

SPHERA FRANCHISE GROUP SA
CONSOLIDATED FINANCIAL STATEMENTS

Prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

31 December 2018

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sphera Franchise Group S.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sphera Franchise Group S.A. (the Company) and its subsidiaries (together referred to as "the Group") with official head office in Bucharest, 239 Calea Dorobanti Street, identified by sole fiscal registration number 37586457, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 ("Regulation (EU) No. 537/2014") and Law 162/2017 („Law 162/2017"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, including Regulation (EU) No. 537/2014 and Law 162/2017 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter

1. Goodwill impairment testing

On 30 May 2017, Sphera Franchise Group SA acquired 99.9997% of the shares in US Food Network SA (referred hereinafter as USFN) and American Restaurant System SA (referred hereinafter as ARS), in exchange for the Company's shares. Following the purchase price allocation (in which identifiable assets and liabilities of ARS were recognised at fair value), RON 51 million resulted as goodwill recorded in the consolidated financial position of the Group.

The Group is required to test the goodwill for impairment at least annually. The impairment assessment made by the Group is considered to be a key audit matter as it incorporates significant judgements made by management in respect of certain factors such as future cash flows, future restaurants opening, growth rates, gross and net operating margins, working capital needs, capital expenditure and discount rates, as well as economic assumptions such as the evolution of salaries in the economy and inflation.

The impairment assessment performed on the goodwill resulted in RON 8.3 million impairment adjustment which was recorded as at 31 December 2018.

The Group disclosures about the impairment test are included in Note 2.4.9 Impairment of non-financial assets, including goodwill and Note 12. Intangible assets.

How our audit addressed the key audit matter

Our audit procedures with respect to the impairment analysis performed as of 31 December 2018 included, but were not limited to, the following procedures:

- Analysis of the methodology used by management in performing the impairment test for American Restaurant System SA cash generating unit ("CGU"), to determine its compliance with IAS 36;
- Evaluation of the Group's key assumptions and estimates used to determine the discount rate, the future operating cash flows, the growth rates, operating margins, working capital needs and the capital expenditure;
- Involvement of our valuation specialists to assist us in the evaluation of key assumptions and estimates used by the Group, including the determination of the discount rates. In this context, we evaluated whether or not certain assumptions on which the valuation was based, individually and taken as a whole, considered: i) the economic environment of the industry, and the Group's economic circumstances; ii) existing market information; iii) the business plans of the Group including management's expectations (including, without being limited to: comparing the restaurant openings considered with commitments to franchisor, assessing the investment per restaurant); iv) the risks associated with the cash flows, included the potential variability in the amount and timing of cash flows and the related effect on the discount rate; v) specific requirements of IFRS; vi) benchmarking against general performance of peer companies and against the Group's historical financial performance and trends;
- Testing the mathematical accuracy of the discounted cash flow computation;
- Assessment of the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year;
- Reviewed the management's sensitivity analysis over key assumptions in the future cash flow model in order to assess the potential impact of a range of possible outcomes.

We further assessed the adequacy of the disclosures about the impairment test in the notes to the consolidated financial statements.

Key audit matter

2. Useful life of Property, plant and equipment and intangibles in the consolidated financial statements

The Group makes and has significant investments in both property, plant and equipment and intangible assets that are associated with its operations and business units in Romania, Italy and Moldova.

As described in Note 12. Intangible assets, the main intangibles of the Group, other than goodwill, refer to the franchise agreements capitalized by the Group, while, as described in Note 11. Property, plant and equipment, the main assets refer to leasehold improvements made to the locations where the restaurants are functioning and the equipment used in restaurants.

As described in Note 3. Significant accounting judgements, estimates and assumptions, the Group assesses the remaining useful lives of items of property and equipment at least at each financial year-end.

Management judgement significantly impacts the carrying value of property, plant and equipment and intangible assets and the depreciation and amortization recorded in profit or loss through the estimation of their useful lives. Thus, this is considered to be a key audit matter.

How our audit addressed the key audit matter

Our audit procedures included, but were not limited to the following procedures:

- Comparing the useful economic lives assigned with reference to the Group's historical experience, our understanding of the future utilization of assets by the Group and by reference to the depreciation policies applied by third parties operating similar assets;
- Reviewing of the useful lives assumptions reasonability for both intangible assets and tangible assets, against general market practices as summarized in studies on technological and constructions assets classes, as prepared by international reputable agencies, technical experts or valuation bodies (e.g. American Society of Appraisers, Marshall and Swift);
- Assessing in particular the useful lives and residual values of intangibles with reference to the franchise agreements in force;
- Evaluation of the consistency of the business strategy assumptions used to determine the useful lives with the assumptions used for the business plan and other knowledge accumulated by us about management's plans during our audit including the development plan agreed with the franchisor.

We further assessed the adequacy of the disclosures included in the consolidated financial statements in respect to useful lives.

Other information

The other information comprises the Consolidated Directors' Report, but does not include the consolidated financial statements and our auditors' report thereon. We obtained the Consolidated Directors' Report, prior to the date of our auditor's report, and we expect to obtain the Annual Report which will include also the Non-Financial declaration, as part of a separate report, after the date of our auditor's report.

Management is responsible for the other information.

Our audit opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Order of the Minister of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or

conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements

Reporting on Information Other than the Consolidated Financial Statements and Our Auditors' Report Thereon

In addition to our reporting responsibilities according to ISAs described in section "Other information", with respect to the consolidated Directors' Report, we have read the consolidated Directors' Report and report that:

- a) in the consolidated Directors' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying consolidated financial statements as at December 31, 2018;
- b) the consolidated Directors' Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 - 19;
- c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the consolidated financial statements as at December 31, 2018, we have not identified information included in the consolidated Directors' Report that contains a material misstatement of fact.

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as auditors of the Group by the Company's Articles of Association on 4th May 2017 to audit the consolidated financial statements for the financial year end December 31, 2018. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 2 years, covering the financial period end December 31, 2017 and December 31, 2018.

Consistency with Additional Report to the Audit Committee

Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 20 March 2019.

Provision of Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Group and we remain independent from the Group in conducting the audit.

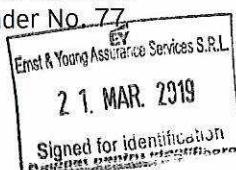
In addition to statutory audit services and services disclosed in the consolidated financial statements, no other services were provided by us to the Company, and its controlled undertakings.

On behalf of,

Ernst & Young Assurance Services SRL

15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania

Registered in the electronic Public Register under No. 77



Name of the Auditor/ Partner: Alina Dimitriu

Registered in the electronic Public Register under No. 1272

Bucharest, Romania

21 March 2019

SPHERA FRANCHISE GROUP SA
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
All amounts in RON thousand, unless specified otherwise

	Note	2018	2017
Restaurant sales		771,197	573,175
Restaurant expenses			
Food and material expenses		275,497	206,704
Payroll and employee benefits	8.1	161,874	109,858
Rent		54,372	41,615
Royalties		45,532	33,885
Advertising		41,059	30,231
Other operating expenses, net	6	69,227	44,412
Depreciation and amortization	8.2	20,458	13,942
Restaurant operating profit		103,178	92,528
General and administration expenses, net	7	73,048	55,925
Operating profit		30,130	36,603
Finance costs		9.1	3,102
Finance income	9.2	108	166
Profit before tax		27,136	34,661
Income tax expense	10	2,874	3,233
Profit for the period		24,262	31,428
Attributable to:			
Equity holders of the parent		24,057	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		24,375	31,394
Attributable to:			
Equity holders of the parent		24,155	31,267
Non-controlling interests		220	127
Earnings per share, basic and diluted (RON/share)	23	0.6200	0.8442

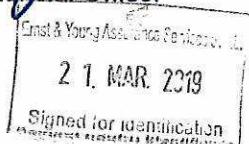
These consolidated financial statements from page 7 to page 59 were approved by the Board of Directors and were authorised for issue on 21 March 2019.

Mark Hilton

General Manager Sphera Franchise Group SA

Daniel Palita

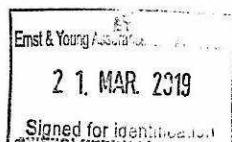
 Interim Chief Financial Officer

Ernst & Young Assurance Services, Ltd.
 21 MAR 2019
 Signed for identification


SPHERA FRANCHISE GROUP SA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
All amounts in RON thousand, unless specified otherwise

	Notes	31 December 2018	31 December 2017
Assets			
Non-current assets		229,173	176,123
Property, plant and equipment	11	158,122	105,220
Intangible assets	12	62,150	67,471
Deposits for rent guarantee		5,219	1,288
Deferred tax assets	10	3,682	2,144
Current assets		122,979	73,291
Inventories	15	10,564	8,509
Trade and other receivables	16	16,444	8,454
Prepayments		5,306	3,673
Cash and short-term deposits	17	90,665	52,655
Assets held for sale		-	195
Total assets		352,152	249,609
Equity and liabilities			
Equity			
Issued capital	18	581,990	581,990
Share premium	18	(520,578)	(520,578)
Retained earnings		67,248	43,191
Foreign currency translation reserve	20		(78)
Equity attributable to equity holders of the parent		128,680	104,525
Non-controlling interests		146	19
Total equity		128,826	104,544
Non-current liabilities		91,536	42,191
Interest-bearing loans and borrowings	13	86,787	39,520
Trade and other payables	21	4,749	2,671
Current liabilities		131,790	102,874
Trade and other payables	21	82,658	77,682
Interest-bearing loans and borrowings	13	37,669	25,192
Provisions	20	11,463	-
Total liabilities		223,326	145,064
Total equity and liabilities		352,152	249,609

These consolidated financial statements from page 7 to page 59 were approved by the Board of Directors and were authorised for issue on 21 March 2019.



