

Preliminary Financial Report

For the year ended 31 December 2018

Report date:	26-Feb-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 consolidated financial information included in this Preliminary Financial Report is based on the Sphera Franchise Group SA unaudited IFRS preliminary Consolidated financial statements for the year ended 31 December 2018.

Financial and operational data from this Preliminary Financial Report are estimates. The final Annual Report for the year ended 31 December 2018 will include the final financial and operational data, which may vary by reference to this Preliminary Financial Report. A final Annual Report will be released by Sphera Franchise Group SA to the market in accordance with the Financial Calendar announced on Bucharest Stock Exchange.

Contact details:

Investor Relations

E-mail: investor.relations@spheragroup.com

Financial analysis of full-year 2018 preliminary results

1) Consolidated results

Summary of preliminary Consolidated Financial Statements for the year ended 31 December 2018 (unaudited)

Data in RON'000	Dec-18	Dec-17	Y/Y%	% of Sales		
			2018/2017	Dec-18	Dec-17	Δ%
Restaurant sales	771,197	573,175	34.5%			
Restaurant expenses	668,018	480,647	39.0%	86.6%	83.9%	2.8%
Food and material	275,497	206,704	33.3%	35.7%	36.1%	-0.3%
Payroll and employee benefits	161,874	109,858	47.3%	21.0%	19.2%	1.8%
Rent	54,372	41,615	30.7%	7.1%	7.3%	-0.2%
Royalties	45,532	33,885	34.4%	5.9%	5.9%	0.0%
Advertising	41,059	30,231	35.8%	5.3%	5.3%	0.0%
Other operating expenses, net	69,227	44,412	55.9%	9.0%	7.7%	1.2%
Depreciation and amortization	20,458	13,942	46.7%	2.7%	2.4%	0.2%
Restaurant operating profit	103,179	92,528	11.5%	13.4%	16.1%	-2.8%
General and administration expenses, net	62,379	55,925	11.5%	8.1%	9.8%	-1.7%
Operating profit	40,800	36,603	11.5%	5.3%	6.4%	-1.1%
Finance costs	3,843	2,108	82.3%	0.5%	0.4%	0.1%
Finance income	491	166	195.6%	0.1%	0.0%	0.0%
Profit before tax	37,447	34,661	8.0%	4.9%	6.0%	-1.2%
Income tax expense	3,419	3,233	5.8%	0.4%	0.6%	-0.1%
Profit for the period	34,028	31,428	8.3%	4.4%	5.5%	-1.1%
EBITDA	62,307	51,424	21.2%	8.1%	9.0%	-0.9%
Normalised EBITDA	72,360	65,626	10.3%	9.4%	11.4%	-2.1%

Breakdown of preliminary consolidated results by Group companies – Year 2018

Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons.Adj	SFG Cons.
Restaurant sales	586,460	122,820	9,764	38,613	12,033	26,514	(25,007)	771,197
Dividend revenue	0	0	0	0	0	61,798	(61,798)	0
Restaurant expenses	491,278	116,150	8,105	40,540	12,075	0	(130)	668,018
Food and material	221,240	33,201	4,060	12,332	4,663	0	(0)	275,497
Payroll and employee benefits	108,857	36,302	1,464	12,043	3,208	0	0	161,874
Rent	39,200	10,347	763	2,933	1,132	0	(2)	54,372
Royalties	35,166	7,188	586	2,317	275	0	0	45,532
Advertising	29,010	8,338	307	2,616	864	0	(76)	41,059
Other operating expenses, net	44,860	15,990	623	6,400	1,405	0	(51)	69,227
Depreciation and amortization	12,946	4,784	302	1,898	528	0	0	20,458
Restaurant operating profit	95,182	6,670	1,659	(1,927)	(42)	88,312	(86,675)	103,179
General and administration expenses, net	31,458	11,521	362	4,543	2,657	48,207	(36,369)	62,379
Operating profit	63,724	(4,850)	1,296	(6,470)	(2,698)	40,105	(50,306)	40,800
Finance costs	1,969	949	110	1,253	521	1,268	(2,227)	3,843
Finance income	1,672	7	49	24	0	965	(2,227)	491
Profit before tax	63,427	(5,793)	1,235	(7,699)	(3,219)	39,802	(50,306)	37,447
Income tax expense	3,167	1,448	211	(1,783)	108	269	0	3,419
Profit for the period	60,259	(7,241)	1,025	(5,916)	(3,327)	39,533	(50,306)	34,028
EBITDA	77,028	124	1,652	(4,561)	(2,099)	40,468	(50,306)	62,307
Normalised EBITDA	78,769	124	1,652	(4,561)	(2,099)	60,272	(61,798)	72,360

Consolidated sales of Sphera reached RON 771.2 million for the year 2018, representing an increase of 34.5% compared to the previous year. The main drivers for this performance were the growth in the sales of USFN Romania (KFC restaurants) (+21.5% Y/Y), which had a contribution of 18.1pp in the consolidated sales growth rate, and the consolidation of ARS (Pizza Hut restaurants) sales starting with June 2017, which contributed 9.8pp in the consolidated sales growth rate. Our KFC operations in Italy contributed 4.6pp in the consolidated sales growth rate, while Taco Bell operations in Romania contributed another 1.6pp in the consolidated sales growth rate.

