10 years is also the duration of the related franchise.

4. CHANGES IN ACCOUNTING POLICIES

4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2017

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2017. None has had a impact on the interim condensed consolidated financial statements.

- IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)
- IAS 7: Disclosure Initiative (Amendments)
- IFRS 12 Disclosure of Interests in Other Entities

4.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2017 AND NOT EARLY ADOPTED

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

- IFRS 9 Financial Instruments: Classification and Measurement
- IFRS 15 Revenue from Contracts with Customers
- IFRS 15: Revenue from Contracts with Customers (Clarifications)
- IFRS 16: Leases
- IFRS 17: Insurance Contracts
- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)
- IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)
- IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration
- IFRS 1 First-time Adoption of International Financial Reporting Standards:
- IAS 28 Investments in Associates and Joint Ventures
- IFRIC Interpretation 23: Uncertainty over Income Tax Treatments
- IAS 40: Transfers to Investment Property (Amendments)

5 GROUP INFORMATION

5.1 Investments in controlled companies

Details of the Group consolidated subsidiaries at 30 September 2017 and 31 December 2016 are as follows:

Company name	Country of incorporation	Field of activity	Control 30 September 2017	Control 31 December 2016
US Food Network SA	Romania	Restaurants	99.9997%	Parent
American Restaurant System SA	Romania	Restaurants	99.9997%	n/a
California Fresh Flavours SRL	Romania	Restaurants	99.9900%	n/a
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 30 September 2017 is below 1 thousand RON therefore there are no other presentations thereof.

5.2 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 then 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:

	Fair values recognised on acquisition
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.

From the date of acquisition, ARS contributed 35.577 of revenue and (1.870) to profit before tax of the Group. If the combination had taken place at the beginning of the year, Group restaurant sales would have been 446.982 and profit after tax for the Group would have been 41.766.

6 OTHER OPERATING EXPENSES, NET

	Nine months ended	
	30 September 2017	30 September 2016
Third-party services	9,778	6,686
Utilities	8,357	6,440
Maintenance and repairs	4,184	2,690
Cleaning supplies	2,268	1,871
Small-wares	2,285	1,780
Transport	1,844	1.052
Telephone and postage	283	276
Insurance	275	51
Net gain/(loss) on disposal of property, plant and equipment	15	-
Miscellaneous expenses and income, net	1,901	174
Total	**31,190**	**21,158**

7 GENERAL AND ADMINISTRATION EXPENSES, NET

	Nine months ended	
	30 September 2017	30 September 2016
Payroll and employee benefits	9,379	6,839
Third-party services	7,631	5,210
Depreciation and amortization	1,289	839
Rent	1,875	1,010
Banking charges	1,125	770
Transport	994	625
Maintenance and repairs	647	566
Small-wares	524	80
Telephone and postage	209	169
Insurance	108	-
Impairment of non-current assets	148	52
Advertising	291	186
Miscellaneous expenses and income, net	271	188
Total	**24,491**	**16,534**

8 DISCLOSURE OF TOTAL PAYROLL AND EMPLOYEE BENEFITS EXPENSE AND TOTAL DEPRECIATION AND AMORTIZATION EXPENSE

8.1 Payroll and employee benefits

	Nine months ended	
	30 September 2017	**30 September 2016**
Payroll and employee benefits recognized in "Restaurant expenses"	76,660	48,143
Payroll and employee benefits recognized in "General and administration expenses, net"	9,379	6,839
Total payroll and employee benefits	**86,039**	**54,982**

8.2 Depreciation and amortization

	Nine months ended	
	30 September 2017	**30 September 2016**
Depreciation and amortization recognized in "Restaurant expenses"	8,580	6,260
Depreciation and amortization recognized in "General and administration expenses, net"	1,289	839
Total depreciation and amortization	**9,869**	**7,099**

9 FINANCE COSTS AND INCOME

9.1 Finance costs

	Nine months ended	
	30 September 2017	**30 September 2016**
Interest on loans and borrowings	780	365
Finance charges payable under finance leases	20	14
Foreign exchange loss, net	352	442
Total	**1,153**	**820**

9.2. Finance income

	Nine months ended	
	30 September 2017	**30 September 2016**
Interest income	129	73
Total	**129**	**73**

10 INCOME TAX

The major components of income tax expense for the nine months ended 30 September 2017 are:

	Nine months ended 30 September 2017
Current income tax:	
Current income tax charge	2,569
Deferred tax:	
Relating to origination and reversal of temporary differences	(434)
Income tax expense reported in the statement of comprehensive income	**2,135**

A reconciliation between tax expense and the product of accounting profit multiplied by Romania's domestic tax rate for the nine months ended 30 September 2017 is as follows:

	Nine months ended 30 September 2017
Accounting profit before income tax	**43,102**
At statutory income tax rate of 16%	6,897
Other income exempted from tax	(126)
Sponsorship fiscal credit	(14)
Non-deductible expenses for tax purposes	319
Changes in legislation	(4763)
Effect of higher tax rates in Italy	(165)
Effect of lower tax rates in the Republic of Moldova	(13)
At the effective income tax rate	**2,135**

The changes in tax legislation and tax rates relate to the tax levied on restaurant activity applicable for the companies active in the restaurant industry starting with 1 January 2017. Specifically, per the updated regulations, the income tax for the restaurant activity has been replaced by a specific tax, computed based on a minimum fixed amount multiplied by the impact of three criteria: restaurant area, restaurant location and seasonality. The taxation of the non-restaurant activities has not suffered changes.

11. INTEREST-BEARING LOANS AND BORROWINGS

	Interest rate, %	Maturity	30 September 2017	31 December 2016
Current interest-bearing loans and borrowings				
Obligations under finance leases	EURIBOR 3M+4.5%	21.05.2019	128	174
Bank loan	EURIBOR 3M + 2.85%	5 years from each withdrawal	17,228	7,622
Total current interest-bearing loans and borrowings			**17,356**	**7,796**
Non-current interest-bearing loans and borrowings				
Obligations under finance leases	EURIBOR 3M+4.5%	21.05.2019	255	226
Bank loan	EURIBOR 3M + 2.85%	5 years from each withdrawal	33,284	14,404
Total non-current interest-bearing loans and borrowings			**33,539**	**14,630**
Total interest-bearing loans and borrowings			**50,895**	**22,426**

The Group has a credit facility from Alpha Bank Romania made up of 3 sub-limits, as follows: credit facility for the development of new locations, issuance of bank guarantee letters and credit card. The loan is secured with property, plant and equipment of each restaurant location for which the credit limited has been utilised.

Covenants:

The Group's borrowing arrangement with the Bank contains several covenants, mainly of quantitative nature, out of which the most important relates to the level of the service debt (whereby service debt is equal to EBITDA/ [principal plus interest payable]), which should exceed for any month 2.5.

Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of for the nine months ended 30 September 2017 and for the year ended 31 December 2016.

12. ISSUED CAPITAL

	31 December 2016
Authorised shares (USFN)	
Ordinary shares of 0.25 RON each	380,000
Share capital (RON thousand)	95
Hyperinflation (RON thousand)	95

The shareholders of USFN as of 31 December 2016 were Lunic Franchising and Consulting Ltd. (22.34%), Tatika Investments Ltd. (27.33%), M.B.L. Computers SRL (23%), Wellkept Group SA (16.34%) and Anasa Properties SRL (10.99%).

	30 September 2017
Authorised shares (Sphera)	
Ordinary shares of 15 RON each	38,799,340
Share capital (RON thousand)	581,990

The shareholders of Sphera at 30 June 2017 are Lunic Franchising and Consulting Ltd. (22.34%), Tatika Investments Ltd. (27.33%), M.B.L. Computers SRL (23%), Wellkept Group SA (16.34%) and Anasa Properties SRL (10.99%).

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

	Share capital	Share premium
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 and anticipated listing	-	(1,083)
Balance as at 30 September 2017	**581,990**	**(520,578)**

Due to the fact that USFN is identified as the acquirer of ARS and the consolidated financial statements of SFG are a continuation of the consolidated financial statements of USFN, the fair value of the USFN business cannot increase the equity of the Group, thus there is 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

13. EBITDA

	Nine months ended	
	30 September 2017	**30 September 2016**
Operating profit	**44.125**	**41.357**
Adjustments to bridge operating profit to EBITDA:		
Depreciation and amortization included in restaurant expenses	8.580	6.260
Depreciation and amortization included in general and administration expenses	1.289	839
EBITDA	**53.994**	**48.456**

EBITDA is one of the key performance measures monitored by senior management. EBITDA would be normalized to exclude any significant one-off items (either revenues or expenses) but no such exclusions were necessary for the nine months periods ended 30 September 2017 and 30 September 2016.