SPHERA FRANCHISE GROUP SA
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
All amounts in RON thousand, unless specified otherwise

	Foreign currency				Non-controlling interest		Total equity
	Issued capital	Share premium	Other capital reserves	Retained earnings	translation reserve	Total equity	
As at 1 January 2018	581,990	(520,578)	-	43,191	(78)	104,525	19
Profit for the period				24,057		24,057	205
Other comprehensive income							
Translation differences							
Total comprehensive income							
Cash dividends				67,248	20	128,680	146
At 31 December 2018	581,990	(520,578)	-	67,248	20	128,680	146
							128,826

	Foreign currency				Non-controlling interest		Total equity
	Issued capital	Share premium	Other capital reserves	Retained earnings	translation reserve	Total equity	
As at 1 January 2017	190	-	19	58,124	(41)	58,292	(39)
Profit for the period				31,304		31,304	124
Other comprehensive income							
Translation differences							
Total comprehensive income							
Cash dividends				-	31,304	(37)	31,267
At 31 December 2017	581,990	(520,578)	-	43,191	(78)	104,525	19
							104,544

Capital contribution from shareholders (Note 1, Note 18)

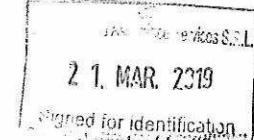
Group reorganization (Note 1, Note 5.2, Note 18)

Costs related to reorganization (Note 18)

Cash dividends

At 31 December 2017

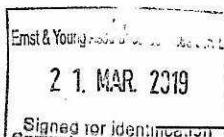
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SPHERA FRANCHISE GROUP SA
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
All amounts in RON thousand, unless specified otherwise

	<u>Note</u>	2018	2017
Operating activities			
Profit before tax		27,136	34,661
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and impairment of property, plant and equipment	11	19,213	13,434
Amortisation and impairment of intangible assets and goodwill	12	10,746	1,387
Net foreign exchange differences		(854)	123
(Gain)/Loss on disposal of property, plant and equipment		(161)	493
Provisions for taxes	7	11,463	-
Finance income	9.2	(108)	(166)
Finance costs (interest)	9.1	2,842	1,162
Working capital adjustments:			
(Increase)/Decrease in trade and other receivables, prepayments and deposits for guarantees		(13,554)	1,175
Increase in inventories		(1,957)	(1,567)
Increase in trade and other payables		8,925	26,366
Interest received		108	166
Interest paid		(2,919)	(1,098)
Income tax paid		(6,074)	(3,713)
Net cash flows from operating activities		54,806	72,423
Investing activities			
Proceeds from sale of property, plant and equipment		207	42
Purchase of intangible assets		(5,338)	(9,015)
Purchase of property, plant and equipment		(67,817)	(46,430)
Acquisition of a new store/subsidiary, net of cash	5.2	(3,737)	2,161
Net cash flows used in investing activities		(76,685)	(53,242)
Financing activities			
Capital contribution from shareholders of Sphera on set up, net of transaction costs paid	18	-	417
Proceeds from borrowings		86,034	44,548
Repayment of borrowings		(25,833)	(13,655)
Payment of finance lease liabilities		(312)	(219)
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		59,796	(15,216)
Net increase in cash and cash equivalents		37,917	3,965
Net foreign exchange differences		93	(278)
Cash and cash equivalents at 1 January		52,655	48,968
Cash and cash equivalents at 31 December		90,665	52,655

These consolidated financial statements from page 7 to page 59 were approved by the Board of Directors and were authorised for issue on 21 March 2019.



SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
All amounts in RON thousand, unless specified otherwise

1. CORPORATE INFORMATION

These consolidated financial statements are prepared by Sphera Franchise Group SA and comprise its activities and those of its subsidiaries, together referred hereinafter as "SFG" or "the Group". Sphera Franchise Group SA is listed on Bucharest Stock Exchange under the symbol "SFG".

The consolidated financial statements for the year ended 31 December 2018 were authorized for issue in accordance with the resolution of the Board of Directors dated 21 March 2019.

The Group operates quick service and takeaway restaurant concepts (a chain of 88 restaurants) under the Kentucky Fried Chicken ("KFC"), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (23 restaurants as at 31 December 2018) as well as pizza delivery points (22 locations as at 31 December 2018) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (5 restaurants as at 31 December 2018) and one restaurant under Paul brand, in Romania. The Group's number of employees at 31 December 2018 was 5,514 (31 December 2017: 4,492).

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 took place in 2017 and 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).

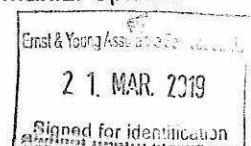
USFN was incorporated in 1994 as a joint stock company and is registered at No. 28-30 Gheorghe Magheru Boulevard, Bucharest, Romania. For the purpose of preparing IFRS consolidated financial statements, USFN had been identified as being the acquirer of ARS on 30 May 2017, in accordance with the requirements of IFRS 3 (further detailed in Note 2.3). On this basis, the consolidated financial statements of SFG were a continuation of the consolidated financial statements of USFN. The acquisition of ARS is further detailed in Note 5.2. 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 18.

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 Palestro Street, Milano, Italy. The Group owns 100% of the company's shares.

The Group's newest subsidiary, California Fresh Flavors SRL ("Taco Bell"), was incorporated as a limited liability company on 19 June 2017 and is registered at No. 239 Calea Dorobanti, Bucharest, Romania. Sphera holds 9,999 shares of its 10,000 shares (99.99% holding).



SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
All amounts in RON thousand, unless specified otherwise

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

Statement of Compliance

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

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.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2018.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

If the Group loses control over a subsidiary, it:

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

2.3 Business combination and goodwill

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

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

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

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

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

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

Ernst & Young Audit Services Ltd
21. MAR. 2019
Signed for identification

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.1 Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

2.4.2 Fair value measurement

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

2.4.3 Revenue

Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The Group operates in the quick service and take away restaurants business. Restaurant revenues are recognised at the moment of the transaction, in the amount of consideration received for the meals and services delivered, net of value added tax charged to customers; the goods are sold to customers on a cash basis.

The effect of initially applying IFRS 15 "Revenues from contracts with customers" starting 1 January 2018 on the Group's revenue is disclosed in Note 4.1.

Disaggregation of revenue from contracts with customers by primary geographical market and type of revenues is presented in the Segment information note. Other sources of revenues (revenues from management and administration services rendered by Sphera Franchise Group SA to related parties, interest income) are not significant to the Group (Note 4.1).

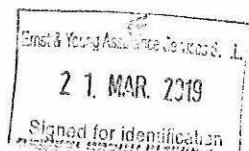
2.4.4 Foreign currencies

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

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

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

	31 December 2018	31 December 2017
RON - EUR	4.6639	4.6597
RON - USD	4.0736	3.8915
RON - MDL	0.2389	0.2283



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Transactions and balances

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

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

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

Group companies

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

2.4.5 Taxes

Current income tax

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

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

Deferred tax

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

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

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

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

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

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

Sales tax (VAT and similar taxes)

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

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

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

2.4.6 Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

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

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Start-up expenses for new restaurants

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

2.4.7 Leases

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

Group as a lessee

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

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

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Group as a lessor

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

The Group will initially apply IFRS 16 Leases on 1 January 2019 using the modified retrospective approach for transition (see Note 4.2).

2.4.8 Intangible assets

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

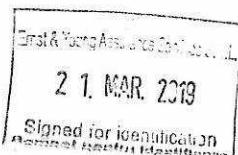
The useful lives of intangible assets are assessed as either finite or indefinite.

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

Franchise rights

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

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.9 Impairment of non-financial assets, including goodwill

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

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

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

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

For the purpose of goodwill impairment testing the Pizza Hut restaurant chain (which is also a reportable segment), is a single cash generating unit.

As at 31 December 2018, the Group recognised in the consolidated financial statements an impairment loss of 8,312 in relation with the goodwill recorded on acquisition of ARS (Note 12).

2.4.10 Financial instruments

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

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

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

De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired

Or

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

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

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision methodology that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment

Disclosures relating to impairment of financial assets are summarised in the following notes:

- Financial instruments risk management Note 14
- Trade receivables Note 16

ii) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

De-recognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

iv) Offsetting of financial instruments

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.11 Inventories

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

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

2.4.12 Cash and short-term deposits

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

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

2.4.13 Prepayments

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

2.4.14 Equity

Share capital

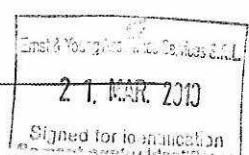
Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds. Any excess or deficit of the fair value of consideration received over the par value of shares issued is recognised as share premium.

Dividends

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

2.4.15 Royalties

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.16 Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in profit or loss net of any reimbursement.

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

Onerous contracts

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

2.4.17 Employee benefits

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

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

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

Defined benefit plans (Italian subsidiary)

In accordance with the Italian labour regulations, the Group operates a leaving-service indemnity plan in Italy only, which requires contributions to be made to a separately administered fund. These benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises related restructuring costs

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'restaurant expenses', 'general and administration expenses' and 'finance costs' in the consolidated statement of profit or loss (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

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

Classification of lease agreements

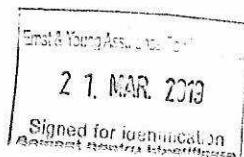
A lease is classified as a finance lease if it transfers to the Group substantially all the risks and rewards incidental to ownership, otherwise it is classified as an operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the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

Estimates and assumptions

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

Useful lives of property and equipment

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



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3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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

Business combination

As Sphera was a new entity with no significant activities in 2017 when the business combination took place, USFN has been identified as the acquirer of ARS, mainly due to its relative size. The purchase price of the shares was considered to be the nominal value of the shares issued by Sphera in exchange for the shares in ARS, which in turn was based on the fair value of ARS's business as determined by an independent appraiser.

Following the purchase price allocation (in which identifiable assets and liabilities of ARS were recognised at fair value), goodwill was recognised in the consolidated financial statements of Sphera. The fair value adjustments performed as part of the purchase price allocation referred to property, plant and equipment.

Judgements and assumptions used for Business combinations and asset acquisitions

At the time of acquisition, the Group considers whether each acquisition represents an acquisition of a business or an acquisition of an asset. Where an integrated set of activities are acquired in addition to the property more specifically the consideration is made of the extent to which significant processes are acquired, the transaction is accounted for as a business combination.

