

Interim Financial Report

For the nine-month period ended 30 September 2019 (Q3-2019)

Report date:	13 November 2019
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 ASF Regulation no. 5/2018 on issuers of financial instruments and market operations.

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Investor Relations

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Financial analysis of January – September 2019 financial results

Summary of interim Consolidated Financial Statements for the nine-month period ended 30 September 2019 (unaudited)

Data in RON'000	Sep-19	Sep-18	YY%	% of Sales		Δ%
			2019/2018	Sep-19	Sep-18	
Restaurant sales	694,317	551,562	25.9%			
Restaurant expenses	604,825	476,993	26.8%	87.1%	86.5%	0.6%
Food and material	235,421	197,211	19.4%	33.9%	35.8%	-1.8%
Payroll and employee benefits	158,397	113,731	39.3%	22.8%	20.6%	2.2%
Rent	16,063	40,014	-59.9%	2.3%	7.3%	-4.9%
Royalties	40,780	32,497	25.5%	5.9%	5.9%	0.0%
Advertising	34,230	30,421	12.5%	4.9%	5.5%	-0.6%
Other operating expenses, net	67,871	48,378	40.3%	9.8%	8.8%	1.0%
Depreciation and amortization	52,062	14,742	253.2%	7.5%	2.7%	4.8%
Restaurant operating profit	89,492	74,568	20.0%	12.9%	13.5%	-0.6%
General and administration expenses, net	42,285	37,661	12.3%	6.1%	6.8%	-0.7%
Operating profit	47,207	36,907	27.9%	6.8%	6.7%	0.1%
Finance costs	12,926	2,071	524.3%	1.9%	0.4%	1.5%
Finance income	121	118	2.0%	0.0%	0.0%	0.0%
Profit before tax	34,402	34,955	-1.6%	5.0%	6.3%	-1.4%
Income tax expense	2,570	2,549	0.9%	0.4%	0.5%	-0.1%
Profit for the period	31,831	32,406	-1.8%	4.6%	5.9%	-1.3%
EBITDA	102,468	52,394	95.6%	14.8%	9.5%	5.3%
Normalised EBITDA*	102,468	53,340	92.1%	14.8%	9.7%	5.1%

Breakdown of consolidated results by Group companies – January – September 2019

Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons.Adj	SFG Cons.
Restaurant sales	497,837	95,584	8,214	68,968	22,844	22,370	(21,500)	694,317
Dividend revenue	0	0	0	0	0	51,239	(51,239)	0
Restaurant expenses	417,582	91,657	6,800	69,631	21,044	0	(1,889)	604,825
Food and material	178,022	25,221	3,234	20,988	7,955	0	0	235,421
Payroll and employee benefits	101,777	30,144	1,339	19,513	5,624	0	0	158,397
Rent	14,305	546	57	909	246	0	0	16,063
Royalties	29,916	5,587	494	4,144	639	0	0	40,780
Advertising	24,464	5,640	319	4,393	1,299	0	(1,886)	34,230
Other operating expenses, net	40,516	13,004	651	11,009	2,695	0	(4)	67,871
Depreciation and amortization	28,581	11,514	705	8,676	2,586	0	0	52,062
Restaurant operating profit	80,255	3,926	1,414	(664)	1,800	73,610	(70,849)	89,492
General and administration expenses, net	22,950	6,714	214	3,951	2,076	25,908	(19,528)	42,285
Operating profit	57,305	(2,787)	1,200	(4,614)	(276)	47,701	(51,321)	47,207
Finance costs	7,941	2,408	185	3,136	1,187	1,418	(3,348)	12,926
Finance income	2,063	7	0	16	0	1,383	(3,348)	121
Profit before tax	51,427	(5,188)	1,015	(7,734)	(1,462)	47,666	(51,321)	34,402
Income tax expense	2,551	1,180	166	(1,444)	213	(95)	0	2,570
Profit for the period	48,876	(6,368)	849	(6,290)	(1,675)	47,761	(51,321)	31,831
EBITDA	87,551	8,867	1,932	4,078	2,371	48,991	(51,321)	102,468

Impact of the adoption of IFRS 16 - Leases

Starting 1 January 2019, Sphera applied IFRS 16 that sets out the principles for the recognition, measurement, presentation and disclosure of leases. Given the material impact of the adoption of IFRS 16 on the consolidated financial statements of Sphera, we are providing below a comparison of the financial results including the impact of IFRS 16 and the financial results excluding the impact of IFRS 16.

For more information on the adoption of IFRS 16 and the impact on the financial statements of Sphera, please refer to Note 2 from the Appendix 1, Interim Condensed Consolidated Financial Statements.

