

Interim Financial Report

For the six-month period ended 30 June 2018 (H1-2018)

Report date:	14-Aug-2018
Name of the issuing entity:	Sphera Franchise Group SA
Statutory seat:	Bucharest, Romania
Visiting address:	Bucharest, 239 Dorobanti Ave., 2 nd Floor, 1 st District, Romania
Phone no/Fax no:	0040 21 201 1757 / 0040 21 201 1759
Sole Registration Code:	RO 37586457
Order number with the Trade Registry:	J40/7126/2017
Subscribed and paid-in share capital:	RON 581,990,000
Number of shares in issue:	38,799,340
Number of listed shares:	9,831,753
Regulated market on which the issued securities are traded:	Bucharest Stock Exchange, Main Segment, Category Premium (Shares)
Symbol:	SFG

Note:

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

Report concluded in compliance with: Law no. 24/2017 regarding the capital market and ASF Regulation no. 5/2018 on issuers of financial instruments and market operations.

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Financial analysis of January – June 2018 results

1) Consolidated results

Summary of Interim Consolidated Statement of Comprehensive Income for the six-month period ended 30 June 2018 (unaudited)

Data in RON'000	Jun-18	Jun-17	Y/Y%	% of Sales		Δ%
			2018/2017	Jun-18	Jun-17	
Restaurant sales	350,068	242,204	44.5%			
Restaurant expenses	303,503	197,650	53.6%	86.7%	81.6%	5.1%
Food and material	125,383	87,944	42.6%	35.8%	36.3%	-0.5%
Payroll and employee benefits	72,749	43,430	67.5%	20.8%	17.9%	2.9%
Rent	25,562	17,001	50.4%	7.3%	7.0%	0.3%
Royalties	20,650	14,125	46.2%	5.9%	5.8%	0.1%
Advertising	18,186	11,724	55.1%	5.2%	4.8%	0.4%
Other operating expenses, net	31,397	18,474	70.0%	9.0%	7.6%	1.3%
Depreciation and amortization	9,576	4,952	93.4%	2.7%	2.0%	0.7%
Restaurant operating profit	46,565	44,554	4.5%	13.3%	18.4%	-5.1%
General and administration expenses, net	25,237	15,832	59.4%	7.2%	6.5%	0.7%
Operating profit	21,328	28,722	-25.7%	6.1%	11.9%	-5.8%
Finance costs	1,159	440	163.5%	0.3%	0.2%	0.1%
Finance income	148	109	36.1%	0.0%	0.0%	0.0%
Profit before tax	20,317	28,391	-28.4%	5.8%	11.7%	-5.9%
Income tax expense	1,560	1,189	31.2%	0.4%	0.5%	0.0%
Profit for the period	18,757	27,202	-31.0%	5.4%	11.2%	-5.9%
EBITDA	31,383	34,793	-9.8%	9.0%	14.4%	-5.4%
Normalised EBITDA	32,315	34,793	-7.1%	9.2%	14.4%	-5.1%

Breakdown of consolidated results by Group companies

Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons.Adj	SFG Cons.
Restaurant sales	270,870	59,146	4,406	10,200	4,643	12,507	(11,706)	350,068
Restaurant expenses	227,953	56,207	3,823	10,760	4,832	0	(72)	303,503
Food and material	102,146	16,437	1,826	3,122	1,853	0	0	125,383
Payroll and employee benefits	49,955	17,449	683	3,380	1,283	0	0	72,749
Rent	18,886	5,012	387	865	409	0	2	25,562
Royalties	16,273	3,407	264	614	93	0	0	20,650
Advertising	12,912	4,002	135	640	526	0	(30)	18,186
Other operating expenses, net	21,408	7,549	382	1,616	486	0	(44)	31,397
Depreciation and amortization	6,374	2,352	146	523	182	0	0	9,576
Restaurant operating profit	42,917	2,939	584	(559)	(188)	12,507	(11,634)	46,565
General and administration expenses, net	15,241	5,016	124	1,878	1,318	13,294	(11,634)	25,237
Operating profit	27,676	(2,077)	460	(2,438)	(1,507)	(787)	(0)	21,328
Finance costs	689	377	58	374	135	451	(926)	1,159
Finance income	759	2	68	0	0	62,043	(62,724)	148
Profit before tax	27,745	(2,452)	470	(2,812)	(1,642)	60,805	(61,798)	20,317
Income tax expense	1,479	714	71	(654)	63	(114)	0	1,560
Profit for the period	26,266	(3,166)	399	(2,158)	(1,704)	60,920	(61,798)	18,757
EBITDA	34,231	371	633	(1,915)	(1,257)	(680)	(0)	31,383
Normalised EBITDA	35,163	371	633	(1,915)	(1,257)	(680)	(0)	32,315

Consolidated sales of Sphera reached RON 350.1 million in the first half of 2018, representing an increase of 44.5% compared to the previous year. The main drivers for this performance were the growth in the sales of USFN Romania (KFC restaurants) (+21.2% Y/Y), which had a contribution of 19.5pp in the consolidated sales growth rate, and the consolidation of ARS (Pizza Hut restaurants) sales starting with June 2017, which contributed 20.9pp in the consolidated sales growth rate. Our KFC operations in Italy contributed 2.8pp in the consolidated sales growth rate, while Taco Bell operations in Romania contributed another 1.9pp in the consolidated sales growth rate.