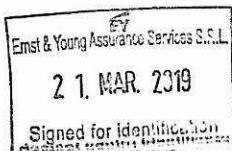
The key assumptions used to determine the value of the ARS business and the fair value of identifiable assets and liabilities acquired, are disclosed and further explained in Note 5.

Impairment of goodwill

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

The fair value less costs of disposal calculation is based on future cash flows, for which some of the main assumptions were future restaurants opening, growth rates, gross and net operating margins, working capital needs and discount rates, as well as economic assumptions such as the evolution of salaries in the economy and inflation.

The key assumptions used to determine the recoverable amount for the CGU, including a sensitivity analysis, are disclosed and further explained in Note 12.



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4. CHANGES IN ACCOUNTING POLICIES

4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2018

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2018. These new standards and amendments do not have a material effect on the Group's consolidated financial statements. The Group has not early adopted any other standards, interpretations or amendments that have been issued but were not yet effective.

IFRS 15 Revenue from Contracts with Customers and Clarifications

IFRS 15 establishes a five-step model to apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements also applies to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures are required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach.

The Group has adopted IFRS 15 using the "modified retrospective" method, with the cumulative effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018) in equity. The Group did not apply any practical expedients upon transition.

Consequently, the information reported for 2017, including related disclosures, has not been restated, being presented, as previously reported, under legacy IFRS revenue standards and interpretations.

The application of this standard (including Clarifications) starting 1 January 2018 does not have any significant impact on the financial performance (revenues from contracts with customers) nor on the financial position of the Group.

IFRS 9 Financial Instruments: Classification and Measurement

The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The application of this standard does not have any significant impact on the financial position or performance of the Group, more specifically:

- The measurement of financial assets and liabilities (including impairment of financial assets) does not change significantly
- The Group's operating, investing and financing cash flows and the basic and diluted EPS are not impacted

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4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2018 (continued)

- The Group currently has no hedging instruments.

(a) Classification and measurement

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Group. The following are the changes in the classification of the Group's financial assets:

- Trade receivables and loans are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as Debt instruments and continue to be measured at amortised cost (ie, there is no modification in the measurement of the trade receivables apart from the requirement to calculate expected credit losses discussed below).

The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

(b) Impairment

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Upon the adoption of IFRS 9, the Group did not recognise additional impairment on the Group's trade receivables and loans as the impact was not significant.

IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Management has assessed that the application of these amendments does not have any impact on the financial position or performance of the Group.

IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. The application of these amendments does not have any impact on the financial position or performance of the Group, as it already followed an approach aligned with these requirements.

IAS 40: Transfers to Investment Property (Amendments)

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Group does not currently hold investment property.

The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These improvements are not applicable to the Group.

- IAS 28 Investments in Associates and Joint Ventures: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by

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4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2018 (continued)

an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

4.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2018 AND NOT EARLY ADOPTED

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

IFRS 16: Leases

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

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

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

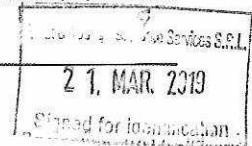
Taking into consideration the significant number and value of signed lease agreements as a lessee, the Group expects a significant impact following the adoption of the standard on its consolidated statement of financial position, and on its consolidated statement of comprehensive income. The most significant impact is that the Group will recognize new assets and liabilities for its operating leases unless an exemption from IFRS 16 is applicable. The change in presentation of operating lease expenses will result in a corresponding improvement in cash flows from operating activities and a decline in cash flows from financing activities.

The Group's rental agreements for restaurants may include:

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

Under IFRS 16 only fixed lease payments will be accounted through IFRS 16 lease model. Variable lease payments that depend on sales will be recognized in profit or loss in the period in which the condition that triggers those payments occurs. Turnover rent therefore will be accounted as operating expenses. For any new lease agreement, the Group will recognize a new asset and liability on its balance sheet. The Group will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The amount of the remeasurement of the lease liability will be recognized as an adjustment to the right-of-use asset i.e. with no impact on income statement.

For the year 2018, the Group has performed an analysis of the operating lease contracts portfolio and estimated the impact on the consolidated financial statements as at and for the year ended 31 December 2018, as if the new standard would had been early adopted on 1 January 2018 (only for comparability and impact to be presented for the users of the financial statements). The impact for 2018, if the standard would



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4.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2018 AND NOT EARLY ADOPTED (continued)

have been adopted, would lead to an increase in property, plant and equipment (right-of-use) of approximately 189,000 and debt, adjusted by prepaid or accrued lease payments, of approximately 187,000. The impact in profit and loss would be a decrease in the result by 1,000.

For the year 2019, the recognition of a right-of-use asset and lease liability for the operating leases is expected to lead to an increase in property, plant and equipment (right-of-use) of approximately 194,000 and debt, adjusted by prepaid or accrued lease payments, of approximately 191,000 on January 1st, 2019. In the income statement, depreciation charges and interest expense will be reported instead of the lease expense resulting from fixed lease payments.

The estimated impact of the adoption of this standard is based on the assessments undertaken to date. The actual impacts may still change until the Company presents its financial statements that include the date of initial application.

The Group will initially apply IFRS 16 on 1 January 2019 using the modified retrospective approach for transition, thus not restating comparative amounts for the comparative period presented. Instead, the Company will recognize the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings at the date of initial application. The right-of-use assets for previous operating leases will be measured at the date of initial application at the amount of the lease liability, adjusted by prepaid or accrued lease payments. Sphera Group will apply the following practical expedients for transition:

- The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e. printing and photocopying machines) that are considered of low value.
- The lease term was considered to be the non-cancellable period in the contract, without taking into consideration the renewal option.
- The Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).
- The Group relies on its assessment of whether leases are onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review.
- The Group uses hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

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4.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2018 AND NOT EARLY ADOPTED (continued)

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. These amendments do not have any impact on the Group's consolidated financial statements.

IFRS 9: Prepayment features with negative compensation (Amendment)

The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These Amendments have not yet been endorsed by the EU. The Group does not have financial assets with prepayment features.

IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)

The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. The Group does not hold investments in associates or joint ventures.

IFRIC Interpretation 23: Uncertainty over Income Tax Treatments

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. Management has assessed that the application of this interpretation will not have any impact on the financial position or performance of the Group.

IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. The Group has no plans in scope of these amendments.

Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document,

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4.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2018 AND NOT EARLY ADOPTED (continued)

Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. Management has assessed the application of these amendments will have no impact on the financial position or performance of the Group.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)

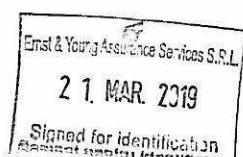
The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU. Management has assessed the application of these amendments will have no impact on the financial position or performance of the Group.

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. Management has assessed that the application of these improvements will have no impact on the financial position or performance of the Group.

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

- IAS 12 Income Taxes: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

- IAS 23 Borrowing Costs: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.



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5. GROUP INFORMATION

5.1 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 Flavors SRL	Romania	Restaurants	99.9900%	99.9900%
US Food 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 and 31 December 2017 is below 1 thousand RON therefore there are no other presentations thereof.

5.2 Business combinations

On 30 May 2017, Sphera acquired 99.9997% of the shares in USFN and ARS, in exchange for Sphera shares. As Sphera was a new entity with no significant activities, USFN had 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 18.

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 valuation of ARS's business was based on future cash flows, for which the main assumptions were future restaurants opening, growth rates, gross and net operating margins, working capital needs and discount rates, as well as economic assumptions such as the evolution of salaries in the economy and inflation.

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5.2 Business Combinations (continued)

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. Fair value adjustments were determined to be necessary in respect of property plant and equipment.

The valuation of the freehold buildings was based on market comparison approach while leasehold improvements and plant and machinery followed the depreciated replacement cost method (historical cost brought in present terms and adjusted for the estimated functional depreciation). Intangible assets were valued based on cost approach. The key assumptions for the valuation were related to the cost indexation method and the functional depreciation allocated to each asset.

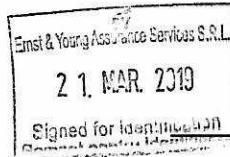
Goodwill arised from the acquired customer base and economies of scale expected from combining the operations of the Group and ARS.

In April 2018, the Group acquired a new store in Turin, Italy, for a total consideration of 3,727. The transaction has been considered a business combination in which assets and liabilities, significant processes and related employees have been transferred.

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).

6. OTHER OPERATING EXPENSES, NET

	2018	2017
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	69,227	44,412



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7. GENERAL AND ADMINISTRATION EXPENSES, NET

	2018	2017
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	415	432
Impairment of goodwill (Note 12)	8,312	-
Impairment of non-current assets	140	-
Expenses for litigations	947	-
Provision for tax, VAT adjustments and late payment penalties	11,463	-
Miscellaneous expenses and income, net	905	863
Total	73,048	55,925

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

The Group has declared appeal at the Bucharest Court of Appeal against the civil sentence ruled by the Ilfov Court. On 27 February 2019, the Bucharest Court of Appeal issued a decision in the Group's favour, diminishing the value of the compensations from 947 to 375. The Court's decision is subject to the claimant's appeal (Note 28).

Provision for tax refers to the value of income tax, VAT adjustments and related late payment interest that the tax authorities have considered in the draft report released on 27 February 2019, as result of the tax audit performed at USFN SA for the periods 2013-2017 (VAT) and 2012-2016 (income tax) (Note 20).

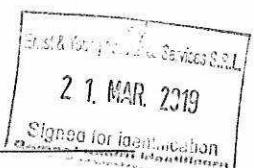
For the year ended 31 December 2017, payroll and employee benefits include the bonus granted to management based on the listing of Sphera's shares (please refer also to Note 25).