	Data in RON'000			Change (%)		% of Sales		
	Sep-19	Sep-19	Sep-18	2019 ⁽¹⁾ /	2019 ⁽²⁾ /	Sep-19	Sep-19	Sep-18
	(1)	(2)		2018	2018	(1)	(2)	
Restaurant expenses	694,317	694,317	551,562	25.9%	25.9%	100.0%	100.0%	100.0%
Restaurant expenses	604,825	606,107	476,993	26.8%	27.1%	87.1%	87.3%	86.5%
Food and material	235,421	235,421	197,211	19.4%	19.4%	33.9%	33.9%	35.8%
Payroll and employee benefits	158,397	158,397	113,731	39.3%	39.3%	22.8%	22.8%	20.6%
Rent	16,063	49,123	40,014	-59.9%	22.8%	2.3%	7.1%	7.3%
Royalties	40,780	40,780	32,497	25.5%	25.5%	5.9%	5.9%	5.9%
Advertising	34,230	34,230	30,421	12.5%	12.5%	4.9%	4.9%	5.5%
Other operating expenses, net	67,871	67,625	48,378	40.3%	39.8%	9.8%	9.7%	8.8%
Depreciation and amortization	52,062	20,530	14,742	253.2%	39.3%	7.5%	3.0%	2.7%
Restaurant operating profit	89,492	88,210	74,568	20.0%	18.3%	12.9%	12.7%	13.5%
G&A expenses	42,285	42,644	37,661	12.3%	13.2%	6.1%	6.1%	6.8%
Operating profit	47,207	45,566	36,907	27.9%	23.5%	6.8%	6.6%	6.7%
Finance costs	12,926	4,822	2,071	524.3%	132.9%	1.9%	0.7%	0.4%
Finance income	121	121	118	2.0%	2.0%	0.0%	0.0%	0.0%
Profit before tax	34,402	40,864	34,955	-1.6%	16.9%	5.0%	5.9%	6.3%
Income tax expense	2,570	2,650	2,549	0.9%	4.0%	0.4%	0.4%	0.5%
Profit for the period	31,831	38,214	32,406	-1.8%	17.9%	4.6%	5.5%	5.9%
EBITDA	102,468	67,223	52,394	95.6%	28.3%	14.8%	9.7%	9.5%
Normalised EBITDA	102,468	67,223	53,340	92.1%	26.0%	14.8%	9.7%	9.7%

Note: (1) Including the impact of the adoption of IFRS 16; (2) Excluding the impact of the adoption of IFRS 16.

* Excluding the impact of one-off litigation provision in in the first nine months of 2018.

Consolidated sales of Sphera reached RON 694.3 million in the first nine months of 2019, representing an increase of 25.9% compared to the previous year. The main drivers for this performance were the growth in the sales of USFN Romania (KFC restaurants) (+17.1% Y/Y), which had a contribution of 13.2pp in the sales growth rate, and USFN Italy (KFC restaurants in Italy), whose sales advanced 222% Y/Y and contributed 8.6pp to the sales growth rate. CFF (Taco Bell restaurants) sales grew 184% and had a contribution of 2.7pp to the sales growth rate, while ARS (Pizza Hut restaurants) sales advanced 7.1% Y/Y and had a contribution of 1.2pp to the sales growth rate.

In the first nine months of 2019, like-for-like sales across Sphera brands increased 8.2% Y/Y, being supported by a 10.4% advance for KFC Romania and a 1.3% increase for KFC Italy, while Pizza Hut operations eased 0.5% and Taco Bell fell 3.5%. The strong like-for-like growth of KFC Romania continued to be supported by a very good performance of the stores outside Bucharest, as well as by incremental sales generated by our increasing delivery business, especially in Bucharest.

Data in RON'000	Sep-2019	Sep-2018	Change 2019/2018	Contribution to sales growth
Sales by companies (principal brand)				
USFN Romania (KFC)	497,837	424,966	17.1%	13.2%
USFN Moldova (KFC)	8,214	6,843	20.0%	0.2%
USFN Italy (KFC)	68,968	21,394	222.4%	8.6%
ARS (Pizza Hut)	95,584	89,210	7.1%	1.2%
CFF (Taco Bell)	22,844	8,054	183.6%	2.7%
Other revenues ¹⁾	871	1,095	-20.5%	0.0%
Total sales	694,317	551,562	25.9%	25.9%

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

Data in RON'000	Sep-2019	Sep-2018	Change 2019/2018	Contribution to sales growth
Sales by region				
Romania	617,135	523,325	17.9%	17.0%
Italy	68,968	21,394	222.4%	8.6%
Republic of Moldova	8,214	6,843	20.0%	0.2%
Total sales	694,317	551,562	25.9%	25.9%

Consolidated operational expenses reached RON 604.8 million in the first nine months of 2019, representing an increase of 26.8% compared to the previous year. As percentage of sales, operational expenses

increased by 0.6pp year-on-year to 87.1% in the first nine months of 2019, driven mainly by a 2.2pp increase in the cost of labour and a 1.0pp increase in other operating expenses, while being partly offset by a 1.8pp decrease in cost of food and materials. As a result of the adoption of IFRS 16, rent expenses decreased by 4.9pp to 2.3% of sales, while depreciation expenses increased by 4.8pp to 7.5% of sales.

Excluding the impact of IFRS 16, consolidated operational expenses reached RON 606.1 million in the first nine months of 2019, representing an increase of 27.1% compared to the previous year. As percentage of sales, operational expenses increased by 0.8pp year-on-year to 87.3% in the first nine months of 2019.