Data in RON thousand	Jun-18	Jun-17	Change 2018/2017	Contribution to sales growth
Sales by companies (principal brand)				
USFN Romania (KFC)	270,870	223,546	21.2%	19.5%
USFN Moldova (KFC)	4,406	4,131	6.7%	0.1%
USFN Italy (KFC)	10,200	3,481	193.0%	2.8%
ARS (Pizza Hut) ¹⁾	59,146	8,580	589.3%	20.9%
CFF (Taco Bell)	4,643	0		1.9%
Other revenues ²⁾	802	2,466	-67.5%	-0.7%
Total sales	350,068	242,204	44.5%	44.5%

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

Data in RON thousand	Jun-18	Jun-17	Change 2018/2017	Contribution to sales growth
Sales by region				
Romania	335,461	234,592	43.0%	41.6%
Italy	10,200	3,481	193.0%	2.8%
Republic of Moldova	4,406	4,131	6.7%	0.1%
Total sales	350,068	242,204	44.5%	44.5%

Consolidated operational expenses reached RON 303.5 million in the first half of 2018, representing an increase of 53.6% compared to the previous year. As percentage of sales, operational expenses increased by 5.1pp year-on-year to 86.7% in the first half of 2018, driven mainly by a 2.9pp increase in the cost of labour, a 1.3pp increase in other operating expenses and 0.7pp increase in depreciation expense, which were partly offset by a 0.5pp decrease in cost of food and materials.

Data in RON thousand	Jun-18	Jun-17	Change 2018/2017	Percentage of sales	
				Jun-18	Jun-17
Restaurant expenses	303,503	197,650	53.6%	86.7%	81.6%
Food and material	125,383	87,944	42.6%	35.8%	36.3%
Payroll and employee benefits	72,749	43,430	67.5%	20.8%	17.9%
Rent	25,562	17,001	50.4%	7.3%	7.0%
Royalties	20,650	14,125	46.2%	5.9%	5.8%
Advertising	18,186	11,724	55.1%	5.2%	4.8%
Other operating expenses	31,397	18,474	70.0%	9.0%	7.6%
Depreciation	9,576	4,952	93.4%	2.7%	2.0%
Restaurant operating profit	46,565	44,554	4.5%	13.3%	18.4%

Restaurant operating profit reached RON 46.6 million in the first half of 2018 (13.3% of sales), up 4.5% compared with the previous year (18.4% of sales), of which RON 42.9 million was accounted for by USFN Romania operations (4.1% below previous year) and another RON 2.9 million by ARS Romania.

General and administration expenses reached RON 25.2 million in the first half of 2018 (7.2% of sales), up 59.4% compared to previous year (6.5% of sales). Of the RON 9.4 million increase in this expense category, RON 8.1 million came from the consolidation of ARS, USFN Italy and CFF operations.

Data in RON thousand	Jun-18	Jun-17	Change 2018/2017	Percentage of sales	
				Jun-18	Jun-17
General and administration expenses (net), of which:	25,237	15,832	59.4%	7.2%	6.5%
Payroll and employee benefits	14,010	6,442	117.5%		
Third-party services	3,603	4,979	-27.6%		
Depreciation and amortization	479	1,119	-57.2%		
Rent	1,660	739	124.6%		
Banking charges	1,317	653	101.7%		
Transport	1,463	606	141.4%		
Other expenses	2,706	1,294	109.2%		

Other expenses also include a non-recurring provision worth RON 0.93m, which refers to the compensations claimed in court by a former employee who has suffered injuries in a work accident.

Normalized EBITDA reached RON 32.3 million in the first half of 2018, down 7.1% from in the previous year, EBITDA reached RON 31.4 million in the first half of 2018, down 9.8% from in the previous year, while operating profit reached RON 21.3 million, down 25.7% than in the previous year. The drop in the EBITDA margin (by 5.4pp to 9.0% in the first half of 2018) and operating profit margin (by 5.8pp to 6.1% in the first half of 2018) was mainly due to the decrease in the restaurant operating profit (down 5.3pp) and to a lesser extent by the increase in the general and administration expenses (by 0.5pp), as described before.

Net profit reached RON 18.8 million in the first half of 2018, being 31.0% lower than in the previous year. The reduction in the net profit margin, by 5.9pp to 5.4% of sales in the first half of 2018, was mainly driven by the 5.8pp decrease in the operating profit margin.

Data in RON thousand	Jun-18	Jun-17	Change 2018/2017	Percentage of sales	
				Jun-18	Jun-17
Normalised EBITDA*	32,315	34,793	-7.1%	9.2%	14.4%
EBITDA	31,383	34,793	-9.8%	9.0%	14.4%
Operating profit	21,328	28,722	-25.7%	6.1%	11.9%
Profit before tax	20,317	28,391	-28.4%	5.8%	11.7%
Profit for the period	18,757	27,202	-31.0%	5.4%	11.2%

*) Excluding a non-recurring provision for litigation worth RON 0.93m.

Main financial ratios as at 30 June 2018

(presented in accordance with the requirements of the Financial Supervisory Authority ("ASF") Regulation No. 5/2018)
(Financial data in RON thousand)

Current ratio

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{80,299}{94,800} = 0.85$$

Debt to Equity ratio

$$\frac{\text{Interest-bearing debt (long-term portion)}}{\text{Equity}} = \frac{55,028}{123,326} = 45\%$$

$$\frac{\text{Interest-bearing debt (long-term portion)}}{\text{Capital employed}} = \frac{55,028}{178,354} = 31\%$$

Trade receivables turnover (days)*

$$\frac{\text{Average receivables}}{\text{Sales}} = \frac{9,173}{350,068} = 4.7$$

Fixed asset turnover*

$$\frac{\text{Sales}}{\text{Net fixed assets}} = \frac{350,068}{191,194} = 3.7$$

Note: Annualized values, based on ASF methodology.