In Q4-2018, consolidated sales increased by 27.8% compared to Q4-2017; the slight acceleration in sales growth compared to the 26.6% Y/Y increase in Q3-2018 was mainly due to the increased contribution coming from KFC Italy and Taco Bell operations as well as higher growth in KFC Romania sales.

Data in RON thousand	FY 2018	FY 2017	Change 2018/2017	Contribution to sales growth
Sales by companies (principal brand)				
USFN Romania (KFC)	586,460	482,587	21.5%	18.1%
USFN Moldova (KFC)	9,764	8,492	15.0%	0.2%
USFN Italy (KFC)	38,613	12,377	212.0%	4.6%
ARS (Pizza Hut) ¹⁾	122,820	66,381	85.0%	9.8%
CFF (Taco Bell)	12,033	2,876	318.4%	1.6%
Other revenues ²⁾	1,507	462	226.2%	0.2%
Total sales	771,197	573,175	34.5%	34.5%

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	FY 2018	FY 2017	Change 2018/2017	Contribution to sales growth
Sales by region				
Romania	722,821	552,306	30.9%	29.7%
Italy	38,613	12,377	212.0%	4.6%
Republic of Moldova	9,764	8,492	15.0%	0.2%
Total sales	771,197	573,175	34.5%	34.5%

Consolidated operational expenses reached RON 668.0 million in the year 2018, representing an increase of 39.0% compared to the previous year. As percentage of sales, operational expenses increased by 2.8pp year-on-year to 86.6% in the year 2018, driven mainly by a 1.8pp increase in the cost of labour and a 1.2pp increase in other operating expenses, while being partly offset by a 0.3pp decrease in cost of food and materials.

In Q4-2018, the operating expenses as percentage of sales increased by 1.0pp Y/Y to 87.0%, compared a 1.1pp Y/Y increase to 86.1% in Q3-2018. The 1.0pp Y/Y increase in Q4-2018 was mainly due to a 2.6pp increase in cost of labour and 1.8pp increase in other operating expenses, while cost of food decreased by 0.8pp, advertising expenses decreased by 0.6pp and depreciation and amortization expense decreased by 0.5pp.

Data in RON thousand	FY 2018	FY 2017	Change 2018/2017	Percentage of sales	
				FY 2018	FY 2017
Restaurant expenses	668,018	480,647	39.0%	86.6%	83.9%
Food and material	275,497	206,704	33.3%	35.7%	36.1%
Payroll and employee benefits	161,874	109,858	47.3%	21.0%	19.2%
Rent	54,372	41,615	30.7%	7.1%	7.3%
Royalties	45,532	33,885	34.4%	5.9%	5.9%
Advertising	41,059	30,231	35.8%	5.3%	5.3%
Other operating expenses	69,227	44,412	55.9%	9.0%	7.7%
Depreciation	20,458	13,942	46.7%	2.7%	2.4%
Restaurant operating profit	103,178	92,528	11.5%	13.4%	16.1%

Restaurant operating profit reached RON 103.2 million in the year 2018 (13.4% of sales), up 11.5% compared with the previous year (16.1% of sales), of which RON 95.2 million was accounted for by USFN Romania operations (11.5% above previous year) and another RON 6.7 million by ARS Romania (11.1% above previous year).

In Q4-2018, restaurant operating profit increased 18.7% Y/Y to RON 28.6m, slightly faster than the 17.3% Y/Y increase in Q3-2018. Restaurant operating profit margin decreased by 1.0pp Y/Y to 13.0%, mainly due to higher cost of labour (+2.6pp) and other operating expenses (+1.8pp), while cost of food decreased by 0.8pp, rent expenses decreased by 1.1pp and advertising fell by 0.6pp.

General and administration (G&A) expenses reached RON 62.4 million in the year 2018 (8.1% of sales), up 11.5% compared to previous year (9.8% of sales). Excluding non-recurring expenses, G&A expense reached 52.3 million in the year 2018 (6.8% of sales), up 25.4% compared to the previous year (7.3% of sales).

On a stand-alone basis, G&A expenses of the Parent company include an impairment loss of investment in ARS in amount of RON 19.8 million; this impairment loss may be reversed in the future financial years, subject to a better performance of the subsidiary.

In Q4-2018, G&A expenses of the Group fell 21.4% Y/Y to RON 24.7 million, reaching 11.3% of sales compared to 18.3% in Q4-2017, while normalized G&A expenses fell 9.4% Y/Y to RON 15.6 million, reaching 7.1% of sales compared to 10.0% in Q4-2017.