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

8.1 Payroll and employee benefits

	2018	2017
Payroll and employee benefits recognized in "Restaurant expenses"	161,874	109,858
Payroll and employee benefits recognized in "General and administration expenses, net"	30,563	32,368
Total payroll and employee benefits	192,437	142,226
Of which, defined contribution to State pension plan*	2,140	29,616

*Starting 1 January 2018, following the Romanian legislation changes, the social security contributions were transferred from employers to the employee's responsibility, therefore the disclosure of the contribution to the State pension plan for 2018 refers only to the foreign subsidiaries.



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8. DISCLOSURE OF TOTAL PAYROLL AND EMPLOYEE BENEFITS EXPENSE AND TOTAL DEPRECIATION AND AMORTIZATION EXPENSE (continued)

During 2018, the Group hired in Italy 180 restaurant staff for the Italian's subsidiary operations. In accordance with the local labour regulations, Italian companies have to pay to their employees a leaving-service indemnity ("TFR"). The accrual for termination benefits in amount of 501 as at 31 December 2018 was calculated as a career-average lump sum, in accordance with the Italian statutory regulations. The Group performed an actuarial computation of these termination benefits in line with the IAS 19 "Employee benefits" provisions, but no significant actuarial adjustments were necessary to the consolidated financial statements as at and for the year ended 31 December 2018.

8.2 Depreciation and amortization

	2018	2017
Depreciation and amortization recognized in "Restaurant expenses"	20,458	13,942
Depreciation and amortization recognized in "General and administration expenses, net"	1,049	879
Total depreciation and amortization	21,507	14,821

9. FINANCE COSTS AND INCOME

9.1 Finance costs

	2018	2017
Interest on loans and borrowings	2,799	1,136
Finance charges payable under finance leases	44	25
Foreign exchange loss, net	259	947
Total finance costs	3,102	2,108

9.2. Finance income

	2018	2017
Interest income	108	166
Total finance income	108	166

10. INCOME TAX

The major components of income tax expense for the years ended 31 December 2018 and 31 December 2017 are:

	2018	2017
Current income tax:		
Current income tax charge	4,407	5,337
Deferred tax:		
Relating to origination and reversal of temporary differences	(1,533)	(2,104)
Income tax expense reported in the statement of comprehensive income	2,874	3,233

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10 INCOME TAX (continued)

A reconciliation between tax expense and the product of accounting profit multiplied by Romania's domestic tax rate for the years ended 31 December 2018 and 31 December 2017 is as follows:

	2018	2017
Accounting profit before income tax	27,136	34,661
At statutory income tax rate of 16%	4,342	5,546
Effect of higher tax rates in Italy on tax loss	(462)	(195)
Effect of lower tax rates in the Republic of Moldova	(49)	(28)
Other income and legal reserves exempted from tax	(638)	(334)
Effect of changes in the tax legislation (specific tax)	(4,772)	(2,145)
Sponsorship fiscal credit	(5)	(92)
Non-deductible expenses for tax purposes, including impairment loss for goodwill	4,458	482
At the effective income tax rate	2,874	3,233

The changes in tax legislation and tax rates relate to the tax levied on restaurant activity applicable for the companies active in the restaurant industry starting with 1 January 2017. Specifically, per the updated regulations, the income tax for the restaurant activity has been replaced by a specific tax, computed based on a minimum fixed amount multiplied by the impact of three criteria: restaurant area, restaurant location and seasonality.

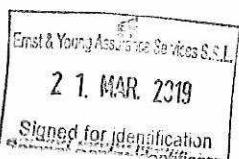
Specific tax was in amount of 3,933 for the year ended 31 December 2018 (2,874 for the year ended 31 December 2017). The taxation of the non-restaurant activities has not suffered changes.

Deferred tax

Deferred tax reconciliation with corresponding items in the consolidated statement of financial position and consolidated statement of comprehensive income is as follows:

	Statement of financial position		Statement of comprehensive income	
	31 December 2018	31 December 2017	2018	2017
Property, plant and equipment	(214)	(28)	186	50
Intangible assets	(23)	-	23	-
Fiscal losses	3,757	2,126	(1,631)	(2,126)
Operating lease incentives	162	46	(116)	(28)
Deferred tax benefit	-	-	(1,538)	(2,104)
Net deferred tax assets	3,682	2,144		

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.



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11. PROPERTY, PLANT AND EQUIPMENT

	Freehold buildings and leasehold improvements	Plant and machinery	Other equipment	Constructio n in progress	Construction in progress	Total
Cost						
At 1 January 2017	44,626	43,152	13,732	3,306	104,816	
Additions	23,532	12,958	4,341	13,561	54,392	
Acquisition of subsidiary (Note 5.2)	12,345	8,910	2,048	1,358	24,661	
Disposals	808	1,110	975	7,960	10,854	
Exchange differences	157	116	17	2	291	
At 31 December 2017	79,852	64,026	19,163	10,267	173,307	
Additions	38,955	22,088	12,436	16,879	90,358	
Disposals/ Transfers	-	1,884		18,230	20,114	
Transfer from assets held for sale		1,161			1,161	
Exchange differences	96	102	27	4	229	
At 31 December 2018	118,903	85,493	31,626	8,920	244,944	
Depreciation						
At 1 January 2017	23,865	25,061	8,339	-	57,265	
Depreciation charge for the year	5,950	5,452	2,032	-	13,434	
Disposals	578	1,206	895	-	2,679	
Exchange differences	22	38	8	-	67	
At 31 December 2017	29,259	29,345	9,484	-	68,087	
Depreciation and impairment charge for the year	8,298	7,467	3,592	-	19,357	
Disposals	-	1,658		-	1,658	
Transfer of assets held for sale		966		-	966	
Exchange differences	22	38	9	-	69	
At 31 December 2018	37,579	36,158	13,085	-	86,822	
Net Book Value						
At 1 January 2017	20,761	18,091	5,393	3,306	47,551	
At 31 December 2017	50,593	34,681	9,679	10,267	105,220	
At 31 December 2018	81,324	49,335	18,541	8,920	158,122	

The Group has several finance lease contracts for motor vehicles. The carrying value of the leased assets as of 31 December 2018 and 31 December 2017 was: 689 and 731 respectively. The assets acquired under finance lease are pledged in favour of the leasing company.

As of 31 December 2018 and 31 December 2017, the gross book value of fully depreciated property, plant and equipment that were still in use amounted to 43,874 and 34,420 respectively.

The Group has pledged non-current assets (mostly equipment) in favour of Alpha Bank for the financing received. The net carrying amount of pledged assets as at 31 December 2018 is of 37,916 (31 December 2017: 54,944).

The additions during the years ended 31 December 2018 and 31 December 2017 consist mainly in new restaurants' leasehold improvements, as well as restaurants' kitchen equipment. The increase of the additions during 2018 is related to the all brand network expansion by new 17 restaurants in Romania (8 KFC restaurants, 1 PH, 5 PHD, 3 Taco Bell) and 8 new KFC restaurants in Italy.

In April 2018, the Group acquired a new store in Turin, Italy. The fair value of the identifiable property and equipment at the date of acquisition was of 3,542.

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12. INTANGIBLE ASSETS

	Goodwill	Franchise rights	Other intangible assets	Intangibles in progress	Total
Cost					
At 1 January 2017	-	10,431	87	745	11,263
Additions	-	7,901	640	474	9,015
Acquisition of subsidiary (Note 5.2)	50,585	2,245	237	393	53,460
Exchange differences	-	22	5	-	27
At 31 December 2017	50,585	20,599	969	1,612	73,765
Additions	-	4,328	940	141	5,410
Disposals			106		106
Exchange differences	-	19	3	-	22
At 31 December 2018	50,585	24,946	1,806	1,753	79,091
Amortisation					
At 1 January 2017	-	4,878	20	-	4,898
Amortisation	-	1,297	90	-	1,387
Exchange differences	-	7	2	-	9
At 31 December 2017	-	6,182	112	-	6,294
Amortisation	-	2,108	326	-	2,434
Impairment loss of goodwill	8,312				8,312
Accumulated amortisation of disposals	-	-	106	-	106
Exchange differences	-	5	2	-	7
At 31 December 2018	8,312	8,295	334	-	16,941
Net book value					
At 1 January 2017	-	5,553	67	745	6,365
At 31 December 2017	50,585	14,417	857	1,612	67,471
At 31 December 2018	42,273	16,651	1,472	1,753	62,150

Additions during the years ended 31 December 2018 and 31 December 2017 consisted mainly in franchise operating licenses acquired for newly opened restaurants. Also in 2017, additions included the amount of 3,444 paid by the Group as a renewal of the license fee in the context of the secondary public offering and restructuring to obtain the rights of continuing use of the YUM! System, System Property and Marks.

For impairment testing, goodwill acquired through business combinations is allocated to the Pizza Hut restaurant chain CGU, which is also an operating and reportable segment.

The Group performed its annual impairment test as of 31 December 2018.

The recoverable amount of the CGU as at 31 December 2018, has been determined at 63,483 based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2019-2023). The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor. This fair value measurement is on level 3 of the fair value hierarchy.

The cashflow projections are based on financial budgets approved by senior management covering the above referred period.

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12. INTANGIBLE ASSETS (continued)

The key assumptions used in the calculation of the recoverable amounts are sales growth rates, EBITDA margins, discount rates and terminal value growth rates. Capital expenditure/restaurant is also a key assumption. The values assigned to these key assumptions reflect past experience and a number of actions that the management intends to pursue, such as a temporary slowdown of the new store development plan and a tighter control of certain expenses (restaurant payroll, marketing, general and administrative expenses).

Discount rate (post tax) used is 11%. The discount rate reflects the current market assessment of the risks specific to ARS and was estimated based on the weighted average cost of capital for the industry. This rate was further adjusted to reflect the market assessment of any risk specific to ARS for which further estimates of cash-flows have not been adjusted. The WACC was determined by taking into account the debt equity structure of the peers.

The Group considers the sales growth rates used in the impairment test to be conservative, based on the recent evolution of Pizza Hut restaurants and the measures it has undertaken to support sales, including the level of selling prices and changes to its sales channels.

Budget EBITDA margins are based mainly on gradually improving restaurant margins through the reduction of cost of sales, labour and other operating expenses.