2) Analysis of consolidated results for H1-2018 compared with pro forma results for H1-2017

Data in RON'000	Jun-18	Jun-17	Y/Y%	% of Sales		Δ%
			2018/2017	Jun-18	Jun-17	
Restaurant sales	350,068	287,834	21.6%			
Restaurant expenses	303,503	237,034	28.0%	86.7%	82.4%	4.3%
Food and material	125,383	100,472	24.8%	35.8%	34.9%	0.9%
Payroll and employee benefits	72,749	55,195	31.8%	20.8%	19.2%	1.6%
Rent	25,562	20,898	22.3%	7.3%	7.3%	0.0%
Royalties	20,650	16,807	22.9%	5.9%	5.8%	0.1%
Advertising	18,186	14,220	27.9%	5.2%	4.9%	0.3%
Other operating expenses, net	31,397	22,782	37.8%	9.0%	7.9%	1.1%
Depreciation and amortization	9,576	6,660	43.8%	2.7%	2.3%	0.4%
Restaurant operating profit	46,565	50,800	-8.3%	13.3%	17.6%	-4.3%
General and administration expenses, net	25,237	20,204	24.9%	7.2%	7.0%	0.2%
Operating profit	21,328	30,596	-30.3%	6.1%	10.6%	-4.5%
Finance costs	1,159	638	81.7%	0.3%	0.2%	0.1%
Finance income	148	115	29.0%	0.0%	0.0%	0.0%
Profit before tax	20,317	30,073	-32.4%	5.8%	10.4%	-4.6%
Income tax expense	1,560	1,742	-10.5%	0.4%	0.6%	-0.2%
Profit for the period	18,757	28,331	-33.8%	5.4%	9.8%	-4.5%
EBITDA	31,383	38,435	-18.3%	9.0%	13.4%	-4.4%
Normalised EBITDA*	32,315	38,435	-15.9%	9.2%	13.4%	-4.1%

Sales of Sphera reached RON 350.1 million in the first half of 2018, up 21.6% compared to the pro forma sales of the previous year. The main driver for this performance were the growth in the sales of KFC Romania (up 21.2% Y/Y), which had a contribution of 16.4pp in the pro forma sales growth rate. ARS sales advanced 9.1% compared to the previous year and had a contribution of 1.7pp to the pro forma sales growth rate. At the same time, KFC Italy operations contributed 2.3pp, while Taco Bell operations contributed another 1.6pp in the pro forma sales growth rate.

Data in RON thousand	Jun-18	Jun-17	Change 2018/2017	Contribution to sales growth
Sales by companies (principal brand)				
USFN Romania (KFC)	270,870	223,546	21.2%	16.4%
USFN Moldova (KFC)	4,406	4,131	6.7%	0.1%
USFN Italy (KFC)	10,200	3,481	193.0%	2.3%
ARS (Pizza Hut)	59,146	54,210	9.1%	1.7%
CFF (Taco Bell)	4,643	0		1.6%
Other revenues ¹⁾	802	2,466	-67.5%	-0.6%
Total sales	350,068	287,834	21.6%	21.6%

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

Data in RON thousand	Jun-18	Jun-17	Change 2018/2017	Contribution to sales growth
Sales by region				
Romania	335,461	280,222	19.7%	19.2%
Italy	10,200	3,481	193.0%	2.3%
Republic of Moldova	4,406	4,131	6.7%	0.1%
Total sales	350,068	287,834	21.6%	21.6%

In Romania, the like-for-like sales of KFC restaurants grew by 10.1% Y/Y in the first half of 2018, driven by the continued strong performance of the Drive-Thru format as well as by the better performance of the restaurants located outside Bucharest. At the same time, the like-for-like sales of Pizza Hut restaurants fell by 0.2% Y/Y in the first half of 2018, triggered by weaker sales of the Dine-In format.

Pro forma operational expenses reached RON 303.5 million in the first half of 2018, representing an increase of 28.0% compared to the previous year. As percentage of sales, operational expenses increased by 4.3pp year-on-year to 86.7% in the first half of 2018, driven mainly by a 1.6pp increase in cost of labour, a 0.9pp increase in the cost of food and materials and 1.1pp increase in other operating expenses.

Data in RON thousand	Jun-18	Jun-17	Change	Percentage of sales	
			2018/2017	Jun-18	Jun-17
Restaurant expenses	303,503	237,034	28.0%	86.7%	82.4%
Food and material	125,383	100,472	24.8%	35.8%	34.9%
Payroll and employee benefits	72,749	55,195	31.8%	20.8%	19.2%
Rent	25,562	20,898	22.3%	7.3%	7.3%
Royalties	20,650	16,807	22.9%	5.9%	5.8%
Advertising	18,186	14,220	27.9%	5.2%	4.9%
Other operating expenses	31,397	22,782	37.8%	9.0%	7.9%
Depreciation	9,576	6,660	43.8%	2.7%	2.3%
Restaurant expenses	46,565	50,800	-8.3%	13.3%	17.6%

Restaurant operating profit reached RON 46.6 million in the first half of 2018 (13.3% of sales), down 8.3% compared with the previous year (17.6% of sales), of which RON 42.9 million was accounted for by USFN Romania operations (4.1% below previous year) and another RON 2.9 million by ARS Romania (62% below previous year).