	Data in RON'000			Change (%)		Percentage of sales		
	Sep-2019	Sep-2019	Sep-2018	2019 ⁽¹⁾ / 2018	2019 ⁽²⁾ / 2018	Sep-2019	Sep-2019	Sep-2018
	(1)	(2)				(1)	(2)	
Restaurant expenses	604,825	606,107	476,993	26.8%	27.1%	87.1%	87.3%	86.5%
Food and material	235,421	235,421	197,211	19.4%	19.4%	33.9%	33.9%	35.8%
Payroll and employee benefits	158,397	158,397	113,731	39.3%	39.3%	22.8%	22.8%	20.6%
Rent	16,063	49,123	40,014	-59.9%	22.8%	2.3%	7.1%	7.3%
Royalties	40,780	40,780	32,497	25.5%	25.5%	5.9%	5.9%	5.9%
Advertising	34,230	34,230	30,421	12.5%	12.5%	4.9%	4.9%	5.5%
Other operating expenses	67,871	67,625	48,378	40.3%	39.8%	9.8%	9.7%	8.8%
Depreciation	52,062	20,530	14,742	253.2%	39.3%	7.5%	3.0%	2.7%
Restaurant operating profit	89,492	88,210	74,568	20.0%	18.3%	12.9%	12.7%	13.5%

Note: (1) Including the impact of the adoption of IFRS 16; (2) Excluding the impact of the adoption of IFRS 16.

Restaurant operating profit reached RON 89.5 million in the first nine months of 2019 (12.9% of sales), up 20% compared with the previous year (13.5% of sales), of which; out of the RON 14.9 million increase in the restaurant operating profit, RON 10.0 million was accounted for by USFN Romania operations (14.3% higher than the previous year) and another RON 1.7 million by CFF Romania, while ARS Romania contributed RON 0.73 million and USFN Italy another RON 0.45 million. Excluding the impact of IFRS 16 adoption, restaurant operating profit reached 88.2 million in the first nine months of 2019 (12.7% of sales) up 18.3% compared with the previous year; out of the RON 13.6 million increase in the restaurant operating profit, RON 8.7 million was accounted for by USFN Romania operations (12.4% over the previous year) and 1.6 million brought by CFF Romania, while ARS Romania contributed RON 0.63 million and USFN Italy another RON 0.68 million.

General and administration (G&A) expenses reached RON 42.3 million in the first nine months of 2019 (6.1% of sales), up 12.3% compared to previous year (6.8% of sales). Excluding the impact of IFRS 16 adoption, general and administration (G&A) expenses reached RON 42.6 million in the first nine months of 2019 (6.1% of sales), up 13.2% compared to previous year.

	Data in RON'000			Change (%)		Percentage of sales		
	Sep-2019	Sep-2019	Sep-2018	2019 ⁽¹⁾ / 2018	2019 ⁽²⁾ / 2018	Sep-2019	Sep-2019	Sep-2018
	(1)	(2)				(1)	(2)	
General and administration expenses, net	42,285	42,644	37,661	12.3%	13.2%	6.1%	6.1%	6.8%
General and administration expenses net (normalized)	42,285	42,644	38,608	9.5%	10.5%	6.1%	6.1%	7.0%
Payroll and employee benefits	25,727	25,727	21,496	19.7%	19.7%			
Third-party services	7,043	7,043	5,200	35.4%	35.4%			
Depreciation and amortization	3,199	1,128	745	329.4%	51.4%			
Rent	262	2,693	2,566	-89.8%	4.9%			
Banking charges	2,276	2,276	2,004	13.6%	13.6%			
Transport	1,891	1,891	1,985	-4.8%	-4.8%			
Other expenses	1,886	1,886	3,664	-48.5%	-48.5%			
<i>out of which litigation expenses</i>			947	-100.0%	-100.0%			

Note: (1) Including the impact of the adoption of IFRS 16; (2) Excluding the impact of the adoption of IFRS 16.

EBITDA rose 95.6% Y/Y to RON 102.5 million in the first nine months of 2019, while operating profit increased 27.9% Y/Y to RON 47.2 million. EBITDA margin improved 5.3pp to 14.8% in the first nine months of 2019, mainly as a result of the impact of IFRS 16 on restaurant operating margin, as described before. Net profit reached RON 31.8 million in the first nine months of 2019, being 1.8% lower than in the previous year. The net profit margin decreased 1.3pp to 4.6% of sales in the first nine months of 2019.

Excluding the impact of IFRS 16, EBITDA increased 28.3% Y/Y to RON 67.2 million in the first nine months of 2019, with EBITDA margin improving 0.2pp to 9.7%. Net profit reached RON 38.2 million in the first nine months of 2019, being 17.9% higher than in the previous year. The net profit margin decreased 0.4pp to 5.5% of sales in the first nine months of 2019.

	Data in RON'000			Change (%)		Percentage of sales		
	Sep-2019	Sep-2019	Sep-2018	2019 ⁽¹⁾ / 2018	2019 ⁽²⁾ / 2018	Sep-2019	Sep-2019	Sep-2018
	(1)	(2)				(1)	(2)	
EBITDA	102,468	67,223	52,394	95.6%	28.3%	14.8%	9.7%	9.5%
EBITDA normalized*	102,468	67,223	53,340	92.1%	26.0%	14.8%	9.7%	9.7%
Operating profit	47,207	45,566	36,907	27.9%	23.5%	6.8%	6.6%	6.7%
Profit before tax	34,402	40,864	34,955	-1.6%	16.9%	5.0%	5.9%	6.3%
Profit for the period	31,831	38,214	32,406	-1.8%	17.9%	4.6%	5.5%	5.9%

Note: (1) Including the impact of the adoption of IFRS 16; (2) Excluding the impact of the adoption of IFRS 16.