As a result of the analysis, as compared to the CGU carrying value of 71,795, an impairment loss was recognised in the financial statements of 8,312 as at and for the year ended 31 December 2018.

With regard to the assessment of impairment, management believes that the model is most sensitive to:

- cost of capital (WACC)
- terminal growth assumptions
- EBITDA margin

EBITDA margin reflects management's estimates regarding the operational profitability of the CGU, in line with historical levels and market evolution (and is not disclosed due to the strategic nature of this information). If EBITDA margin would decrease by 0.50% the recoverable amount of the CGU would be 54,576 and the impairment loss would be 17,219, while if the EBITDA margin would increase by 0.50% the recoverable amount of the CGU would be 72,391 and there would be no impairment.

Key drivers	Key drivers (%)	Fair value less cost to sell		Impairment
		11.00%	63,483	
Cost of capital	0.50%		59,010	-12,785
	-0.50%		68,572	-3,223
Perpetuity growth factor	3.00%		63,483	-8,312
	-0.50%		38,238	-33,557
	0.50%		67,238	-4,557

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13. INTEREST-BEARING LOANS AND BORROWINGS

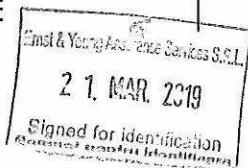
	Interest rate, %	Maturity	31 December 2018	31 December 2017
Current interest-bearing loans and borrowings				
Obligations under finance leases			301	216
Bank loan				
Total current interest-bearing loans and borrowings			37,669	24,976
Non-current interest-bearing loans and borrowings				
Obligations under finance leases				
Bank loan				
Total non-current interest-bearing loans and borrowings			124,456	64,712
Total interest-bearing loans and borrowings				
			432	220

The Group has a credit facility from Alpha Bank Romania made up of 9 sub-limits, out of which can be accessed by companies included in the consolidation, as follows: credit facility for the development of new locations, issuance of bank guarantee letters, credit card, financing of Moldova subsidiary, financing of working capital and financing of Italian subsidiary. The loan is secured with property, plant and equipment of each restaurant location for which the credit limit has been utilised, pledge on current accounts opened with the bank, promissory notes issued, pledge on receivables from and shares owned by the Group in its Moldova and Italia subsidiary. The carrying amount of pledged property, plant and equipment and cash and cash equivalents is disclosed in Notes 11 and 17.

Covenants:

The Group's borrowing arrangement with the Bank contains several covenants, mainly of quantitative nature, out of which the most important relates to the ratio bank net debt/EBITDA at a consolidated level which should not exceed at any point in time 2.5. There are also covenants defined for each borrower, at company level, which are analysed by the Bank each time a borrower submits a request for disbursement.

Breaches in meeting the financial covenant at Group consolidated financial covenant for the years ended 31 December 2018 and 31 December 2017. There have been no breaches of the consolidated financial covenant for the years ended 31 December 2018 and 31 December 2017.



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13. INTEREST-BEARING LOANS AND BORROWINGS (continued)

Breaches in meeting standalone financial covenants allow the bank only to cease any loan disbursement to the affected company. In 2018, American Restaurant System recorded a standalone Net debt/EBITDA above 2.5 and negative net worth, thus failing to meet the standalone financial covenants. As a result, American Restaurant System was not allowed to perform any further drawings from the loan. By the end of the financial year, the Bank issued a waiver letter by which it waived its right to declare the loan anticipated due in relation to breach of financial covenants and stated that it has decided to extend within the usual course of business the loan facilities maturities and availability period, under the terms of credit contract and subsequent amendments. The loan balance of American Restaurant System as at 31 December 2018 is of 14,048, out of which only 3,863 is long term.

The following table shows a reconciliation of the changes in liabilities arising from financing activities:

	31 December 2017		Non-cash changes		Cash changes		31 December 2018	
	Interest accrual	Bank charges related to financing	Foreign exchange gains/losses	Drawings	Repayments	Interest paid	Bank charges paid	
Interest-bearing loans and borrowings								
	64,712	2,936	14	(675)	86,675	(26,167)	(2,919)	(120)
Bank loans	64,276	2,892	14	(665)	86,034	(25,833)	(2,875)	(120)
Financial leases	436	44	-	(10)	641	(334)	(44)	733

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14. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Group's principal financial liabilities comprise loans and borrowings, including finance leases and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's financial assets are represented by loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations, as well as long-term deposits to guarantee rent payables.

The Group is exposed to interest rate risk, foreign exchange rate risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management ensures the Group's financial risk activities are performed under appropriate procedures and that financial risks are identified, measured and managed in accordance with Group risk appetite.

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Trade and other receivables and payables are non-interest bearing financial assets and liabilities. The borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term and short-term credit facilities. Interest rates on the Group's debt finance are variable. The interest rates on credit facilities of the Group are disclosed in Note 13. Changes in interest rates impact primarily loans and borrowings by changing either their future cash flows (variable rate debt). Management policy is to resort mainly to variable rate financing. However, at the time of rising new loans or borrowings management uses its judgment to decide whether it believes that fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings. With all other variables held constant, the Group's profit before tax and equity are affected through the impact on floating rate borrowings, as follows:

	Increase in basis points	Effect on profit before tax
31 December 2018 EUR	1%	(1,244)
31 December 2017 EUR	1%	(647)

The Group does not hedge its interest rate risk.

The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment. An equal decrease of the interest rate would have the same effect but of opposite impact.

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14. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's financing activities, as the financing contracted by the Group is Euro based. The vast majority of revenues and expenses, trade and other receivables and payables is in RON.

The Group monitors the currency risk by following changes in exchange rates in currencies in which its intercompany balances and external debts are denominated. The Group does not have formal arrangements to mitigate its currency risk.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the EUR and US dollar exchange rate. The Group's exposure to foreign currency changes for all other currencies is not material. With all other variables held constant the Group's profit before tax and equity (excluding translation of Italian subsidiary for presentation into RON) are affected as follows:

	<u>Increase in EUR rate</u>	<u>Effect on profit before tax</u>	<u>Increase in USD rate</u>	<u>Effect on profit before tax</u>
31 December 2018	1%	(1,249)	1%	(4)
31 December 2017	1%	(677)	1%	(10)

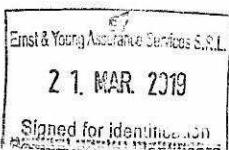
An equal decrease of the EUR/USD rate would have the same effect but of opposite impact.

Credit risk

The Group is not significantly exposed to credit risk as the majority of its sales are on a cash basis. The Group's credit risk is primarily attributed to trade and other receivables and balances with banks. The carrying amount of trade and other receivables, net of allowance for impairment (Note 16 and deposits for rent guarantee as per statement of financial position) plus balances with banks (Note 17), represent the maximum amount exposed to credit risk. Management believes that there is no significant risk of loss to the Group beyond the allowances already recorded.

The Group invests cash and cash equivalents with highly reliable financial institutions. The Group has only plain vanilla deposits with reputable banks, none of which has experienced any difficulties in 2018 or up to the date of these consolidated financial statements. The majority of cash is transacted through and placed with Alpha Bank Romania, member of Alpha Bank Group from Greece and Banca Romana de Dezvoltare (BRD), a member of Societe Generale Group from France, as well as with Unicredit Bank Italy. The long-term credit rating of Alpha Bank Greece is Caa2 as provided by Moody's rating agency, no credit rating being available for its Romanian subsidiary. The long-term credit rating of BRD is Baa3, while the one for Unicredit is Baa1, both provided by Moody's

There is no significant concentration of credit risk in respect of trade and other receivables due to the fact that sales are based mainly on cash and credit card payments. Therefore there are no formal policies in the Group to manage credit risk for trade receivables. The Group's credit risk is primarily attributed to loans and receivables from related parties, for which the probability of losses is considered remote.



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14. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Liquidity risk

The Group has adopted a prudent financial liquidity management approach, assuming that sufficient cash and cash equivalents are maintained and that further financing is available from guaranteed funds from credit lines. The tables below summarize the maturity profile of the Group's financial liabilities, including principal amounts and interests according to contractual terms, at 31 December 2018 and 31 December 2017 based on contractual undiscounted payments.

31 December 2018	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings	76	8,038	33,663	85,377	7,235	134,389
Trade and other payables	8,144	74,515	-	4,748	-	87,407
Total:	8,220	82,553	33,663	90,125	7,235	221,796

31 December 2017	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings	59	5,579	21,361	40,125	858	67,982
Trade and other payables	10,317	34,681	119	1,792	-	46,909
Total:	10,376	40,260	21,480	41,917	858	114,891

At 31 December 2018, the Group had available 47,449 of undrawn uncommitted borrowing facilities (31 December 2017: 25,556), thus being able to respond to any unforeseen higher cash outflow needs.

Capital management

Capital includes the equity attributable to the equity holders of the parent.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group may monitor capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group does not have a target gearing ratio, as the overall gearing is low. The Group includes within net debt, interest bearing loans and borrowings, financial trade and other payables, less cash and cash deposits.

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14. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

	31 December 2018	31 December 2017
Interest-bearing loans and borrowings	124,456	64,712
Financial trade and other payables	57,615	46,909
Less: cash and short-term deposits	90,665	52,655
Net debt	91,406	58,966
Equity	128,826	104,544
Capital and net debt	220,232	163,510
Gearing ratio:	42%	36%

The Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. For the covenants in force as at 31 December 2018 and 31 December 2017 please refer to Note 13.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

Fair values

The Group has no financial instruments carried at fair value in the statement of financial position.

The carrying amount of the interest bearing loans and borrowings approximate their fair value. Management estimates that the margin applicable over Euribor at the balance sheet date would be similar to the ones at the dates of each previous withdrawal, due to the fact that the Group maintained over the past years a low gearing ratio and a stable financial condition, and also based on statistics published by the National Bank of Romania.

Financial instruments which are not carried at fair value on the statement of financial position also include deposits to guarantee rent, trade and other receivables, cash and cash equivalents, and trade and other payables.