Data in RON thousand	FY 2018	FY 2017	Change 2018/2017	Percentage of sales	
				FY 2018	FY 2017
General and administration expenses (net), of which:	62,379	55,924	11.5%	8.1%	9.8%
Payroll and employee benefits	30,563	32,368	-5.6%		
Third-party services	7,890	12,373	-36.2%		
Depreciation and amortization	1,049	879	19.3%		
Rent	3,478	2,253	54.3%		
Banking charges	2,921	1,771	65.0%		
Transport	3,063	2,278	34.5%		
Other expenses	13,414	4,001	235.2%		

Other expenses also include non-recurring expenses in amount of RON 10.1m, of which RON 8.31m represents an impairment loss in relation with the goodwill recorded on the acquisition of ARS, RON 0.95m refer to the compensations claimed in court and paid to a former employee who has suffered injuries in a work accident, while another RON 0.79m represents a provision for potential liabilities (VAT and late penalties) that the Sphera estimates to pay as result of the tax audit performed at USFN RO by the fiscal authorities for the periods 2013 -2017 (VAT) and 2012-2016 (income tax).

Normalized EBITDA advanced 10.3% Y/Y to RON 72.4 million in the year 2018, EBITDA rose 21.2% Y/Y to RON 62.3 million, while operating profit improved 11.5% Y/Y to RON 40.8 million. Normalized EBITDA margin fell 2.1pp to 9.4% in the year 2018, mainly as a result of a 2.8pp decrease in the restaurant operating profit margin and a 0.6pp improvement in the normalized G&A expenses (as percentage of sales), as described before.

Net profit reached RON 34.0 million in the year 2018, being 8.3% higher than in the previous year. The net profit margin decreased 1.1pp to 4.4% of sales in the year 2018, in line with the reduction of operating profit margin.

On a quarterly basis, normalized EBITDA advanced 63% to RON 19.0m in Q4-2018 (8.7% of sales in Q4-2018 vs 6.8% in Q4-2017), operating profit reached RON 3.9m in Q4-2018 compared with a loss of RON 7.3m in Q4-2017 (1.8% of sales in Q4-2018 vs negative 4.3% in Q4-2017), while net profit reached RON 1.6m in Q4-2018 compared with a loss of RON 9.4m in Q4-2017 (0.7% of sales in Q4-2018 vs negative 5.4% in Q4-2017).

Data in RON thousand	FY 2018	FY 2017	Change 2018/2017	Percentage of sales	
				FY 2018	FY 2017
Normalised EBITDA*	72,360	65,626	10.3%	9.4%	11.4%
EBITDA	62,307	51,424	21.2%	8.1%	9.0%
Operating profit	40,800	36,603	11.5%	5.3%	6.4%
Profit before tax	37,447	34,661	8.0%	4.9%	6.0%
Profit for the period	34,028	31,428	8.3%	4.4%	5.5%

*) Excluding non-recurring expenses worth RON 10.1m.

2) Analysis of consolidated preliminary results for full-year 2018 compared with pro forma results for full-year 2017

Data in RON'000	Dec-18	Dec-17	Y/Y%	% of Sales		
			2018/2017	Dec-18	Dec-17	Δ%
Restaurant sales	771,197	618,804	24.6%			
Restaurant expenses	668,018	520,031	28.5%	86.6%	84.0%	2.6%
Food and material	275,497	219,232	25.7%	35.7%	35.4%	0.3%
Payroll and employee benefits	161,874	121,623	33.1%	21.0%	19.7%	1.3%
Rent	54,372	45,512	19.5%	7.1%	7.4%	-0.3%
Royalties	45,532	36,567	24.5%	5.9%	5.9%	0.0%
Advertising	41,059	32,727	25.5%	5.3%	5.3%	0.0%
Other operating expenses, net	69,227	48,720	42.1%	9.0%	7.9%	1.1%
Depreciation and amortization	20,458	15,650	30.7%	2.7%	2.5%	0.1%
Restaurant operating profit	103,179	98,773	4.5%	13.4%	16.0%	-2.6%
General and administration expenses, net	62,379	60,297	3.5%	8.1%	9.7%	-1.7%
Operating profit	40,800	38,476	6.0%	5.3%	6.2%	-0.9%
Finance costs	3,843	2,306	66.7%	0.5%	0.4%	0.1%
Finance income	491	172	185.3%	0.1%	0.0%	0.0%
Profit before tax	37,447	36,342	3.0%	4.9%	5.9%	-1.0%
Income tax expense	3,419	3,786	-9.7%	0.4%	0.6%	-0.2%
Profit for the period	34,028	32,556	4.5%	4.4%	5.3%	-0.8%
EBITDA	62,307	55,065	13.2%	8.1%	8.9%	-0.8%
Normalised EBITDA*	72,360	69,267	4.5%	9.4%	11.2%	-1.8%

Sales of Sphera reached RON 771.2 million in the year 2018, up 24.6% 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 21.5% Y/Y), which had a contribution of 16.8pp in the pro forma sales growth rate. ARS sales advanced 9.5% 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 4.2pp, while Taco Bell operations contributed another 1.5pp in the pro forma sales growth rate.

In Q4-2018, consolidated sales increased by 27.8% compared to Q4-2017; the slight acceleration in sales growth compared to the 26.6% Y/Y increase in Q3-2018 was mainly due to the increased contribution coming from KFC Italy and Taco Bell operations as well as higher growth in KFC Romania sales.