* Excluding the impact of one-off expenses for litigation in the first nine months of 2018.

Main financial ratios as at 30 September 2019

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

(Financial data in RON'000)

	<u>Including IFRS 16</u>	<u>Excluding IFRS 16</u>
Current ratio		
<u>Current assets</u>	<u>119,079</u>	<u>121,892</u>
<u>Current liabilities</u>	<u>196,471</u> = 0.61	<u>159,850</u> = 0.76
Debt to Equity ratio		
<u>Interest-bearing debt</u>	<u>78,695</u>	<u>78,695</u>
<u>Equity</u>	<u>149,887</u> = 53%	<u>153,032</u> = 51%
<u>Interest-bearing debt</u>	<u>78,695</u>	<u>78,695</u>
<u>Capital employed</u>	<u>228,581</u> = 34%	<u>231,727</u> = 34%
Trade receivables turnover (days)*		
<u>Average receivables</u>	<u>22,420</u>	<u>22,420</u>
<u>Sales</u>	<u>694,317</u> = 8.7	<u>694,317</u> = 8.7
Fixed asset turnover*		
<u>Sales</u>	<u>694,317</u>	<u>694,317</u>
<u>Net fixed assets</u>	<u>470,582</u> = 1.97	<u>254,671</u> = 3.6

Note: Annualized values, based on NCS methodology.

APPENDIX 1

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019 (UNAUDITED)**

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-
MONTH PERIOD ENDED 30 SEPTEMBER 2019 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019 (UNAUDITED)

	Nine-month period ended	
	30 September 2019	30 September 2018
Restaurant sales	694,317	551,562
Restaurant expenses		
Food and material expenses	235,421	197,211
Payroll and employee benefits	158,397	113,731
Rent	16,063	40,014
Royalties	40,780	32,497
Advertising	34,230	30,421
Other operating expenses, net	67,871	48,378
Depreciation and amortization	52,062	14,742
Restaurant operating profit	89,492	74,568
General and administration expenses, net	42,285	37,661
Operating profit	47,207	36,907
Finance costs	12,926	2,071
Finance income	121	118
Profit before tax	34,402	34,955
Income tax expense	2,570	2,549
Profit for the period	31,831	32,406
Attributable to:		
Equity holders of the parent	31,661	32,281
Non-controlling interests	170	125
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	(109)	75
Total comprehensive income for the period, net of tax	31,722	32,481
Attributable to:		
Equity holders of the parent	31,551	32,343
Non-controlling interests	171	138

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-
MONTH PERIOD ENDED 30 SEPTEMBER 2019 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2019
(UNAUDITED)

	30 September 2019	31 December 2018
Assets		
Non-current assets	486,396	229,173
Property, plant and equipment	188,104	158,122
Right-of-use assets	217,832	-
Intangible assets	64,646	62,150
Deposits for guarantees	10,304	5,219
Deferred tax assets	5,509	3,682
Current assets	119,079	122,979
Inventories	9,780	10,564
Trade and other receivables	28,396	16,444
Prepayments	2,743	5,306
Cash and short-term deposits	78,160	90,665
Total assets	605,475	352,152
Equity and liabilities		
Equity		
Issued capital	581,990	581,990
Share premium	(519,998)	(520,578)
Retained earnings	87,837	67,248
Foreign currency translation reserve	(90)	20
Equity attributable to equity holders of the parent	149,738	128,680
Non-controlling interests	148	146
Total equity	149,887	128,826
Non-current liabilities	259,118	91,536
Interest-bearing loans and borrowings	78,695	86,787
Lease liabilities	180,423	-
Trade and other payables	-	4,749
Current liabilities	196,471	131,790
Trade and other payables	102,572	82,658
Interest-bearing loans and borrowings	40,941	37,669
Lease liabilities	41,495	-
Provisions	11,463	11,463
Total liabilities	455,589	223,326
Total equity and liabilities	605,475	352,152

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019
(UNAUDITED)

All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019 (UNAUDITED)

	Issued capital	Share premium	Retained earnings	Foreign currency translation reserve	Total equity	Non-controlling interest	Total equity
As at 1 January 2019, as previously reported	581,990	(520,578)	67,248	20	128,680	146	128,826
Impact of change in accounting policies (IFRS 16)			3,179		3,179	47	3,227
As at 1 January 2019	581,990	(520,578)	70,428	20	131,859	193	132,053
Profit for the period	-	-	31,661	-	31,661	170	31,831
Other comprehensive income							
Translation differences				(110)	(110)	1	(109)
Total comprehensive income	-	-	31,661	(110)	31,551	171	31,722
Transfer to share premium (Note 8)	-	580	(580)	-	-	-	-
Cash dividends to be paid (Note 8)	-	-	(13,673)	-	(13,673)	(216)	(13,889)
At 30 September 2019	581,990	(519,998)	87,837	(90)	149,738	149	149,887

	Issued capital	Share premium	Retained earnings	Foreign currency translation reserve	Total equity	Non-controlling interest	Total equity
As at 1 January 2018	581,990	(520,578)	43,190	(78)	104,525	19	104,544
Profit for the period			32,281		32,281	125	32,406
Other comprehensive income							
Translation differences	-	-	-	62	62	13	75
Total comprehensive income	-	-	32,281	62	32,343	138	32,481
Cash dividends	-	-	-	-	-	(93)	(93)
At 30 September 2018	581,990	(520,578)	75,471	(16)	136,867	65	136,932