The carrying amounts of these financial instruments are considered to approximate their fair values, due to their short term nature (in majority) and low transaction costs of these instruments (level 3 measurement).

15. INVENTORIES

	31 December 2018	31 December 2017
Raw materials	7,292	5,740
Consumables	2,512	2,069
Goods for resale	760	700
Total	10,564	8,509

For the year ended 31 December 2018, inventories amounting to 286,169 (2017: 215,583) were recognised as an expense in profit or loss, in "Food and materials" as well as in "Other operating expenses, net" and "General and administrative expenses, net" ("Small-wares" and "Cleaning supplies").

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16. TRADE AND OTHER RECEIVABLES

	31 December 2018	31 December 2017
Trade receivables, net	874	393
Trade receivables from related parties	994	982
Advances to related parties	169	169
Loans granted to related parties	966	505
Tax receivables (VAT receivables mainly)	11,569	4,075
Advance to suppliers	190	647
Meal tickets	1,253	1,521
Other debtors	429	162
Total	16,444	8,454

Terms and conditions relating to related party transactions are described in Note 25.

Trade receivables are non-interest bearing and are generally on terms of 30-90 days.

As at 31 December 2018, trade receivables with a value of 392 were impaired and fully provided for. There were no movements during 2018 in the provision for impairment of receivables:

	Total
At 1 January 2017	384
Acquisition of subsidiary	8
At 31 December 2017	392
Charge for the year	-
At 31 December 2018	392

As at 31 December 2018 and 31 December 2017, the ageing analysis of trade receivables and trade receivables from related parties, net of allowances, is, as follows:

31-December 2018	Trade receivables					
	Total	Current	Days past due			
			< 30 days	30-60 days	61-90 days	>91 days
Expected credit loss rate		0%	0%	0%	0%	32%
Estimated total gross carrying amount at default	2,429	216	665	170	154	1,224
Expected credit loss	392	-	-	-	-	392
Net	2,037	216	665	170	154	832

31 December 2017	Trade receivables					
	Total	Current	Days past due			
			< 30 days	30-60 days	61-90 days	>91 days
Expected credit loss rate		0%	0%	0%	0%	29%
Estimated total gross carrying amount at default	1,936	363	183	30	4	1,356
Expected credit loss	392	-	-	-	-	392
Net	1,544	363	183	30	4	964

For the loans attributed to related parties, the Group's considers the probability of losses being remote.

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17. CASH AND SHORT-TERM DEPOSITS

	31 December 2018	31 December 2017
Cash at banks and on hand	56,237	21,774
Cash in transit	821	1,247
Short-term deposits	33,607	29,634
Total	90,665	52,655

Deposits at banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group.

As part of the financing agreement with Alpha Bank the Group has pledged the cash available in the accounts opened with the bank. The balance of the pledged bank accounts as at 31 December 2018 is of 59,645 (31 December 2017: 31,021).

18. ISSUED CAPITAL

	31 December 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 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%).

In 2018, the share capital did not suffer any changes, while in 2017, as a result of Group reorganisation, the following changes took place:

	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)

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18. ISSUED CAPITAL (continued)

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 Computerland Romania SRL, formerly named M.B.L. Computers SRL.

19. PROFIT DISTRIBUTION

	2018	2017
Dividends declared and paid during the period:		
To owners of USFN	-	46,236
To non-controlling interests	93	70
Total dividends for the period	93	46,306
Dividends per share (RON/share) – USFN shares	-	122

For the year ended 31 December 2018, the Board of Directors has proposed to the shareholders' approval, the following distribution of the net profit of Sphera Franchise Group SA as presented in its separate financial statements as at and for the year ended 31 December 2018:

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

Proposed dividends on ordinary shares, subject to approval at the annual general meeting, are not recognised as a liability as at 31 December (Note 28).

For the year ended 2017, it was no distribution of dividends from 2017 result, due to the fact that Sphera has recorded a loss in its standalone accounts, which are the basis for dividend distribution.

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

The management will assess the final findings and financial impact when the final report will be issued by the tax authorities and will initiate all administrative and legal proceedings aiming at the reduction of the financial impact provisioned in the financial results of the year 2018.

As at the date of the release of these financial statements a final tax report has not been received.

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21. TRADE AND OTHER PAYABLES

	31 December 2018	31 December 2017
Trade payables	52,705	43,433
Other payables to related parties	160	50
Other payables	5,125	3,426
Salary liability	21,186	15,814
Social contribution liability	3,679	8,551
Other employee related liabilities	2,148	3,337
Current income tax	1,803	3,471
VAT payable	306	2,211
Other taxes	295	60
Total	87,407	80,353
Less: non-current portion of other payables	4,749	2,671
Trade and other payables, current	82,658	77,682

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 30-day terms
- For terms and conditions relating to related parties, refer to Note 25.

The other current and non-current payables are summarized below:

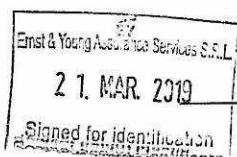
	31 December 2018	31 December 2017
Lease incentives (current and non-current)	3,109	2,258
Free of charge fit-outs (current and non-current)	1,607	926
Other payables (current)	409	242
Total	5,125	3,426

The lease incentive amounts relate to accruals recorded by the Group in order to allocate the lease incentives provided by landlords over the contractual period on a straight line basis. The free of charge fit-outs are represented by free of charge fit-out works/cash incentives received from landlords. The Group has recognized the amounts received in other payables and releases it to profit and loss over the contractual period.

22. EBITDA

	Note	2018	2017
Operating profit		30,130	36,603
Adjustments to bridge operating profit to EBITDA:			
Depreciation and amortization included in restaurant expenses	8.2	20,458	13,942
Depreciation and amortization included in general and administration expenses	8.2	1,049	879
EBITDA		51,637	51,424
Non-recurring expenses		20,722	14,202
Normalised EBITDA		72,359	65,626

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



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22. EBITDA (continued)

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 income tax and VAT adjustments and related late payment penalties (11,463).

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

23. EARNINGS PER SHARE (EPS)

	31 December 2018	31 December 2017
Profit attributable to ordinary equity holders of the parent	24,057	31,304
Weighted average number of ordinary shares	38,799,340	37,081,504
Earnings per share, basic and diluted (RON/share)	0.6200	0.8442

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

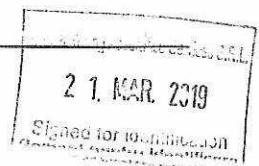
There are no dilutive instruments to be considered.

24. COMMITMENTS AND CONTINGENCIES

Operating lease commitments — Group as lessee

The Group has entered into operating lease agreements for the premises of most of its restaurants and several vehicles and equipment. The lease terms are between five and ten years, with very few agreements exceeding ten years period. The contract period of the operating lease agreements for vehicles and office equipment does not exceed five years term. Future minimum rentals payable under non-cancellable operating leases are as follows:

	31 December 2018	31 December 2017
Within one year	43,243	35,755
After one year but not more than five years	114,985	79,669
More than five years	66,637	39,604
Total:	224,865	155,028



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23. COMMITMENTS AND CONTINGENCIES (continued)

Finance leases

The Group has finance leases for vehicles. The Group's obligations under finance leases are secured by the lessor's title to the leased assets. Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments are, as follows:

	31 December 2018	31 December 2017	
	Minimum payments	Present value of payments	Minimum payments
Within one year	458	301	233
After one year but not more than five years	326	432	237
More than five years	-	-	-
Total minimum lease payments	784	733	470
Less amounts representing finance charges	50	-	35
Present value of minimum lease payments	734	733	435

Other commitments

Per the Romania new network development plan signed in October 2017, the Group has agreed with KFC Europe to open a minimum of 39 new KFC locations (out of which 29 standard format restaurants and 10 smaller format restaurants meaning rural drive-thru or an agreed small box design) during the years 2018-2022 (out of which 6 units in 2018). Should the Group fail to achieve these targets, the Group will pay KFC Europe a penalty for each such location; the Group has not paid such penalties to date. In 2018, the Group opened 8 new KFC stores in Romania, exceeding the committed development plan.

Per the Romania new network development plan concluded with Pizza Hut Europe (Master Franchisor) in October 2017, the Group has agreed to open a minimum of 34 outlets (restaurants and pizza delivery) during the years 2017- 2021 (out of which 5 locations in 2018). Should the Group fail to achieve these targets, the Group will pay PH Europe Sarl a penalty for each such location; the Group has not paid such penalties to date. In 2018, the Group extended the Pizza Hut network with 6 new stores (1 PH unit and 5 PHD units), exceeding the committed development plan.

Per the Romania network development plan concluded with TB International Holdings II SARL (the Franchisor) in April 2017, the Group has agreed to open a minimum of 10 Taco Bell restaurants during the years 2017- 2019 (2 restaurants in 2017, 3 restaurants in 2018 and 5 restaurants in 2019). Should the Group fail to achieve these targets, the Franchisor may terminate the incentives granted to the group. In 2018, the Group increased Taco Bell network by 3 new stores, in line with the committed development plan.

Per the Italy network development plan, the Group has agreed in October 2016 (Tri Veneto region) and August 2017 (Piemonte region) with KFC Europe to open a minimum of 25 KFC locations during the years 2017- 2021 in the Northern part of Italy. Should the Group fail to achieve these targets, the Group will pay KFC Europe a penalty for each such location; the Group has not paid such penalties to date. In 2018, the Group extended the Italian network with 8 new locations, exceeding the commitment plan.

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23. COMMITMENTS AND CONTINGENCIES (continued)

Bank letter of guarantees

The Group has issued bank letters of guarantee in favour of suppliers as at 31 December 2018 in amount of 10,449 (31 December 2017: 8,650).

Other contingencies

Taxation

The interpretation of the text and practical implementation procedures of the tax regulations could vary, and there is a risk that certain transactions could be viewed differently by the tax authorities as compared to the Group's treatment.