Data in RON thousand	FY 2018	FY 2017	Change 2018/2017	Contribution to sales growth
Sales by companies (principal brand)				
USFN Romania (KFC)	586,460	482,587	21.5%	16.8%
USFN Moldova (KFC)	9,764	8,492	15.0%	0.2%
USFN Italy (KFC)	38,613	12,377	212.0%	4.2%
ARS (Pizza Hut)	122,820	112,011	9.7%	1.7%
CFF (Taco Bell)	12,033	2,876	318.4%	1.5%
Other revenues ¹⁾	1,507	461	227.0%	0.2%
Total sales	771,197	618,804	24.6%	24.6%

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

Data in RON thousand	FY 2018	FY 2017	Change 2018/2017	Contribution to sales growth
Sales by region				
Romania	722,821	597,935	20.9%	20.2%
Italy	38,613	12,377	212.0%	4.2%
Republic of Moldova	9,764	8,492	15.0%	0.2%
Total sales	771,197	618,804	24.6%	24.6%

In Romania, the like-for-like sales of KFC restaurants grew by 11.0% Y/Y in the year 2018 (12.5% in 2017), the fifth consecutive year of double-digit growth, 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 advanced 0.4% Y/Y in the year 2018 (3.1% in 2017), with a positive performance of the Dine-in format and sales fall in the Delivery format.

In Q4-2018, the like-for-like sales of KFC restaurants grew by 12.3% Y/Y (11.4% Y/Y increase in Q3-2018), on the back of stronger growth from province stores, while the like-for-like sales of Pizza Hut restaurants grew by 0.7% Y/Y (1.1% Y/Y increase in Q3-2018), with an improving performance from the Dine-In format (supported by a dedicated advertising campaign for the promotion of the new product menu) being offset by weaker Delivery sales (due to both new store sales cannibalization and the increasing presence of food aggregators).

Pro forma operational expenses reached RON 667.8 million in the year 2018, representing an increase of 28.5% compared to the previous year. As percentage of sales, operational expenses increased by 2.6pp year-on-year to 86.6% in the year 2018, driven mainly by a 1.3pp increase in cost of labour, a 1.1pp increase in other operating expenses and 0.3pp increase in the cost of food and materials.

In Q4-2018, the operating expenses as percentage of sales increased by 1.0pp Y/Y to 87.0%, compared a 1.1pp Y/Y increase to 86.1% in Q3-2018. The 1.0pp Y/Y increase in Q4-2018 was mainly due to a 2.6pp increase in cost of labour and 1.8pp increase in other operating expenses, while cost of food decreased by 0.8pp, advertising expenses decreased by 0.6pp and depreciation and amortization expense decreased by 0.5pp.

Data in RON thousand	FY 2018	FY 2017	Change 2018/2017	Percentage of sales	
				FY 2018	FY 2017
Restaurant expenses	668,018	520,031	28.5%	86.6%	84.0%
Food and material	275,497	219,232	25.7%	35.7%	35.4%
Payroll and employee benefits	161,874	121,623	33.1%	21.0%	19.7%
Rent	54,372	45,512	19.5%	7.1%	7.4%
Royalties	45,532	36,567	24.5%	5.9%	5.9%
Advertising	41,059	32,727	25.5%	5.3%	5.3%
Other operating expenses	69,227	48,720	42.1%	9.0%	7.9%
Depreciation	20,458	15,650	30.7%	2.7%	2.5%
Restaurant operating profit	103,178	98,773	4.5%	13.4%	16.0%

Restaurant operating profit reached RON 103.2 million in the year 2018 (13.4% of sales), up 4.5% compared with the previous year (16.0% of sales), of which RON 95.1 million was accounted for by USFN Romania operations (11.5% above previous year) and another RON 6.7 million by ARS Romania (47% below previous year).

In Q4-2018, restaurant operating profit increased 18.7% Y/Y to RON 28.6m, slightly faster than the 17.3% Y/Y increase in Q3-2018. Restaurant operating profit margin decreased by 1.0pp Y/Y to 13.0%, mainly due to higher cost of labour (+2.6pp) and other operating expenses (+1.8pp), while cost of food decreased by 0.8pp, rent expenses decreased by 1.1pp and advertising fell by 0.6pp.

General and administration (G&A) expenses reached RON 62.4 million in the year 2018 (8.1% of sales), up 3.5% compared to previous year (9.7% of sales). Excluding non-recurring expenses, G&A expense reached 52.3 million in the year 2018 (6.8% of sales), up 13.5% compared to the previous year (7.4% of sales).

In Q4-2018, G&A expenses fell 21.4% Y/Y to RON 24.7 million, reaching 11.3% of sales compared to 18.3% in Q4-2017, while normalized G&A expenses fell 9.4% Y/Y to RON 15.6 million, reaching 7.1% of sales compared to 10.0% in Q4-2017.