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE NINE-
MONTH PERIOD ENDED 30 SEPTEMBER 2019 (UNAUDITED)

	Nine-month period ended	
	30	30
	September	September
	2019	2018
Operating activities		
Profit before tax	34,402	34,955
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation of property, plant and equipment	19,314	13,905
Depreciation of right-of-use assets	33,603	-
Amortisation of intangible assets	2,344	1,582
Unrealised net foreign exchange differences	3,698	233
(Gain)/Loss on disposal of property, plant and equipment	(1)	(206)
Finance income	(121)	(48)
Finance costs (interest)	8,871	1,908
Working capital adjustments:		
(Increase)/Decrease in trade and other receivables, prepayments and deposits for guarantees	(17,425)	(7,062)
(Increase)/decrease in inventories	783	(272)
Increase/(decrease) in trade and other payables	6,303	(5,120)
Interest received	121	48
Interest paid	(8,775)	(1,929)
Income tax paid	(4,707)	(5,976)
Net cash flows from operating activities	78,410	32,017
Investing activities		
Proceeds from sale of property, plant and equipment	14	207
Purchase of intangible assets	(4,840)	(2,618)
Purchase of property, plant and equipment	(50,489)	(44,017)
Net cash flows used in investing activities	(55,314)	(46,428)
Financing activities		
Proceeds from borrowings	17,914	43,389
Repayment of borrowings	(23,348)	(15,612)
Payment of lease liabilities	(29,920)	(388)
Dividends paid to non-controlling interests	(108)	(93)
Net cash flows used in financing activities	(35,462)	27,295
Net decrease in cash and cash equivalents	(12,367)	12,885
Net foreign exchange differences	(139)	62
Cash and cash equivalents at 1 January	90,665	52,655
Cash and cash equivalents at 30 September	78,160	65,601

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT
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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 is listed on Bucharest Stock Exchange under the symbol "SFG".

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 Group operates quick service and takeaway restaurant concepts (a chain of 94 restaurants as at 30 September 2019) under the Kentucky Fried Chicken ("KFC"), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (23 restaurants) as well as pizza delivery points (22 locations) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (7 restaurants) and one restaurant under Paul brand, in Romania.

US Food Network SA (USFN), the subsidiary which operates the KFC franchise in Romania was incorporated in 1994 as a joint stock company and is registered at No. 28-30 Gheorghe Magheru Boulevard, Bucharest, Romania.

American Restaurant System SA (ARS) operating the Pizza Hut and Pizza Hut Delivery franchises was incorporated in 1994 as a joint stock company and is registered at No. 5-7 Calea Dorobantilor Street, Bucharest, Romania.

The Moldavian subsidiary, US Food Network SRL, 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, US Food Network Srl which operates the KFC franchise in Italy 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 the newest subsidiary of the Group, 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 nine-month period ended 30 September 2019 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.

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 2018.

The interim condensed consolidated financial statements for nine-month period ended 30 September 2019 included in this report are unaudited.

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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 2018, except for the adoption of the new standards and amendments effective as of 1 January 2019; out of these new standards and amendments, IFRS 16 Leases had a material effect on the Group's financial statements.

The Group applied IFRS 16 starting on 1 January 2019 using the modified retrospective approach for transition, thus not restating comparative amounts for the comparative period presented. As a consequence, comparative data presented in these condensed consolidated interim financial statements are not fully comparable to the reporting period data. The Group recognized the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings at the date of initial application.

The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., office equipment, personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee recognises a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees also is also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Transition to IFRS 16 Leases

Taking into consideration the significant number and value of signed lease agreements as a lessee of restaurant premises, the Group had a material impact on its consolidated statement of financial position and on its consolidated statement of comprehensive income following the adoption of this new standard. The most significant impact was that the Group recognized new assets and liabilities for its operating leases under IAS 17, unless an exemption from IFRS 16 was applicable. The change in presentation of operating lease expenses resulted in a corresponding improvement in cash flows from operating activities and a decline in cash flows from financing activities.

The Group's rental agreements for restaurants include either:

- Fixed lease payments for rented space,
- Rent calculated as a percentage of restaurant's turnover (contingent lease payments), or
- Higher of above two, i.e. minimal base rent (fixed lease payments) and turnover rent.

Under IFRS 16 only fixed lease payments are accounted through IFRS 16 lease model. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers those payments occurs. Therefore, turnover rent is accounted as operating expenses ("Rent"). For any new lease agreement, the Group recognizes a new asset and liability on its balance sheet. The Group performs a remeasurement of the lease liability upon the occurrence of certain events (e.g., a

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change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The amount of the remeasurement of the lease liability is recognized as an adjustment to the right-of-use asset i.e. with no impact on income statement.

Apart from the premises for restaurant operations, the Group has several lease contracts for office premises, vehicles and equipment that had a less significant impact on the consolidated financial statements.