The tax legislation, especially in Romania, was subject to significant changes and contradictory interpretations, which may apply retroactively. Moreover, in practice, the tax authorities can take a strong approach and assess additional tax liabilities and related late payment penalties based on their individual interpretations of the tax legislation. As a result, penalties and delay payment interest could result in a significant amount payable to the state.

Contingent liabilities may arise in relation to additional tax assessments that may be imposed by the tax authorities as a result of reviews performed. Corporate tax returns can be subject to review by tax authorities within a 5-year period in Romania and Italy and a 4-years period in Republic of Moldova.

Recently, there has been an increase in audits carried out by the tax authorities.

As of the date of these financial statements, the Group's Romanian subsidiary, US Food Network SA is under a tax audit from Romanian fiscal authorities. Management has reassessed the risk and considers that the subsidiary might be charged with additional tax liabilities and related interest and late payment penalties for which a provision for taxes has been recognised in the consolidated financial statements as at 31 December 2018 (Note 20).

Transfer pricing

According to the applicable relevant tax legislation in the countries in which the Group operates, the tax assessment of related party transactions is based on the concept of market value for the respective transfers. Following this concept, the transfer prices should be adjusted so that they reflect the market prices that would have been set between unrelated companies acting independently (i.e. based on the "arm's length principle"). It is likely that transfer pricing reviews will be undertaken in the future in order to assess whether the transfer pricing policy observes the "arm's length principle" and therefore no distortion exists that may affect the taxable base of the tax payers.

The Group has prepared transfer pricing files.

Legal proceedings

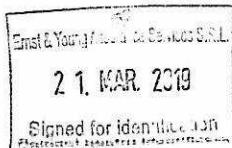
During the period, the Group was involved in a small number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of Management, based on legal advice, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

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25. RELATED PARTY DISCLOSURES

During the years ended 31 December 2018 and 31 December 2017, the Group has carried out transactions with the following related parties:

Related party	Nature of the relationship	Country of incorporation	Nature of transactions
Cinnamon Bake&Roll SRL	Entity with several common members of key management personnel	Romania	Sale of goods and services, loans provided
American Restaurant System SA (up to 30 May 2017)	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
Lunic Franchising and Consulting Ltd.	Shareholder (until 9 November 2017)	Cyprus	Recharge costs related to listing on BSE (2017 only)
Computerland Romania SRL (formerly named M.B.L. Computers SRL)	Shareholder	Romania	Recharge costs related to listing on BSE (2017 only)
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 (2017 only)



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25. RELATED PARTY DISCLOSURES (continued)

Up to 30 May 2017, until the Group obtained control over it as described in Note 5.2, American Restaurant System SA was a related party of the Group.

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

Related party	31 December 2018	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL		4	7	1,271	2
Moulin D'Or SRL		1,529	40	854	5
American Restaurant System SA		-	-	-	-
Lucian Vlad			522	-	-
Radu Dimofte			154	-	-
Wellkept Group SA			416	-	-
Anasa Properties SRL		3	52	-	-
Midi Development SRL		16	152	4	26
Grand Plaza Hotel SA			1,005	-	97
Arggo Software Development and Consulting SRL			442	-	30
		1,552	2,790	2,129	160
Related party	31 December 2017				
Cinnamon Bake&Roll SRL		6	1	738	-
Moulin D'Or SRL		603	9	413	1
American Restaurant System SA		1	57	-	-
Lucian Vlad		-	512	-	-
Radu Dimofte		-	151	-	-
Wellkept Group SA		-	101	-	-
Anasa Properties SRL		-	443	-	-
Midi Development SRL		5	167	-	25
Grand Plaza Hotel SA		-	1,045	-	12
Arggo Software Development and Consulting SRL		-	302	-	12
M. Nasta Ltd.			183	-	-
		615	2,971	1,151	50

The Group has granted a loan to Cinnamon Bake&Roll SRL. The loan balance as at 31 December 2018, included in the balances presented above, was of 924 (31 December 2017: 485) and the interest accrual as at 31 December 2018 was of 42 (31 December 2017: 20).

Prepayments include an amount of 44 (31 December 2017: 44) representing prepaid rent to above mentioned related parties.

Intangibles in progress include an amount of 956 (31 December 2017: 830) representing the capital expenditure related to the new ERP system implementation services provided by Arggo Software and Development SRL.

For the year ended 31 December 2017, the costs of 4,204 incurred by the Group with the listing process were reinvoiced to the selling shareholders, Lunic Franchising and Consulting Ltd. and Computerland Romania SRL (formerly named M.B.L. Computers SRL) (Note 18).

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25. RELATED PARTY DISCLOSURES (continued)

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 years ended 31 December 2018 and 31 December 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:

	2018	2017
Short-term employee benefits	9,841	14,296
Fees paid to management entity	-	2,560
Total compensation paid to key management personnel	9,841	16,856

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

Out of the total short-term employee benefits paid to the key management personnel of 9,841 (2017: 14,296) the contributions to the State pension plan were nil in 2018 (2017: 3,180) following the changes imposed by the Romanian legislation since 1 January 2018, by transferring the payment obligation from the employer to the employee's duty.

26. SEGMENT INFORMATION

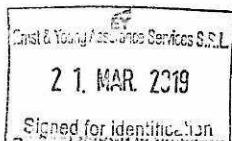
For management purposes, the Group is organised into business units based on the restaurants' brands, as follows:

- KFC restaurants
- Pizza Hut restaurants
- Taco Bell restaurants (first opening on 12 October 2017)

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

The Group's service revenues resulting from the contracts signed with other related parties are presented in the "Other" category (1,507). The Parent company's service revenues rendered to its subsidiaries are presented in the "Inter-segment revenues" line and eliminated during consolidation.

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



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26. SEGMENT INFORMATION (continued)

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	586,955	127,671	14,731	48,207	(36,499)	741,067
Segment operating profit	47,882	(4,851)	(2,698)	40,105	(50,306)	30,130
Finance costs	2,079	949	521	1,268	(1,714)	3,102
Finance income	849	7	-	965	(1,714)	108
Income taxes	1,054	1,448	108	264	-	2,874
Net profit/(loss)	45,598	(7,242)	(3,327)	39,538	(50,306)	24,262
Total assets	234,865	48,846	14,904	78,777	(25,241)	352,152
Total liabilities	177,614	55,760	19,934	43,754	(73,736)	223,326
Capital expenditure	58,730	10,129	6,350	2,451	(123)	77,537
Depreciation, amortization and impairment	15,569	5,115	600	8,675	-	29,959
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
Total assets	173,321	38,569	6,234	34,883	(3,398)	249,609
Total liabilities	101,784	38,242	7,936	504	(3,402)	145,064
Capital expenditure	40,339	11,127	3,822	500	(344)	55,444
Depreciation, amortization and impairment	12,316	2,341	142	22	-	14,821

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

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
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26. SEGMENT INFORMATION (continued)

Geographic information:

Revenue from external customers	2018	2017
Romania	722,821	552,306
Italy	38,613	12,377
Republic of Moldova	9,763	8,492
Total restaurant revenue	771,197	573,175

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

	31 December 2018	31 December 2017
Non-current assets		
Romania	181,033	165,696
Italy	45,946	8,092
Republic of Moldova	2,194	2,335
Total	229,173	176,123

Non-current assets consist mainly on leasehold improvements and kitchen related equipment.

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

27. AUDITOR'S FEES

The auditor of the Group is Ernst & Young Assurance Services SRL.

The fee for the statutory audit of the consolidated and standalone financial statements as of 31 December 2018 of Sphera Franchise Group SA prepared in accordance with MOF 2844/2016 and of the statutory audit of the financial statements as of 31 December 2018 of US Food Network SA and American Restaurant System SA in accordance cu MOF 1802/2014 and of the statutory audit of US Food Network Srl Italy was of 424 (excluding VAT).

Other non-assurance services amounted 46 (excluding VAT) in connection with the procedures performed by the audit company for the Group's half-yearly related parties' reports, prepared in accordance with the stock exchange regulations.

28. EVENTS AFTER THE REPORTING PERIOD

USFN SA is subject to a tax audit in relation with income tax (period 2012-2016) and VAT (period 2013-2017). On 27 February 2019, the tax authorities issued the draft tax audit report subject of further discussion and documentation (Note 20).

On 28 February 2019, after the Group's appeal against the Ilfov Court's decision, the Bucharest Court of Appeal decided in the Group's favour, by diminishing the amount of the claims requested by the former employee who suffered injuries in a work accident. Based on this decision, the Group would recover a part of the claims already paid to the former employee, after the execution of the Ilfov Court's decision (574 to be recovered, out of a total amount paid of 947). The Bucharest Court decision is open to the claimant's appeal.

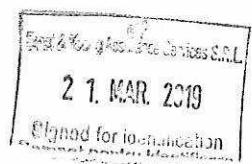
SPHERA FRANCHISE GROUP SA
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28. EVENTS AFTER THE REPORTING PERIOD (continued)

On 25 February 2019 the Board of Directors has approved the provision of a non-refundable amount of EUR 1,323,181 to US Food Network S.r.L (Italy) to cover the statutory accounting loss of the financial year ended 31 December 2018.

On 21 March 2019, the Board of Directors has proposed to the shareholders' approval the following distribution of the net profit of Sphera Franchise Group SA as presented in its separate financial statements as at and for the year ended 31 December 2018:

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

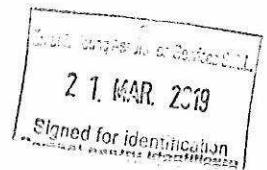


SPHERA FRANCHISE GROUP SA

CONSOLIDATED DIRECTORS' REPORT

Prepared in accordance with Ministry of Public Finance Order no. 2844/2016

Year ended 31 December 2018



CONSOLIDATED DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018
All amounts in RON thousand, unless specified otherwise

1. CORPORATE INFORMATION

Sphera Franchise Group SA together with its subsidiaries: US Food Network SA ("USFN"), US Food Network SRL Italy ("USFN Italy"), US Food Network SRL Moldova ("USFN Moldova, California Fresh Flavours SRL ("Taco Bell") and American Restaurant System SA ("ARS") form "the Group" (or "SFG").