Data in RON thousand	FY 2018	FY 2017	Change 2018/2017	Percentage of sales	
				FY 2018	FY 2017
General and administration expenses (net), of which:	62,379	60,296	3.5%	8.1%	9.7%
Payroll and employee benefits	30,563	34,695	-11.9%		
Third-party services	7,890	13,605	-42.0%		
Depreciation and amortization	1,049	939	11.7%		
Rent	3,478	2,344	48.3%		
Banking charges	2,921	1,921	52.1%		
Transport	3,063	2,599	17.8%		
Other expenses	13,414	4,192	220.0%		

Other expenses also include non-recurring expenses in amount of RON 10.1m, of which RON 8.31m represents an impairment loss in relation with the goodwill recorded on the acquisition of ARS, RON 0.95m refer to the compensations claimed in court and paid to a former employee who has suffered injuries in a work accident, while another RON 0.79m represents a provision for potential liabilities (VAT and late penalties) that the Sphera estimates to pay as result of the tax audit performed at USFN RO by the fiscal authorities for the periods 2013 -2017 (VAT) and 2012-2016 (income tax).

Normalized EBITDA advanced 4.5% Y/Y to RON 72.4 million in the year 2018, EBITDA rose 13.2% Y/Y to RON 62.3 million, while operating profit reached improved 6.0% Y/Y to RON 40.8 million. Normalized EBITDA margin fell 1.8pp to 9.4% in the year 2018, mainly as a result of a 2.6pp decrease in the restaurant operating profit margin and a 1.0pp improvement in the normalized G&A expenses (as percentage of sales), as described before.

Net profit reached RON 34.0 million in the year 2018, being 4.5% higher than in the previous year. The net profit margin fell 0.9pp to 4.4% of sales in the year 2018, in line with the reduction of operating profit margin.

On a quarterly basis, normalized EBITDA advanced 63% to RON 19.0m in Q4-2018 (8.7% of sales in Q4-2018 vs 6.8% in Q4-2017), operating profit reached RON 3.9m in Q4-2018 compared with a loss of RON 7.3m in Q4-2017 (1.8% of sales in Q4-2018 vs negative 4.3% in Q4-2017), while net profit reached RON 1.6m in Q4-2018 compared with a loss of RON 9.4m in Q4-2017 (0.7% of sales in Q4-2018 vs negative 5.4% in Q4-2017).

Data in RON thousand	FY 2018	FY 2017	Change 2018/2017	Percentage of sales	
				FY 2018	FY 2017
Normalised EBITDA*	72,360	69,267	4.5%	9.4%	11.2%
EBITDA	62,307	55,065	13.2%	8.1%	8.9%
Operating profit	40,800	38,476	6.0%	5.3%	6.2%
Profit before tax	37,447	36,342	3.0%	4.9%	5.9%
Profit for the period	34,028	32,556	4.5%	4.4%	5.3%

*) Excluding non-recurring expenses worth RON 10.1m.

APPENDIX 1

**PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2018 (UNAUDITED)**

SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
YEAR ENDED 31 DECEMBER 2018 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

PRELIMINARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018 (UNAUDITED)

	2018	2017
	<u> </u>	<u> </u>
Restaurant sales	771,197	573,175
Restaurant expenses		
Food and material expenses	275,497	206,704
Payroll and employee benefits	161,874	109,858
Rent	54,372	41,615
Royalties	45,532	33,885
Advertising	41,059	30,231
Other operating expenses, net	69,227	44,412
Depreciation and amortization	20,458	13,942
Restaurant operating profit	<u>103,178</u>	<u>92,528</u>
General and administration expenses, net	62,379	55,925
Operating profit	<u>40,800</u>	<u>36,603</u>
Finance costs	3,843	2,108
Finance income	491	166
Profit before tax	<u>37,447</u>	<u>34,661</u>
Income tax expense	3,419	3,233
Profit for the period	<u>34,028</u>	<u>31,428</u>
Attributable to:		
Equity holders of the parent	33,823	31,304
Non-controlling interests	205	124
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	113	(34)
Total comprehensive income for the period, net of tax	<u>34,141</u>	<u>31,394</u>
Attributable to:		
Equity holders of the parent	33,921	31,267
Non-controlling interests	220	127

SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
YEAR ENDED 31 DECEMBER 2018 ((UNAUDITED))

All amounts in RON thousand, unless specified otherwise

PRELIMINARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER
2018 (UNAUDITED)

	31 December	31 December
	2018	2017
Assets		
Non-current assets	229,169	176,123
Property and equipment	158,122	105,220
Intangible assets	62,150	67,471
Deposits for rent guarantee	5,219	1,288
Deferred tax assets	3,678	2,144
Current assets	123,557	73,291
Inventories	10,567	8,509
Trade and other receivables	17,019	8,454
Prepayments	5,306	3,673
Cash and short-term deposits	90,665	52,655
Assets held for sale	-	195
Total assets	352,726	249,609
Equity and liabilities		
Equity		
Issued capital	581,990	581,990
Share premium	(520,578)	(520,578)
Retained earnings	77,013	43,191
Foreign currency translation reserve	20	(78)
Equity attributable to equity holders of the parent	138,445	104,525
Non-controlling interests	146	19
Total equity	138,591	104,544
Non-current liabilities	91,536	42,191
Interest-bearing loans and borrowings	86,787	39,520
Trade and other payables	4,749	2,671
Current liabilities	122,599	102,874
Trade and other payables	83,238	77,682
Interest-bearing loans and borrowings	37,669	25,192
Provisions	1,692	-
Total liabilities	214,135	145,064
Total equity and liabilities	352,726	249,609

SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018 ((UNAUDITED))
All amounts in RON thousand, unless specified otherwise

PRELIMINARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 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)	-	43,191	(78)	104,525	19	104,544
Profit for the period				33,823		33,823	205	34,028
Other comprehensive income								
Translation differences					98	98	15	113
Total comprehensive income	-	-	-	33,823	98	33,921	220	34,141
Cash dividends							(93)	(93)
At 31 December 2018	581,990	(520,578)	-	77,013	20	138,445	146	138,591
	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				31,304		31,304	124	31,428
Other comprehensive income								
Translation differences					(37)	(37)	3	(34)
Total comprehensive income	-	-	-	31,304	(37)	31,267	127	31,394
Capital contribution from shareholders	1,500					1,500		1,500
Group reorganization	580,300	(519,495)	(19)			60,786		60,786
Costs related to reorganization (Note 6)		(1,083)				(1,083)		(1,083)
Cash dividends				(46,237)		(46,237)	(70)	(46,306)
At 31 December 2017	581,990	(520,578)	-	43,191	(78)	104,525	19	104,544

**SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
YEAR ENDED 31 DECEMBER 2018 ((UNAUDITED))**

All amounts in RON thousand, unless specified otherwise

**NOTES TO THE PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2018 (UNAUDITED)**

1 CORPORATE INFORMATION

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

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

The purpose of the Group reorganization that resulted in the establishment of Sphera as the legal parent company of US Food Network SA (USFN), American Restaurant System SA (ARS), US Food Network SRL (USFN Italy or Italian subsidiary), US Food Network SRL (USFN Moldova or Moldavian subsidiary) and California Fresh Flavors SRL (Taco Bell) was to ensure a better coordination of activities and enhance value creation, by taking advantage of the synergies at group level and by achieving economies of scale. In terms of activities, Sphera took over gradually until the end of September 2017 certain activities as well as 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 has set up a new subsidiary, California Fresh Flavors SRL (“Taco Bell”), and holds 9,999 shares of its 10,000 shares (99.99% holding). The company operates as a limited liability company and is registered at No. 239 Calea Dorobanti, Bucharest, Romania.

2 BASIS OF PREPARATION OF THE PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The preliminary consolidated financial statements of the Group 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) (IFRS).

The preliminary consolidated 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.

SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
YEAR ENDED 31 DECEMBER 2018 ((UNAUDITED))

All amounts in RON thousand, unless specified otherwise

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

The Group's financial statements are presented in Romanian New Lei ("RON" and all values are rounded to the nearest thousand RON, except when otherwise indicated. Accordingly, there may be rounding differences.

The preliminary condensed consolidated financial statements for the year ended 31 December 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 exchange rate RON – EUR as at 31 December 2018 and 31 December 2017 were:

	<u>31 December 2018</u>	<u>31 December 2017</u>
RON – EUR	4.6639	4.6597
RON – USD	4.0736	3.8915
RON – MDL	0.2389	0.2283

Transactions and balances

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

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

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

Group companies

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

IFRS 16 Leases

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group will initially apply IFRS 16 on 1 January 2019 using the modified retrospective approach for transition.

SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
YEAR ENDED 31 DECEMBER 2018 ((UNAUDITED))

All amounts in RON thousand, unless specified otherwise

3 GROUP INFORMATION

3.1 Investments in controlled companies

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

Company name	Country of incorporation	Field of activity	Control 31 December 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 31 December 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 issued by Sphera for the contribution of ARS shares	60,786

The fair value of the assets and liabilities acquired at the date of acquisition as well as the fair value of the business of ARS (based on which was effected the share capital increase of Sphera) were determined by an independent appraiser. Goodwill arose from the acquired customer base and economies of scale expected from combining the operations of the Group and ARS.

SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
YEAR ENDED 31 DECEMBER 2018 ((UNAUDITED))

All amounts in RON thousand, unless specified otherwise

As at 31 December 2018, the Group recognised in the preliminary condensed financial statements an impairment loss of 8,312 in relation with the goodwill recorded on acquisition of ARS.

In April 2018, the Group acquired a new store in Turin, Italy, for a total consideration of 3,727. The fair value of the identifiable assets and liabilities of the acquired store as at the date of acquisition in amount of 3,716 (of which intangible assets of 87, property and equipment of 3,542 and inventories of 87) was determined by an independent appraiser. The difference between the consideration paid by the Group and the fair value of the identifiable assets of the acquired store was charged to profit and loss (11).