General and administration expenses reached RON 25.2 million in the first half of 2018 (7.2% of sales), up 24.9% compared to previous year (7.1% of sales). Of the RON 5.0 million increase in this expense category, RON 3.0 million was accounted for by USFN Italy and Taco Bell operations.

Data in RON thousand	Jun-18	Jun-17	Change	Percentage of sales	
			2018/2017	Jun-18	Jun-17
General and administration expenses (net), of which:	25,238	20,204	24.9%	7.2%	7.0%
Payroll and employee benefits	14,010	8,769	59.8%		
Third-party services	3,603	6,211	-42.0%		
Depreciation and amortization	479	1,179	-59.4%		
Rent	1,660	830	100.0%		
Banking charges	1,317	803	64.0%		
Transport	1,463	927	57.8%		
Other expenses	2,706	1,485	82.3%		

Other expenses also include a non-recurring provision worth RON 0.93m, which refer to the compensations claimed in court by a former employee who has suffered injuries in a work accident.

Normalized EBITDA reached RON 32.5 million in the first half of 2018, down 15.9% than in the previous year, EBITDA reached RON 31.4 million in the first half of 2018, down 18.3% than in the previous year, while operating profit reached RON 21.3 million in the first half of 2018, down 30.3% lower than in the previous year. The drop in the EBITDA margin (by 4.4pp to 9.0% in the first half of 2018) and operating profit margin (by 4.5pp to 6.1% in the first half of 2018) was due to the decrease in the restaurant operating profit (down 4.6pp), as described above.

Net profit reached RON 18.8 million in the first half of 2018, being 33.8% lower than in the previous year. The reduction in the net profit margin, by 4.5pp to 5.4% of sales in the first half of 2018, was driven by the 4.5pp decrease in the operating profit margin.

Data in RON thousand	Jun-18	Jun-17	Change	Percentage of sales	
			2018/2017	Jun-18	Jun-17
Normalised EBITDA*	32,315	38,435	-15.9%	9.2%	13.4%
EBITDA	31,383	38,435	-18.3%	9.0%	13.4%
Operating profit	21,328	30,595	-30.3%	6.1%	10.6%
Profit before tax	20,317	30,072	-32.4%	5.8%	10.4%
Profit for the period	18,757	28,330	-33.8%	5.4%	9.8%

*) Excluding a non-recurring provision for litigation worth RON 0.93m.

APPENDIX 1

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED) – SELECTED NOTES

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-
MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED) – SELECTED NOTES

All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED)

	Six-month period ended	
	30 June	30 June
	2018	2017
	<u> </u>	<u> </u>
Restaurant sales	350,068	242,204
Restaurant expenses		
Food and material expenses	125,383	87,944
Payroll and employee benefits	72,749	43,430
Rent	25,562	17,001
Royalties	20,650	14,125
Advertising	18,186	11,724
Other operating expenses, net	31,397	18,474
Depreciation and amortization	9,576	4,952
Restaurant operating profit	<u>46,565</u>	<u>44,554</u>
General and administration expenses, net	25,237	15,832
Operating profit	<u>21,328</u>	<u>28,722</u>
Finance costs	1,159	440
Finance income	148	109
Profit before tax	<u>20,317</u>	<u>28,391</u>
Income tax expense	1,560	1,189
Profit for the period	<u>18,757</u>	<u>27,202</u>
Attributable to:		
Equity holders of the parent	18,678	27,090
Non-controlling interests	80	112
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	118	(30)
Total comprehensive income for the period, net of tax	<u>18,876</u>	<u>27,172</u>
Attributable to:		
Equity holders of the parent	18,780	27,060
Non-controlling interests	95	112

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-
MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED) – SELECTED NOTES

All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018
(UNAUDITED)

	30 June 2018	31 December 2017
Assets		
Non-current assets	196,937	176,123
Property, plant and equipment	123,132	105,220
Intangible assets	68,062	67,471
Deposits for rent guarantee	2,827	1,288
Deferred tax assets	2,916	2,144
Current assets	80,260	73,291
Inventories	8,870	8,509
Trade and other receivables	9,862	8,454
Prepayments	4,059	3,673
Cash and short-term deposits	57,469	52,655
Assets held for sale	195	195
Total assets	277,392	249,609
Equity and liabilities		
Equity		
Issued capital	581,990	581,990
Share premium	(520,578)	(520,578)
Retained earnings	61,868	43,191
Foreign currency translation reserve	25	(78)
Equity attributable to equity holders of the parent	123,305	104,525
Non-controlling interests	21	19
Total equity	123,326	104,544
Non-current liabilities	59,266	42,191
Interest-bearing loans and borrowings	55,028	39,520
Trade and other payables	4,238	2,671
Current liabilities	94,800	102,874
Trade and other payables	62,889	77,682
Interest-bearing loans and borrowings	30,979	25,192
Provisions for litigations	932	-
Total liabilities	154,066	145,064
Total equity and liabilities	277,392	249,609

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED) -
SELECTED NOTES

All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED)