The right-of-use assets for previous operating leases were measured at the date of initial application at the amount of the lease liability, adjusted by prepaid or accrued lease payments. Sphera Group applied the following practical expedients for transition:

- The Group elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group did not therefore apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The Group elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e. printing and photocopying machines) that are considered of low value.
- The lease term was considered to be the non-cancellable period in the contract, without taking into consideration the renewal option.
- The Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment). The lease payments were discounted using the incremental borrowing rate as at 1 January 2019. The Group estimated the incremental borrowing rates applicable for its leases portfolios considering the following inputs:
 - yield on most recent loans contracted by the Group entities, and
 - applicable risk-free yields for relevant maturities.To get the incremental borrowing rate for different portfolios, the Group assumed a constant risk spread over the risk-free yield curve for relevant maturities.
- The Group relies on its assessment of whether leases are onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review.
- The Group used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The first-time application of IFRS 16 resulted in recognizing 193,386 as right-of-use assets and 191,642 (equivalent of 41,090 EUR thousand) as lease liabilities for previous operating leases. For leases previously classified as finance leases the Group recognized the carrying amount of the lease asset and lease liability before transition as the carrying amount of the right-of-use asset and lease liability at the date of initial application.

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As at 1 January 2019, the change in the accounting policy affected the following items in the consolidated statement of financial position:

	<u>1 January 2019</u>
Property, plant and equipment (Right-of-use assets)	193,386
Property, plant and equipment (carrying value of the leased vehicles - finance leases under IAS 17)	(689)
Prepayments	(3,018)
Total assets	189,679
Retained earnings	3,227
Lease liabilities - non-current	153,706
Lease liabilities - current	37,649
Trade and other payables	(4,903)
Total equity and liabilities	189,679

Reconciliation of future operating lease commitments as at 31 December 2018 to lease liability as at 1 January 2019:

	<u>1 January 2019</u>
Future minimum lease payments under non-cancellable operating leases as at 31 December 2018	224,865
less minimum lease payments for short-term leases and low value assets	(147)
Gross lease liability for previously unrecognized operating lease commitments as at 1 January 2019	224,718
less discounting effect as at 1 January 2019	(33,077)
Lease liability for previously unrecognized operating lease commitments as at 1 January 2019	191,642
Finance lease liability recognized as at 31 December 2018	733
Lease liability recognized as at 1 January 2019	192,375

As at 31 December 2018, the finance lease liabilities amounting of 733 were presented within Interest-bearing loans and borrowings (short term debt of 301 and long-term debt of 432) in the Statement of financial position. Due to the significant value of the lease liabilities resulting from the implementation of IFRS 16, the lease liabilities were separately presented in the Interim consolidated statement of financial position as at 30 September 2019, with no restatement of comparative data.

As at and for the nine-month period ended 30 September 2019, an overview on the leasing is as follows:

	<u>30 September 2019</u>
Right of use assets	
Right-of-use assets – <i>Freehold buildings and leasehold improvements</i>	213,744
Right-of-use assets - <i>Plant and machinery</i>	4,088
Total right of use assets (net book value)	217,832
	Nine-month period ended 30 September 2019
Depreciation expense	
Depreciation of right-of-use assets included in Restaurant expenses	31,532
Depreciation of right-of-use assets non-operating, recognized in General and administration expenses	2,072
Total depreciation expense	33,603

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Lease liabilities	30 September 2019
Non-current lease liabilities	180,423
Current lease liabilities	41,495
Total lease liabilities	221,918
	Nine-month period ended 30 September 2019
Finance costs	
Interest expense	5,489
Foreign exchange loss	2,658
Total finance costs	8,147

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. 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 30 September 2019 and 31 December 2018 were:

	30 September 2019	31 December 2018
RON – EUR	4.7511	4.6639
RON – USD	4.3488	4.0736
RON – MDL	0.2450	0.2389

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.

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3 GROUP INFORMATION

Details of the Group consolidated subsidiaries at 30 September 2019 and 31 December 2018 are as follows:

Company name	Country of incorporation	Field of activity	Control 30 September 2019	Control 31 December 2018
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 30 September 2019 is below 1 thousand RON therefore there are no other presentations thereof.

4 OTHER OPERATING EXPENSES, NET

	Nine-month period ended	
	30 September 2019	30 September 2018
Third-party services	23,370	15,708
Utilities	19,020	13,858
Maintenance and repairs	8,903	5,915
Cleaning services and supplies	6,309	3,805
Small-wares	2,859	2,840
Transport	4,691	2,833
Telephone and postage	704	584
Insurance	622	465
Net (gain)/loss on disposal of property, plant and equipment	(1)	(206)
Miscellaneous expenses and income, net	1,394	2,576
Total	67,871	48,378

5 GENERAL AND ADMINISTRATION EXPENSES, NET

	Nine-month period ended	
	30 September 2019	30 September 2018
Payroll and employee benefits	25,727	21,496
Third-party services	7,043	5,200
Depreciation and amortization	3,199	745
Rent	262	2,566
Banking charges	2,276	2,004
Transport	1,891	1,985
Maintenance and repairs	211	470
Small-wares	201	536
Insurance	467	402
Advertising	196	227
Telephone and postage	284	301
Provisions for litigations	-	947
Miscellaneous expenses and income, net	527	781
Total	42,285	37,661

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6 DEPRECIATION AND AMORTIZATION