4 OTHER OPERATING EXPENSES, NET

	<u>2018</u>	<u>2017</u>
Third-party services	22,325	11,803
Utilities	19,512	12,574
Maintenance and repairs	8,471	5,722
Cleaning supplies	5,546	3,439
Small-wares	4,605	4,713
Transport	4,184	2,404
Telephone and postage	796	465
Insurance	648	397
Net (gain)/loss on disposal of property and equipment	(161)	493
Miscellaneous expenses and income, net	3,301	2,402
Total	<u>69,227</u>	<u>44,412</u>

5 GENERAL AND ADMINISTRATION EXPENSES, NET

	<u>2018</u>	<u>2017</u>
Payroll and employee benefits	30,563	32,369
Third-party services	7,890	12,373
Depreciation and amortization	1,049	879
Rent	3,478	2,253
Banking charges	2,921	1,771
Transport	3,063	2,278
Maintenance and repairs	583	989
Small-wares	521	728
Insurance	506	376
Advertising	292	614
Telephone and postage	414	432
Impairment of goodwill	8,312	-
Impairment of non-current assets	140	-
Expenses for litigations	947	-
Provision for tax, VAT adjustments and late payment penalties	795	-
Miscellaneous expenses	905	863
Total	<u>62,379</u>	<u>55,925</u>

Expenses for litigations refer to the compensations claimed in court and paid to a former employee who has suffered injuries in a work accident.

SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
YEAR ENDED 31 DECEMBER 2018 ((UNAUDITED))

All amounts in RON thousand, unless specified otherwise

Provision for tax include an amount of 795 representing the VAT adjustments (598) and the late payments penalties (197) that the Group estimates to pay as result of the tax audit performed at USFN SA by the fiscal authorities for the periods 2013 -2017 (VAT) and 2012-2016 (income tax).

6 ISSUED CAPITAL

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

The shareholders of Sphera Franchise Group SA at 31 December 2018 and 31 December 2017, respectively are: 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%).

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

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

USFN SA is subject to a tax audit in relation with income tax (period 2012-2016) and VAT (period 2013-2017). As at 31 December 2018, the Group recognized in the preliminary consolidated financial statements a provision for tax in amount of 1,692, representing the estimated VAT (598) and income tax adjustments (541) for the period under review, and the related interest (357) and late payment penalties (197).

As at the date of the release of these preliminary financial statements, the tax audit has not been completed.

SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
YEAR ENDED 31 DECEMBER 2018 ((UNAUDITED))

All amounts in RON thousand, unless specified otherwise

8 EBITDA

	<u>2018</u>	<u>2017</u>
Operating profit	40,800	36,603
Adjustments to bridge operating profit to EBITDA:		
Depreciation and amortization included in restaurant expenses	20,458	13,942
Depreciation and amortization included in general and administration expenses	1,049	879
EBITDA	62,307	51,424
Non-recurring expenses	10,053	14,202
Normalised EBITDA	72,360	65,626

EBITDA is one of the key performance measures monitored by senior management.

For the year ended 31 December 2018, EBITDA was normalized to exclude the following non-recurring expenses: impairment loss of goodwill (8,312), expenses for litigations (947) and the VAT adjustments and related late payment penalties (794).

For the year ended 31 December 2017, EBITDA was normalized to exclude the non-recurring expenses related to the Group's reorganization process.

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 year ended 31 December 2018 the Group also had one more immaterial operating segment, being one Paul restaurant which is managed by USFN, and which was aggregated into the KFC segment.

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

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

SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
YEAR ENDED 31 DECEMBER 2018 ((UNAUDITED))

All amounts in RON thousand, unless specified otherwise

2018	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	634,837	122,820	12,033	1,507	-	771,197
Inter-segment revenues	-	-	-	25,007	(25,007)	-
Dividend revenues	-	-	-	61,798	(61,798)	-
Operating expenses	576,286	127,671	14,731	48,207	(36,499)	730,396
Segment operating profit	58,551	(4,851)	(2,698)	40,105	(50,306)	40,800
Finance costs	2,522	949	521	1,268	(1,417)	3,843
Finance income	935	7	-	965	(1,417)	491
Income taxes	1,595	1,448	108	269	-	3,419
Net profit/(loss)	55,369	(7,242)	(3,327)	39,534	(50,306)	34,028

2017	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	503,355	66,354	2,876	590	-	573,175
Inter-segment revenues	101	27	-	11,830	(11,958)	-
Operating expenses	451,797	68,580	4,628	23,525	(11,958)	536,572
Segment operating profit	51,659	(2,199)	(1,752)	(11,105)	-	36,603
Finance costs	-	-	-	2,108	-	2,108
Finance income	-	-	-	166	-	166
Income taxes	-	-	-	3,233	-	3,233
Net profit/(loss)	51,659	(2,199)	(1,752)	(16,280)	-	31,428

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

Geographic information:

Revenue from external customers	Year ended	
	2018	2017
Romania	722,821	552,306
Italy	38,613	12,377
Republic of Moldova	9,764	8,492
Total restaurant revenue	771,197	573,175

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

APPENDIX 2

**PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD
FROM 1 JANUARY 2017 TO 31 DECEMBER 2017**

SPHERA FRANCHISE GROUP SA
PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 31
DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 31
DECEMBER 2017