	Issued capital	Share premium	Other capital reserves	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				18,678		18,678	80	18,757
Other comprehensive income								
Translation differences	-	-	-	-	103	103	15	118
Total comprehensive income	-	-	-	18,678	103	18,780	95	18,876
Cash dividends	-	-	-	-	-	-	(93)	(93)
At 30 June 2018	581,990	(520,578)	-	61,868	25	123,305	21	123,326

	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	-	-	-	27,090	-	27,090	112	27,202
Other comprehensive income								
Translation differences	-	-	-	-	(30)	(30)	-	(30)
Total comprehensive income	-	-	-	27,090	(30)	27,060	112	27,172
Capital contribution from shareholders	1,500	-	-	-	-	1,500	-	1,500
Group reorganization	580,300	(519,495)	(19)	-	-	60,786	-	60,786
Costs related to organization and anticipated listing	-	(1,062)	-	-	-	(1,062)	-	(1,062)
Cash dividends	-	-	-	(46,237)	-	(46,237)	(70)	(46,307)
At 30 June 2017	581,990	(520,557)	-	38,977	(71)	100,339	3	100,342

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-
MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED) – SELECTED NOTES

All amounts in RON thousand, unless specified otherwise

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PE-
RIOD ENDED 30 JUNE 2017 (UNAUDITED)

	30 June 2018	30 June 2017
Operating activities		
Profit before tax	20,317	28,391
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation of property, plant and equipment	9,058	5,692
Amortisation of intangible assets	996	487
Net foreign exchange differences	(286)	(71)
Gain on disposal of property, plant and equipment	(60)	-
Provisions for litigations	932	-
Finance income	(24)	(109)
Finance costs	1,065	395
Working capital adjustments:		
(Increase)/Decrease in trade and other receivables and prepay- ments	(3,332)	4,794
(Increase)/decrease in inventories	(361)	(516)
Decrease in trade and other payables	(11,736)	(5,281)
Interest received	24	109
Interest paid	(1,070)	(434)
Income tax paid	(3,925)	(1,848)
Net cash flows from operating activities	11,598	31,609
Investing activities		
Proceeds from sale of property, plant and equipment	253	-
Purchase of intangible assets	(1,587)	(1,132)
Purchase of property, plant and equipment	(27,163)	(14,596)
Acquisition of subsidiary, net of cash	-	2,161
Net cash flows used in investing activities	(28,498)	(13,567)
Financing activities		
Capital contribution from shareholders of Sphera on set up, net of transaction costs paid	-	1,151
Proceeds from borrowings	32,055	19,225
Repayment of borrowings	(10,244)	(5,051)
Payment of finance lease liabilities	(107)	(134)
Dividends paid to equity holders of the parent	-	(46,237)
Dividends paid to non-controlling interests	(93)	(70)
Net cash flows used in financing activities	21,611	(31,116)
Net decrease in cash and cash equivalents	4,711	(13,074)
Net foreign exchange differences	103	(78)
Cash and cash equivalents at 1 January	52,655	48,968
Cash and cash equivalents at 30 June	57,469	35,816

**SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-
MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED) - SELECTED NOTES**

All amounts in RON thousand, unless specified otherwise

**SELECTED NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS
AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED)**

1 CORPORATE INFORMATION

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

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

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

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

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

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

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

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

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

2 BASIS OF PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed unaudited financial statements of the Group as of and for the six-month period ended 30 June 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting.

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-
MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED) - SELECTED NOTES

All amounts in RON thousand, unless specified otherwise

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 2017.

The interim condensed consolidated financial statements for six-month period ended 30 June 2018 included in this report are unaudited.

General accounting policies

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

Foreign currencies

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

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

The exchange rate RON – EUR as at 30 June 2018 and 31 December 2017 were:

	<u>30 June 2018</u>	<u>31 December 2017</u>
RON – EUR	4.6611	4.6597
RON – USD	4.0033	3.8915
RON – MDL	0.2387	0.2283

Transactions and balances

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

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

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

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into RON at the rate of exchange prevailing at the reporting date and their revenues and expenses are translated at exchange

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-
MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED) - SELECTED NOTES

All amounts in RON thousand, unless specified otherwise

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.

3 GROUP INFORMATION

3.1 Investments in controlled companies

Details of the Group consolidated subsidiaries at 30 June 2018 and 31 December 2017 are as follows:

Company name	Country of in- corporation	Field of ac- tivity	Control 30 June 2018	Control 31 December 2017
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 June 2018 is below 1 thousand RON therefore there are no other presentations thereof.

3.2 Business combinations

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

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

	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 is- sued by Sphera for the contribution of ARS shares	60,786

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-
MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED) - SELECTED NOTES

All amounts in RON thousand, unless specified otherwise

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.

On 30 April 2018 the Group acquired a new store in Turin, Italy. At end of the reporting period, the Group was in the process to perform the purchase price allocation based on the fair value of the identifiable assets and liabilities of the acquired unit at the date of acquisition. As at 30 June 2018, "Property, plant and equipment" include the total value of the proceeds paid for the new store in amount of RON 3,727 thousand.