14. EARNINGS PER SHARE (EPS)

	30 September 2017	**31 December 2016**
Profit attributable to ordinary equity holders of the parent	40.818	22.216
Weighted average number of ordinary shares	36.502.599	34.646.954
Earnings per share, basic and diluted (RON/share)	**1,1182**	**0,6412**

Earnings per share calculation reflects the weighted number of shares of Sphera as follows: the shares issued for the contribution of USFN shares are considered to be outstanding since 1 January 2016 (thus the earnings per share for the nine months ended 30 September 2016 are also computed on this basis), while the shares issued for cash and for the contribution of ARS shares are taken into account from 31 May 2017.

There are no dilutive instruments to be considered.

15. RELATED PARTY DISCLOSURES

During the nine months ended 30 September 2016 and 30 September 2017, the Group has carried out transactions with the following related parties:

Related party	Nature of the relationship	Country of incorporation	Nature of transactions
Cinnamon Bake&Roll SRL	Entity with several common members of key management personnel	Romania	Sale of goods and services, loans provided
American Restaurant System SA	Entity with several common members of key management personnel	Romania	Sale of services, acquisition of goods
Moulin D'Or SRL	Entity with several common members of key management personnel	Romania	Sale of goods and services
Lunic Franchising and Consulting Ltd.	Shareholder	Cyprus	Recharge IPO costs
M.B.L.Computers SRL	Shareholder	Romania	Recharge IPO costs

Up to 30 May 2017, until the Group obtained control over it, American Restaurant System SA was a related party of the Group. As a result, transactions for the 5 months of 2017, until the acquisition date, are disclosed below.

	Sales to related parties	Purchases from related parties
American Restaurant System SA	1	57

The following table provides the total amount of transactions that have been entered into with related parties for the relevant period:

Related party		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
	30 September 2017				
Cinnamon Bake&Roll SRL		8	-	668	2
Moulin D'Or SRL		13	3	20	-
American Restaurant System SA		1	57	-	-
Lunic Franchising and Consulting Ltd.		-	-	660	-
M.B.L.Computers SRL		-	-	88	-
		22	**60**	**1,436**	**2**
Related party	**30 September 2016 and 31 December 2016**				
Cinnamon Bake&Roll SRL		20	1	257	5
American Restaurant System SA		532	77,938	1,244	47
Moulin D'Or SRL		131	628	76	12
		683	**78,567**	**1,401**	**59**

During 2010-2013, the Group has granted an interest free loan to Cinnamon Bake&Roll SRL. The loan balance as at 30 September 2017 was of 489 (31 December 2016: 483).

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the period end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the nine months periods ended 30 September 2017 and for the year 2016, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group:

	Nine months ended	
	30 September 2017	**30 September 2016**
Short-term employee benefits	2,188	1,245
Fees paid to management entity	3,021	2,864
Total compensation paid to key management personnel	**5,209**	**4,109**

The amounts disclosed in the table are the amounts recognised as an expense during each reporting period.

14. SEGMENT INFORMATION

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

- KFC restaurants
- Pizza Hut restaurants.

For the nine months ended 30 September 2017 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 special purpose financial statements.

Nine months ended 30 September 2017	KFC	Pizza Hut	Other	Eliminations	Consolidated
Revenues from external customers	365,776	35,577	-	-	401,353
Inter-segment revenues	435	-	-	(435)	-
Operating expenses	300,495	32,677	-	(435)	332,737
Segment operating profit	**45,226**	**(1,101)**	**-**	**-**	**44,125**
Finance costs	-	-	1,152	-	1,152
Finance income	-	-	129	-	129
Income taxes	-	-	2,135	-	2,135
Net profit/(loss)	**45,226**	**(1,101)**	**(3,158)**	**-**	**40,967**
Total assets	**124,842**	**90,916**	**-**	**(3,515)**	**212,243**
Total liabilities	**69,480**	**32,184**	**-**	**(3,515)**	**98,149**
Capital expenditure	28,929	6,551	-	-	35,480
Depreciation, amortization and impairment	8,387	1,482	-	-	9,869

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

For the nine months ended 30 September 2016 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:

	Nine months ended	
Revenue from external customers	**30 September 2017**	**30 September 2016**
Romania	387,010	295,102
Italy	8,213	-
Republic of Moldova	6,131	5,280
Total restaurant revenue	**401,353**	**300,482**

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

APPENDIX 2

PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 SEPTEMBER 2017 (thousand RON)