	SFG	ARS for the period 1 January – 31 May 2017	Intercompany elimination	PPA effect	Pro forma
	(a)	(b)	(c)	(d)	(e) = (a)+(b)+(c)+(d)
Restaurant sales	573,175	45,630	-1	-	618,804
Restaurant expenses					
Food and material expenses	206,704	12,530	-2	-	219,232
Payroll and employee benefits	109,858	11,765	0	-	121,623
Rent	41,615	3,897	0	-	45,512
Royalties	33,885	2,682	0	-	36,567
Advertising	30,231	2,517	-21	-	32,727
Other operating expenses, net	44,412	4,286	22	-	48,720
Depreciation and amortization	13,942	1,467	0	241	15,650
Restaurant operating profit	92,528	6,486	0	(241)	98,773
General and administration expenses, net	55,925	4,372	-	-	60,297
Operating profit	36,603	2,114	-	(241)	38,476
Finance costs	2,108	198	-	-	2,306
Finance income	166	6	-	-	172
Profit before tax	34,661	1,922	-	(241)	36,342
Income tax expense/(credit)	3,233	553	-	-	3,786
Profit for the period	31,428	1,369	-	(241)	32,556
Attributable to:					
Equity holders of Sphera	31,304	1,369	-	(241)	32,432
Non-controlling interests	124	-	-	-	124

SPHERA FRANCHISE GROUP SA
PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 31
DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

	SFG (a)	ARS for the period 1 January – 31 May 2017 (b)	Intercompany elimination (c)	PPA effect (d)	Pro forma (e) = (a)+(b)+(c)+(d)
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	(34)	-	-	-	(34)
Total comprehensive income for the period, net of tax	31,394	1,369	-	(241)	32,522
Attributable to:					
Equity holders of Sphera	31,267	1,369	-	(241)	32,395
Non-controlling interests	127				127

SPHERA FRANCHISE GROUP SA
PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD
FROM 1 JANUARY 2017 TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

1 PURPOSE OF PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

This preliminary pro forma consolidated financial information was prepared to illustrate the consolidated operational performance of the Group for the year ended 31 December 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 preliminary pro forma consolidated financial information only consists of the preliminary pro forma consolidated statement of comprehensive income for the financial year ended 31 December 2017 and selected information.

The statement of comprehensive income is based on the statement of comprehensive income for the year ended 31 December 2017 included in the SFG consolidated financial statements and ARS statement of comprehensive income for the period 1 January – 31 May 2017 (unaudited), with pro forma adjustments as described below. The SFG consolidated 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).

2 BASIS OF PREPARATION OF THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

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

On 30 May 2017, Sphera acquired 99.9997% of the shares in ARS, in exchange for Sphera shares. The consolidated statement of comprehensive income of SFG includes the results of ARS from the date of acquisition, i.e. from 31 May 2017 to 31 December 2017. As such, the pre-acquisition statement of comprehensive income of ARS for the period 1 January 2017 to 31 May 2017 has been added, as if the acquisition took place on 1 January 2017.

2.2 Pro forma adjustments: elimination of intercompany transactions

In the process of preparation of the pro forma consolidated statement of comprehensive income, pre-acquisition amounts for the period 1 January 2017 to 31 May 2017 from the statement of comprehensive income of ARS were added to the amounts from the SFG IFRS consolidated statement of comprehensive income for the year ended 31 December 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 preliminary pro forma consolidated financial information.

SPHERA FRANCHISE GROUP SA
PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD
FROM 1 JANUARY 2017 TO 31 DECEMBER 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 – 31 May 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 preliminary consolidated financial statements of SFG for the year ended 31 December 2017 and, respectively, the unaudited preliminary financial statements of ARS for the year ended 31 December 2017, from which is derived the statement of comprehensive income of ARS for the period 1 January – 31 May 2017, adjusted for the applicable pro forma adjustments. described above.

SPHERA FRANCHISE GROUP SA
PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD
FROM 1 JANUARY 2017 TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

3 EBITDA

	SFG	ARS for the	Intercompa	PPA effect	
	2017	period	ny	1 January	
		1 January –	elimination	–	Pro forma
		31 May 2017	1 January –	31 May	2017
			31 May 2017	2017	
Operating profit	36,603	2,114	-	(241)	38,476
Adjustments to bridge					
operating profit to EBITDA:					
Depreciation and amortization					
included in restaurant expenses	13,942	1,467	-	241	15,650
Depreciation and amortization					
included in general and					
administration expenses	879	60	-	-	939
EBITDA	51,424	3,641	-	-	55,065
Non-recurring expenses related to					
reorganization	14,202	-	-	-	14,202
Normalised EBITDA	65,626	-	-	-	69,267

EBITDA is one of the key performance measures monitored by senior management. For the year ended 31 December 2017, EBITDA was normalized to exclude the non-recurring expenses related to the Group's reorganization process.

Mark HILTON
 Chief Executive Officer

Cristian OSIAC
 Chairman of the Board of Directors

Declaration of the management

We confirm to the best of our knowledge that the unaudited preliminary condensed consolidated financial statements as at and for the year ended December 31, 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 financial year 2018 and their impact on the preliminary condensed consolidated financial statements.

Bucharest, February 26, 2019

Mark HILTON

Chief Executive Officer

Cristian OSIAC

Chairman of the Board of Directors