	Nine-month period ended	
	30 September	30 September
	2019	2018
Depreciation and amortization of right-of-use assets, recognized in "Restaurant expenses"	31,532	-
Depreciation and amortization of property, plant and equipment and intangible assets owned, recognized in "Restaurant expenses"	20,530	14,742
Depreciation and amortization of non-operating right-of-use assets recognized in "General and administration expenses, net"	2,072	-
Depreciation and amortization of non-operating property, plant and equipment and intangible assets recognized in "General and administration expenses, net"	1,128	745
Total depreciation and amortization	55,261	15,487

7 FINANCE COSTS

	Nine-month period ended	
	30 September	30 September
	2019	2018
Interest on loans and borrowings	3,382	1,908
Finance charges payable under lease contracts	5,489	-
Foreign exchange loss, net	4,056	163
Total finance costs	12,926	2,071

8 ISSUED CAPITAL

	30 September	31 December
	2019	2018
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 30 September 2019, are: Tatika Investments Ltd. (27.33%), Computerland Romania SRL (formerly named M.B.L. Computers SRL) (21.44%), Wellkept Group SA (16.34%), Anasa Properties SRL (10.99%) and free float (23.90%). As of December 31st, 2018, the shareholders of Sphera Franchise Group SA were: Tatika Investments Ltd. (27.33%), Computerland Romania SRL (formerly named M.B.L. Computers SRL) (20%), Wellkept Group SA (16.34%), Anasa Properties SRL (10.99%) and free float (25.34%).

At the Annual General Shareholders Meeting held on 25 April 2019, the shareholders of Sphera Franchise Group SA approved the following distribution of the net profit of Sphera Franchise Group SA, as presented in its separate financial statements as at and for the year ended 31 December 2018:

- Setting up the legal reserves in accordance with the statutory regulations in amount of 1,990;
- Covering accumulated losses from 2017 in amount of 10,196 (out of which current loss of the period ended 31 December 2017 of 9,615 and negative share premium of 580);
- Distribution of dividends to the Company's shareholders in total gross amount of 13,673, representing an amount of 0.3524 RON/ordinary share;
- Profit not distributed of 13,679.

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As at 30 September 2019, the Group has recognised a liability in amount of 13,673 for the value of the gross dividends to be distributed, as approved by the General Shareholders Meeting.

9 PROVISIONS

In 2018 and 2019, USFN SA has been subject to a tax audit in relation with income tax (period 2012-2016) and VAT (period 2013-2017). As at 31 December 2018, based on the draft report issued by the tax authorities on 27 February 2019, the Group recognized in the consolidated financial statements a provision for tax in amount of 11,463, representing the income tax (4,541) and VAT adjustments (3,220) for the period under review and related interest and late payment charges (3,703). The issues raised in this draft report are subject of further discussion and documentation, but due to the unpredictability of the outcome, the Group's management has decided to recognise a provision for these tax adjustments in the consolidated financial statements as at and for the year ended 31 December 2018. The recorded amount represents the best estimate based on the available information at the date of the consolidated financial statements.

The final report has been issued on 12 April 2019 and is not substantially different compared with the draft version. As a result, the value of the provision has not been adjusted as of 30 September 2019. Administrative and legal proceedings aiming at the reduction of the financial impact provisioned in the financial results of the year 2018 have been initiated and are currently in progress.

10 EBITDA

	Nine-month period ended	
	30	30
	September	September
	2019	2018
Operating profit	<u>47,207</u>	<u>36,907</u>
Adjustments to bridge operating profit to EBITDA:		
Depreciation and amortization included in restaurant expenses	52,062	14,742
Depreciation and amortization included in general and administration expenses	3,199	745
EBITDA	<u>102,468</u>	<u>52,394</u>
Non-recurring expenses	-	947
Adjusted EBITDA	<u>102,468</u>	<u>53,340</u>

The application of IFRS 16 resulted in a positive impact on EBITDA: the fixed lease payments of an operating lease under IAS 17 were previously presented within operating expenses (Rent), while under the right-of-use model adopted from 1 January 2019, the Group recognised depreciation of right-of-use assets and interest expense on lease liabilities (Note 2).

For the nine-month period ended 30 September 2018, EBITDA was normalised to exclude the non-recurring expenses for litigations in amount of RON 947.

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11 RELATED PARTY DISCLOSURES

During the nine-month period ended 30 September 2019 and 30 September 2018 respectively, the Group has carried out transactions with the following related parties:

Related party	Nature of the relationship	Country of incorporation	Nature of transactions
Moulin D'Or SRL	Entity with common members of key management personnel	Romania	Sale of goods and services
Midi Development SRL	Entity with common members of key management personnel	Romania	Services
Grand Plaza Hotel SA	Entity affiliated to a shareholder of the parent	Romania	Rent and utilities store PH Dorobanti
Arggo Software Development and Consulting SRL	Entity affiliated to a shareholder of the parent	Romania	Implementation services
Anasa Properties SRL	Shareholder	Romania	Rent and utilities administrative area
Wellkept Group SA	Shareholder	Romania	Rent training center
Cinnamon Bake&Roll SRL	Entity with common members of key management personnel	Romania	Sale of goods and services, loans provided
Lucian Vlad	Beneficial owner of Anasa Properties SRL and Lunic Franchising and Consulting Ltd.	Romania	Rent store KFC Mosilor
Radu Dimofte	Beneficial owner of Wellkept Group SA	Romania	Rent store KFC Mosilor
Elicom SRL	Entity affiliated to a shareholder of the parent	Romania	Call-centre services
Elicom Connect SRL	Entity affiliated to a shareholder of the parent	Romania	Marketing services