APPENDIX 2

PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 SEPTEMBER 2017 (thousand RON)

	SFG (a)	ARS for the period 1 January – 31 May 2017 (b)	Intercompany elimination (c)	PPA effect (d)	Pro forma (e) = (a)+(b)+(c)+(d)
Restaurant sales	401,353	45,630	(1)	-	446,982
Restaurant expenses					
Food and material expenses	144,052	12,530	(2)	-	156,580
Payroll and employee benefits	76,660	11,765	-	-	88,425
Rent	28,490	3,897	-	-	32,387
Royalties	22,958	2,682	-	-	25,640
Advertising	20,807	2,517	(21)	-	23,303
Other operating expenses, net	31,190	4,286	22	-	35,498
Depreciation and amortization	8,580	1,467	-	421	10,468
Restaurant operating profit	**68,616**	**6,486**	**-**	**(421)**	**74,681**
General and administration expenses, net	24,491	4,372	-	-	28,863
Operating profit	**44,125**	**2,114**	**-**	**(421)**	**45,818**
Finance costs	1,152	198	-	-	1,350
Finance income	129	6	-	-	135
Profit before tax	**43,102**	**1,922**	**-**	**(421)**	**44,603**
Income tax expense/(credit)	2,135	553	-	-	2,688
Profit for the period	**40,967**	**1,369**	**-**	**(421)**	**41,915**
Attributable to:					
Equity holders of Sphera	40,818	1,369	-	(421)	41,766
Non-controlling interests	149	-	-	-	149

PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 SEPTEMBER 2017 (thousand RON)

	SFG	ARS for the period 1 January – 31 May 2017	Intercompany elimination	PPA effect	Pro forma
	(a)	(b)	(c)	(d)	(e) = (a)+(b)+(c)+(d)
Other comprehensive income					
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):					
Exchange differences on translation of foreign operations	(23)	-	-	-	(23)
Total comprehensive income for the period, net of tax	**40,944**	**1,369**	-	**(421)**	**41,892**
Attributable to:					
Equity holders of Sphera	40,795	1,369	-	(421)	41,743
Non-controlling interests	149	-	-	-	149

1. PURPOSE OF PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

This pro forma consolidated financial information was prepared to illustrate the consolidated operational performance of the Group for the nine months period ended 30 September 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 pro forma consolidated financial information only consists of the pro forma consolidated statement of comprehensive income for the nine month period ended 30 September 2017 and selected notes.

The statement of comprehensive income is based on the statement of comprehensive income for the nine months ended 30 September 2017 included in the SFG consolidated interim condensed 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 consolidated interim condensed financial statements have been prepared in accordance with International Financial Reporting Standards applicable to interim financial reporting as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) (IAS 34).

2. BASIS OF PREPARATION OF THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

2.1 ARS statement of comprehensive income for the period 1 January - 31 May 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 includes the results of ARS from the date of acquisition, i.e. from 31 May 2017 to 30 September 2017. As such, the pre-acquisition statement of comprehensive income of ARS for the period 1 January 2017 to 31 May 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 pro forma consolidated statement of comprehensive income, pre-acquisition amounts for the period 1 January 2017 to 31 May 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 nine months ended 30 September 2017, thus the transactions carried out during the first five months of 2017 between the two entities had to be eliminated.

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 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 May 2017 based on the amounts thus adjusted.

2.4 Preparation of the selected notes

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 consolidated financial statements of SFG for the nine months ended 30 September 2017 and, respectively, the unaudited interim condensed financial statements of ARS for the nine months ended 30 September 2017, from which is derived the statement of comprehensive income of ARS for the period 1 January – 31 May 2017, adjusted for the applicable pro forma adjustments. described above.

3 EBITDA

	SFG	ARS for the period 1 January – 31 May 2017	Intercompany elimination	PPA effect	Pro forma
Operating profit	**44,125**	**2,114**	**-**	**(421)**	**45,818**
Adjustments to bridge operating profit to EBITDA:					
Depreciation and amortization included in restaurant expenses	8,580	1,467	-	421	10,468
Depreciation and amortization included in general and administration expenses	1,289	60	-	-	1,349
EBITDA	**53,994**	**3,641**	**-**	**-**	**57,635**

EBITDA is one of the key performance measures monitored by senior management. EBITDA would be normalized to exclude any significant one-off items (either revenues or expenses) but no such exclusions were necessary for the nine months period ended 30 September 2017.