4 OTHER OPERATING EXPENSES, NET

	Six-month period ended	
	30 June 2018	30 June 2017
Third-party services	9,812	5,823
Utilities	8,683	4,718
Maintenance and repairs	3,816	2,656
Cleaning supplies	2,309	1,402
Small-wares	2,651	1,215
Transport	1,784	1,030
Telephone and postage	388	186
Insurance	302	106
Miscellaneous expenses and income, net	1,652	1,338
Total	31,397	18,474

5 GENERAL AND ADMINISTRATION EXPENSES, NET

	Six-month period ended	
	30 June 2018	30 June 2017
Payroll and employee benefits	14,010	6,442
Third-party services	3,603	4,979
Depreciation and amortization	479	1,119
Rent	1,660	739
Banking charges	1,317	653
Transport	1,463	606
Maintenance and repairs	319	430
Small-wares	321	381
Insurance	256	137
Advertising	167	25
Telephone and postage	203	165
Provision for litigations	932	-
Miscellaneous expenses and income, net	507	156
Total	25,237	15,832

Provisions for litigations refer to the compensations claimed in court by a former employee who has suffered injuries in a work accident.

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-
MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED) - SELECTED NOTES

All amounts in RON thousand, unless specified otherwise

6 ISSUED CAPITAL

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

The shareholders of Sphera Franchise Group SA at 30 June 2018 and 31 December 2017, respectively are: Tatika Investments Ltd. (27.33%), M.B.L. Computers SRL (20%), Wellkept Group SA (16.34%), Anasa Properties SRL (10.99%) and free float (25.34%).

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

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

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

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

7 EBITDA

	Six-month period ended	
	30 June 2018	30 June 2017
Operating profit	21,328	28,722
Adjustments to bridge operating profit to EBITDA:		
Depreciation and amortization included in restaurant expenses	9,576	4,952
Depreciation and amortization included in general and administration expenses	479	1,119
EBITDA	31,383	34,793
Non-recurring expenses	932	-
Adjusted EBITDA	32,315	34,793

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-
MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED) - SELECTED NOTES

All amounts in RON thousand, unless specified otherwise

EBITDA is one of the key performance measures monitored by senior management. For the six-month period ended 30 June 2018, EBITDA was normalised to exclude the non-recurring provision for litigations in amount of RON 932.

8 RELATED PARTY DISCLOSURES

During the six-month period ended 30 June 2018 and 30 June 2017 respectively, 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
Midi Development SRL	Entity with several 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
Lucian Vlad	Beneficial owner of Anasa Properties SRL and Lunic Franchising and Consulting Ltd.	Romania	Rent store KFC Mosilor and administrative area
Radu Dimofte	Beneficial owner of Wellkept Group SA	Romania	Rent store KFC Mosilor
M. Nasta Ltd.	Entity owned by a BoD member	England	Consultancy services

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

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-
MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED) - SELECTED NOTES

All amounts in RON thousand, unless specified otherwise

	Transactions during the six-month period ended 30 June 2018		Balances as at 30 June 2018	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL	2	2	362	1
Moulin D'Or SRL	784	21	772	1
Lucian Vlad	-	261	-	-
Radu Dimofte	-	77	-	-
Wellkept Group SA	-	168	-	-
Anasa Properties SRL	-	15	-	-
Midi Development SRL	-	-	8	-
Grand Plaza Hotel SA	-	497	-	14
Arggo Software Development and Consulting SRL	-	222	-	21
	786	1,263	1,142	37
	Transactions during the six-month period ended 30 June 2017		Balances as at 31 December 2017	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL	6	-	257	5
American Restaurant System SA	1	57	4,694	50
Moulin D'Or SRL	1	4	22	-
Lucian Vlad	-	252	-	-
Radu Dimofte	-	75	-	-
Grand Plaza Hotel SA	-	78	-	-
Arggo Software Development and Consulting SRL	-	4	-	-
Anasa Properties SRL	-	121	-	-
Midi Development SRL	-	4	-	-
M. Nasta Ltd.	-	183	-	-
	8	778	4,973	55

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, were disclosed in the above table.

The Group has granted a loan to Cinnamon Bake&Roll SRL during the period 2003-2018. The loan balance as at 30 June 2018 was of 714 (31 December 2017: 485) and the interest accrual as at 30 June 2018 was of 42 (31 December 2016: 20).

Intangibles in progress include an amount of 830 (31 December 2017: 830) representing the capital expenditure related to the new ERP system implementation services provided by Arggo Software and Development SRL.

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-
MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED) - SELECTED NOTES

All amounts in RON thousand, unless specified otherwise

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 six months periods ended 30 June 2018 and for similar period of the year 2017, 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:

	Six months ended	
	30 June 2018	30 June 2017
Short-term employee benefits	3,530	202
Fees paid to management entity	-	1,895
Total compensation paid to key management personnel	3,530	2,097

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

9 SEGMENT INFORMATION

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

- KFC restaurants
- Pizza Hut restaurants
- Taco Bell restaurants

For the six-month period ended 30 June 2018 the Group also had one more immaterial operating segment, being one Paul restaurant which is managed by USFN, and which was aggregated into the KFC segment.

The 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.

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-
MONTH PERIOD ENDED 30 JUNE 2018 (UNAUDITED) - SELECTED NOTES

All amounts in RON thousand, unless specified otherwise

Six-month period ended 30 June 2018	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	285,477	59,146	4,643	12,507	(11,706)	350,068
Inter-segment revenues	-	-	-	(11,706)	11,706	-
Operating expenses	259,779	61,223	6,150	13,294	(11,706)	328,740
Segment operating profit	25,698	(2,077)	(1,507)	(786)	-	21,328
Finance costs	804	377	135	451	(609)	1,159
Finance income	510	2	-	62,043	(62,407)	148
Income taxes	897	714	63	(114)	-	1,560
Net profit/(loss)	24,507	(3,167)	(1,705)	60,921	(60,798)	18,757
Total assets	177,773	38,797	10,005	79,057	(28,240)	277,392
Total liabilities	141,612	41,633	13,412	42,456	(85,046)	154,066

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

For the six-month period ended 30 June 2017 the reportable segments were 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) and Pizza Hut.