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

	Transactions during the nine-month period ended 30 September 2019		Balances as at 30 September 2019	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL	8	4	-	981
Moulin D'Or SRL	856	29	275	-
Lucian Vlad	-	221	-	-
Radu Dimofte	-	91	-	-
Wellkept Group SA	-	349	-	9
Midi Development SRL	12	3	-	-
Grand Plaza Hotel SA	-	790	-	4
Arggo Software Development and Consulting SRL	-	229	-	12
Elicom SRL	-	863	-	116
Elicom Connect SRL	-	8	-	1
	876	2,587	275	1,123

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	Transactions during the nine-month period ended 30 September 2018		Balances as at 31 December 2018	
	Sales to related parties	Purchases from related parties	Amounts owed by related par- ties	Amounts owed to related par- ties
Cinnamon Bake&Roll SRL	25	5	1,271	2
Moulin D'Or SRL	1,161	31	854	5
Lucian Vlad	-	278	-	-
Radu Dimofte	-	115	-	-
Wellkept Group SA	-	331	-	-
Anasa Properties SRL	3	21	-	-
Midi Development SRL	12	3	4	26
Grand Plaza Hotel SA	-	753	-	97
Arggo Software Development and Consulting SRL	-	223	-	30
Elicom SRL	-	572	-	167
Elicom Connect SRL	-	6	-	1
	1,201	2,338	2,129	328

The Group has granted a loan to Cinnamon Bake&Roll SRL during the period 2003-2018. The loan balance as at 30 September 2019, included in the above table, was of 929 (31 December 2018: 924) and the interest accrual as at 30 September 2019 was of 49 (31 December 2018: 42).

Intangibles in progress include an amount of 897 (31 December 2018: 956) representing the capital expenditure related to the new ERP system implementation services provided by Arggo Software and Development SRL.

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 2019 and for similar period of the year 2018, 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 2019	30 September 2018
Short-term employee benefits	7,685	7,439
Total compensation paid to key management personnel	7,856	7,439

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

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12 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

The Group has also two more immaterial operating segments, one being Paul restaurant which is managed by USFN and which was aggregated into the KFC segment and the management and other support services provided by Sphera to other related parties.

The Group's service revenues in amount of 871 (2018: 1,163) resulting from the contracts signed with other related parties are presented in the "Other" category. The parent-company's revenues from services rendered to its subsidiaries are presented in the "Inter-segment revenues" line and eliminated during consolidation.

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

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.

Nine-month period ended						
30 September 2019	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	575,018	95,584	22,844	871	-	694,317
Inter-segment revenues				21,500	(21,500)	-
Dividend revenues	-			51,239	(51,239)	-
Operating expenses	521,128	98,371	23,120	25,908	(21,418)	647,110
Segment operating profit	53,890	(2,787)	(276)	47,702	(51,321)	47,207
Finance costs	9,885	2,408	1,187	1,418	(1,971)	12,926
Finance income	702	7	-	1,383	(1,971)	121
Income taxes	1,272	1,180	213	(95)	-	2,570
Net profit/(loss)	43,435	(6,367)	(1,676)	47,762	(51,321)	31,831
Total assets	448,544	68,241	29,027	139,040	(79,376)	605,475
Total liabilities	390,743	81,080	35,359	69,928	(121,522)	455,589

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

Nine-month period ended 30 September 2018	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	453,135	89,210	8,054	1,163	-	551,562
Inter-segment revenues	68	-	-	17,625	(17,693)	-
Dividend revenues	-	-	-	61,798	(61,798)	-
Operating expenses	408,510	93,715	9,932	20,190	(17,693)	514,655
Segment operating profit	44,693	(4,505)	(1,878)	60,396	(61,798)	36,907
Finance costs	1,374	629	341	862	(1,135)	2,071
Finance income	693	3	-	557	(1,135)	118
Income taxes	1,325	1,120	77	26	-	2,549
Net profit/(loss)	42,687	(6,250)	(2,297)	60,066	(61,798)	32,406
Total assets 30 September 2018	196,383	46,271	10,842	84,637	(35,491)	302,643
Total liabilities 30 September 2018	142,056	52,192	14,843	48,889	(92,270)	165,711
Total assets 31 December 2018	234,865	48,846	14,904	78,777	(25,241)	352,152
Total liabilities 31 December 2018	177,614	55,760	19,934	43,754	(73,736)	223,326

Geographic information:

	Nine-month period ended	
Revenue from external customers	30 September 2019	30 September 2018
Romania	617,135	523,325
Italy	68,968	21,394
Republic of Moldova	8,214	6,843
Total restaurant revenue	694,317	551,562

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

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

Declaration of the management

We confirm to the best of our knowledge that the unaudited interim condensed consolidated financial statements for the nine-month period ended 30 September 2019 give a true and fair view of Sphera Franchise Group's assets, liabilities, financial position and profit and loss, as required by the applicable accounting standards, and that the Directors' Report gives a true and fair view of important events that have occurred during the first nine months of the 2019 financial year and their impact on the interim condensed consolidated financial statements.

Bucharest, 13 November 2019

Chief Executive Officer & Chairman of the Board of Directors

George Argentopoulos

Chief Financial Officer

Valentin Budes