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

Six-month period ended 30 June 2017	KFC	Pizza Hut	Other	Eliminations	Consolidated
Revenues from external customers	232,440	9,764	-	-	242,204
Inter-segment revenues	268	-	-	(268)	-
Operating expenses	189,595	8,323	-	(268)	197,650
Segment operating profit	43,113	1,441	-	-	44,554
Finance costs	-	-	440	-	440
Finance income	-	-	109	-	109
Income taxes	-	-	1,189	-	1,189
Net profit/(loss)	28,708	14	(1,520)	-	27,202
Total assets	112,980	85,700	-	(3,661)	195,019
Total liabilities	72,770	25,568	-	(3,661)	94,677

Geographic information:

Revenue from external customers	Six-month period ended	
	30 June 2018	30 June 2017
Romania	335,461	234,592
Italy	10,200	3,481
Republic of Moldova	4,406	4,131
Total restaurant revenue	350,068	242,204

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

APPENDIX 2

**INTERIM PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD FROM 1
JANUARY 2017 TO 30 JUNE 2017**

SPHERA FRANCHISE GROUP SA
INTERIM PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 JUNE 2017 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 JUNE 2017

	SFG	ARS for the period 1 January – 31 May 2017 (Note 3.1)	Intercompany elimination (Note 3.2)	PPA effect (Note 3.3)	Pro forma (e) = (a)+(b)+(c)+(d)
	(a)	(b)	(c)	(d)	
Restaurant sales	242,204	45,630	(1)	-	287,833
Restaurant expenses					
Food and material expenses	87,944	12,530	(2)	-	100,472
Payroll and employee benefits	43,430	11,765	-	-	55,195
Rent	17,001	3,897	-	-	20,898
Royalties	14,125	2,682	-	-	16,807
Advertising	11,724	2,517	(21)	-	14,220
Other operating expenses, net	18,474	4,286	22	-	22,782
Depreciation and amortization	4,952	1,467	-	241	6,660
Restaurant operating profit	44,554	6,486	-	(241)	50,799
General and administration expenses, net	15,832	4,372	-	-	20,204
Operating profit	28,722	2,114	-	(241)	30,595
Finance costs	440	198	-	-	638
Finance income	109	6	-	-	116
Profit before tax	28,391	1,922	-	(241)	30,072
Income tax expense/(credit)	1,189	553	-	-	1,742
Profit for the period	27,202	1,369	-	(241)	28,330
Attributable to:					
Equity holders of Sphera	27,090	1,369	-	(241)	28,218
Non-controlling interests	112	-	-	-	112

SPHERA FRANCHISE GROUP SA
INTERIM PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 JUNE 2017 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

	SFG (a)	ARS for the period 1 January – 31 May 2017 (Note 3.1) (b)	Intercompany elimination (Note 3.2) (c)	PPA effect (Note 3.3) (c)	Pro forma (f) = (a)+(b)+(c)
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	(30)	-	-	-	(30)
Total comprehensive income for the period, net of tax	27,172	1,369	-	(241)	28,300
Attributable to:					
Equity holders of Sphera	27,060	1,369	-	(241)	28,188
Non-controlling interests	112	-	-	-	112

SPHERA FRANCHISE GROUP SA
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD FROM 1
JANUARY 2017 TO 30 JUNE 2017

All amounts in RON thousand, unless specified otherwise

1 PURPOSE OF PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

This interim condensed pro forma consolidated financial information was prepared to illustrate the consolidated operational performance of the Group for the six-month period ended 30 June 2017 as if the set-up of Sphera and the contribution of USFN shares and ARS shares to Sphera took place on 1 January 2017.

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

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

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

The interim pro forma consolidated financial information only consists of the interim pro forma consolidated statement of comprehensive income for the six-month period ended 30 June 2017 and selected information.

The interim statement of comprehensive income is based on the interim statement of comprehensive income for the six-month period ended 30 June 2017 included in the SFG interim condensed consolidated financial statements (unaudited) and ARS statement of comprehensive income for the period 1 January – 31 May 2017 (unaudited), with pro forma adjustments as described below. The SFG interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) (IAS 34 Interim Financial Reporting).

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

2.1 ARS statement of comprehensive income for the period 1 January - 30 June 2017

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

2.2 Pro forma adjustments: elimination of intercompany transactions

In the process of preparation of the interim pro forma consolidated statement of comprehensive income, pre-acquisition amounts for the period 1 January 2017 to 30 June 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 six-month period ended 30 June 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 interim pro forma consolidated financial information.

SPHERA FRANCHISE GROUP SA
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD FROM 1
JANUARY 2017 TO 30 JUNE 2017

All amounts in RON thousand, unless specified otherwise

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 – 30 June 2017 based on the amounts thus adjusted.

2.4 Preparation of the selected information

With respect Note 3 EBITDA, the information presented in this note is based on amounts derived directly from the similar notes from the unaudited IFRS interim condensed consolidated financial statements of SFG for the six-month period ended 30 June 2017 and, respectively, the unaudited interim condensed financial statements of ARS for the six-month period ended 30 June 2017, from which is derived the statement of comprehensive income of ARS for the period 1 January – 30 June 2017, adjusted for the applicable pro forma adjustments. described above.

3 OTHER OPERATING EXPENSES, NET

	SFG	ARS for the period 1 January – 31 May 2017	Intercompany elimination	PPA ef- fect	Pro forma
Third-party services	5,823	1,253	(2)	-	7,074
Utilities	4,718	1,839	-	-	6,557
Maintenance and repairs	2,656	323	(1)	-	2,978
Cleaning supplies	1,402	267	-	-	1,669
Small-wares	1,215	332	(32)	-	1,515
Transport	1,030	203	-	-	1,233
Telephone and postage	186	33	-	-	219
Insurance	106	106	-	-	212
Net gain on disposal of property, plant and equipment	-	(8)	-	-	(8)
Change in allowance for current assets	-	(63)	-	-	(63)
Miscellaneous expenses and income, net	1,338	1	57	-	1,396
Total	18,474	4,286	22	-	22,782

4 GENERAL AND ADMINISTRATIVE EXPENSES, NET

	SFG	ARS for the period 1 January – 31 May 2017	Intercompany elimination	PPA ef- fect	Pro forma
Payroll and employee benefits	6,442	2,327	-	-	8,769
Third-party services	4,979	1,232	-	-	6,211
Rent	739	91	-	-	830
Depreciation and amortisation	1,119	60	-	-	1,179
Transport	606	321	-	-	927
Banking charges	653	150	-	-	803
Maintenance and repairs	430	37	-	-	467
Small-wares	381	20	-	-	401
Telephone and postage	165	48	-	-	213
Insurance	137	17	-	-	154
Impairment of non-current assets	108	-	-	-	108
Advertising	25	-	-	-	25
Miscellaneous expenses and income, net	48	69	-	-	117
Total	15,832	4,372	-	-	20,204

SPHERA FRANCHISE GROUP SA
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD FROM 1
JANUARY 2017 TO 30 JUNE 2017

All amounts in RON thousand, unless specified otherwise

5 EBITDA

	SFG	ARS for the period 1 January – 31 May 2017	Intercom- pany elimination	PPA effect	Pro forma
Operating profit	28,722	2,114	-	(241)	30,595
Adjustments to bridge operating profit to EBITDA:					
Depreciation and amortization in- cluded in restaurant expenses	4,952	1,467	-	241	6,660
Depreciation and amortization in- cluded in general and administration expenses	1,119	60	-	-	1,179
EBITDA	34,793	3,641	-	-	38,434

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 six months period ended 30 June 2017.

6 SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the restaurants' brands, which are the operating and reportable segments of the Group, as follows:

- KFC restaurants
- Pizza Hut restaurants.

For the six months ended 30 June 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 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 unaudited IFRS consolidated financial statements of the Group and, respectively, the unaudited financial statements of ARS for the six months ended 30 June 2017, from which is derived the statement of comprehensive income of ARS for the period 1 January 2017 – 31 May 2017.

SPHERA FRANCHISE GROUP SA

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 JUNE 2017

All amounts in RON thousand, unless specified otherwise

9. SEGMENT INFORMATION

Transfer prices between operating segments are on an arm's length's basis in a manner similar to transactions with third parties.

Six months ended 30 June 2017	SFG	SFG	ARS for the pe- riod	Total	SFG	ARS for the pe- riod	Total	Intercompany elimination	PPA ef- fect	Pro forma
	KFC	Pizza Hut	1 January – 31 May 2017	Pizza Hut	Other	1 January – 31 May 2017	Other		Pizza Hut	
Restaurant sales (Revenues from external customers)	232,439	9,764	45,630	55,394	-	-	-	-	-	287,833
Inter-segment revenues	269	-	-	-	-	-	-	(269)	-	-
Restaurant expenses (Operating expenses)	189,595	8,323	39,144	47,467	-	-	-	(269)	241	237,034
Restaurant profit (Segment operating profit)	43,113	1,441	6,486	7,927	-	-	-	-	(241)	50,799
Finance costs	-	-	-	-	440	198	638	-	-	638
Finance income	-	-	-	-	109	6	116	-	-	116
Income taxes	-	-	-	-	1,189	553	1,742	-	-	1,742
Net profit	28,643	79	2,114	1,996	(1,520)	(745)	(2,265)	-	(241)	28,330
Depreciation and amortization	5,748	323	1,527	1,850	-	-	-	-	241	7,839

SPHERA FRANCHISE GROUP SA
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD FROM
1 JANUARY 2017 TO 30 JUNE 2017

All amounts in RON thousand, unless specified otherwise

Geographic information:

Revenue from external customers	SFG	ARS for the pe- riod	Pro forma
		1 January – 31 May 2017	
Romania	234,591	45,630	280,221
Italy	3,481	-	3,481
Republic of Moldova	4,131	-	4,131
Total restaurant revenue	242,203	45,630	287,833

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

Mark Hilton

General Manager

Cristian Osiac

Chairman of the Board of Directors



Declaration of the management

We confirm to the best of our knowledge that the unaudited interim condensed consolidated financial statements for the six-month period ended June 30, 2018 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 six months of the 2018 financial year and their impact on the interim condensed consolidated financial statements.

Bucharest, August 13, 2018

Mark HILTON

Chief Executive Officer

Cristian OSIAC

Chairman of the Board of Directors