Sphera Franchise Group SA ("the legal Parent", "Sphera" or „Company") was incorporated on 16 May 2017 by the shareholders of USFN and ARS as a joint stock company and is registered at No. 239 Calea Dorobanti, Bucharest, Romania. Sphera Franchise Group SA is listed on Bucharest Stock Exchange.

The Group operates quick service and takeaway restaurant concepts (a chain of 88 restaurants) under the Kentucky Fried Chicken ("KFC"), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (23 restaurants as at 31 December 2018) as well as pizza delivery points (22 locations as at 31 December 2018) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (5 restaurants as at 31 December 2018) and one restaurant under Paul brand, in Romania. The Group's number of employees at 31 December 2018 was 5,514 (31 December 2017: 4,492).

The purpose of the Group reorganization that took place in 2017 and 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.

2. GROUP STRUCTURE

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 Food Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%	100.0000%

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.

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

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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.

The Group's new subsidiary, California Fresh Flavors SRL ("Taco Bell"), was incorporated as a limited liability company on 19 June 2017 is registered at No. 239 Calea Dorobanti, Bucharest, Romania. Sphera holds 9,999 shares of its 10,000 shares (99.99% holding).

3. SHAREHOLDERS AND ISSUED CAPITAL

The shareholders of Sphera 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%).

	31 December 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

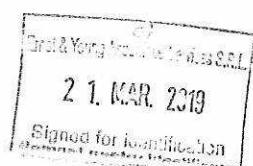
Starting November 9, 2017, 25.34% of the Group's shares (representing 9,831,753 shares), were admitted for trading on the Bucharest Stock Exchange following to a secondary public offer initiated by the shareholders Lunic Franchising and Consulting Ltd. and Computerland Romania SR (formerly named M.B.L. Computers SRL).

4. CORPORATE GOVERNANCE

The Group adhered to the Corporate Governance Code issued by the Bucharest Stock Exchange and applies the principles of corporate governance provided by the Code.

The Group has taken and will continue to take the professional, legal and administrative steps necessary for ensuring compliance with the provisions of the Code.

More details about the compliance with the principles and recommendations stipulated under the Corporate Governance Code issued by the Bucharest Stock Exchange will be presented in the Group's Annual Report.



**CONSOLIDATED DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018**
All amounts in RON thousand, unless specified otherwise

5. MANAGEMENT OF THE GROUP

Company is managed by the Board of Directors. Its members are appointed for a mandate of 2 years.

The structure of the Board of Directors as of 31 December 2018 was the following:

Name	Date of appointment	Title	Role
Cristian Osiac	16 May 2017	Chairman of the BoD	Executive member
Lucian Hoanca	25 October 2018	Member of the BoD	Non-executive member
Mark Nicholas Hilton	16 May 2017	Vice-Chairman of the BoD	Executive member
Silviu Gabriel Cărmaciu	16 May 2017	Member of the BoD	Non-executive member
Ion Marius Nasta	16 May 2017	Member of the BoD	Non-executive member
Stere Constantin	26 April 2018	Member of the BoD	Independent member
Farmache			
Razvan Stefan Lefter	16 November 2018	Member of the BoD	Independent member

On 26 April 2018, the General Shareholders Meeting decided to appoint Mr. Stere Constantin Farmache for the vacancy of an independent member of the Board of Directors of the Company following the resignation from independent director mandate of Elyakim Davidai for a period equal to the remaining period until the expiry of the mandate of the vacant position respectively 5 October 2019.

On 12 September 2018, Stylianos Bairaktaris announced his resignation from the position of Director, as member of the Board of Directors of the Company, effective from 25 October 2018.

As a result of the vacancy of the Director position, on 4 October 2018, the Board of Directors decided on the appointment of Mr. Lucian Hoanca as „ad-interim” Director of the Company, member of the Board of Directors, starting with 25 October 2018. The mandate shall be valid until the date on which the General Shareholders Meeting decides to appoint a member of the Board of Directors.

On 4 October 2018, Kostantinos Mitzalis notified the Company about his resignation from the position of Director, member of the Board of Directors, effective on 16 November 2018.

Starting with 16 November, Mr. Razvan Stefan Lefter is appointed as „ad-interim” Director of the Company, member of the Board of Directors for a period of 6 months or until the General Shareholders Meeting shall appoint the new member of the Board of Directors, whichever occurs first.

The Board of Directors delegates the management of the Company to managers who fulfil their functions based on mandate contracts. The list of persons holding management positions is presented below:

Name	Title	Date of Appointment
Mark Nicholas Hilton	Chief Executive Officer (CEO)	16 May 2017
Daniel Palita	Interim Chief Financial Officer (CFO)	4 October 2018
Cristian Osiac	Chief Development Officer (CDO)	15 June 2017
Călin Viorel Ionescu	Chief Operating Officer (COO)	29 August 2017
Oana Monica Eftimie	Chief Marketing Officer (CMO)	29 August 2017

Starting with 4th October 2018, the Board of Directors of the Company has appointed Mr. Daniel Palita as „ad-interim” Chief Financial Officer, following the resignation of Mr. Stylianos Bairaktaris from the position of Chief Financial Officer effective as of 3rd October 2018.

Consultative committees

The BoD established an Audit Committee and a Nomination and Remuneration Committee. Each of the Audit Committee and the Nomination and Remuneration Committee comprises three members of the BoD, of which one is elected chairman. All members of the Audit Committee are non-executive BoD members. The main duties and responsibilities of the committees are presented in the Annual Report.

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6. PRINCIPAL SCOPE OF BUSINESS

The Group's franchised foodservice business was launched in 1994 with the opening of the first Pizza Hut location, which was followed by the opening in 1997 of the first KFC location, both in Bucharest. As at 31 December 2018, the Group operates 139 restaurants, of which 88 KFC restaurants (76 restaurants located in Romania, 2 restaurants located in the Republic of Moldova and 10 restaurants in Italy), 45 Pizza Hut units (of which 22 are delivery units), 5 Taco Bell units and one restaurant under Paul brand. Through USFN (Romania), with consolidated restaurant sales of RON 586 million in 2018, we are the second largest restaurant group in the quick-service restaurant sector in Romania and, through ARS (Romania), with restaurant sales of RON 123 million in 2018, we are the largest restaurant group in the full-service restaurant sector in Romania.

Our business is conducted through the following segments:

- Quick-service restaurants - through our KFC restaurants (in Romania, the Republic of Moldova, and Italy) and Taco Bell restaurants (in Romania);
- Full-service restaurants - through our Pizza Hut Dine-In restaurants in Romania;
- Delivery restaurants - through our Pizza Hut delivery units in Romania.

KFC is the leading chicken restaurant chain in Romania in terms of both total sales and number of restaurants. The first KFC restaurant in Romania opened in 1997 in Bucharest and, at the end of 2018, there were 76 KFC restaurants in Romania. In 2008, we opened the first KFC restaurant in the Republic of Moldova, where we currently operate two restaurants (both in Chisinau), while in 2017 we opened our first two restaurants in Italy, where we currently operate ten restaurants spread across the northern region of Italy.

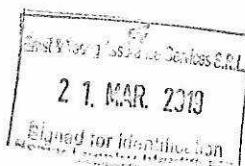
Of the 76 KFC restaurants operating in Romania as at 31 December 2018, 49 are food court locations (in malls or commercial centres), 14 are inline (street locations), while another 13 are Drive-Thru locations. In 2018, KFC Romania has also launched the delivery activity. KFC delivery services has extended in Bucharest and Cluj and now operate 16 stores in Bucharest (covering 70% of the city) and 5 stores outside Bucharest (3 in Cluj and 2 in Oradea) with growing contribution to sales.

In our KFC restaurants, we sell food and beverages products either individually or part of a price-attractive bundle labelled "menu". Generally, the menus include three main components: a portion of a chicken-based product (sandwiches, wrappers or pieces of chicken meat), a medium-sized portion of French fries and a medium-sized non-alcoholic drink. For an additional price, our customers can choose to opt for the "Go Large" version of the menu, which consists of large-sized portions of French fries and non-alcoholic drink. A dipping sauce is also offered in some menu offers. Whereas menus are normally sized for one person, we also offer products, called Buckets, that are targeted for group consumption (normally, up to four persons). Buckets generally consist of higher number of chicken meat pieces and some include portions of French fries and non-alcoholic drinks.

Pizza Hut is the largest casual dine-in restaurant chain in Romania in terms of both total sales and number of restaurants. The first Pizza Hut Dine-In restaurant opened in 1994 in Bucharest and, as at 31 December 2018, there were 23 Pizza Hut Dine-In restaurants across the major cities of Romania. In 2008, we opened the first delivery restaurant, and by the end of the year 2018, our Pizza Hut Delivery network totalled 22 restaurants.

Of the 23 Pizza Hut Dine-In restaurants operating in Romania as at 31 December 2018, 20 are located near food courts with our dedicated seating (in malls or commercial centres) and 3 are inline (street locations). At the same time, 12 out of the 22 Pizza Hut Delivery restaurants were located within commercial centres, while the remaining 10 were inline locations.

In our Pizza Hut restaurants, we primarily sell pizza (a wide range of traditional and proprietary recipes, on a variety of dough types, such as pan, classic, thin, Italian, cheesy bites, crown crust) and pasta, other main-course products (such as burgers and ribs) as well as beverages (primarily non-alcoholic) and deserts.



CONSOLIDATED DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018
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7. FINANCIAL RESULTS

Consolidated results for the years ended 31 December 2018 and 31 December 2017 are presented below:

	2018	2017
Restaurant sales	771,197	573,175
Restaurant expenses	668,018	480,647
Restaurant operating profit	103,179	92,528
General and administration expenses, net	73,048	55,925
Operating profit	30,130	36,603
Finance result	2,996	(1,942)
Profit before tax	27,135	34,661
Income tax expense	2,874	3,233
Profit for the period	24,262	31,428
EBITDA	51,637	51,424
Normalized EBITDA	72,359	65,626

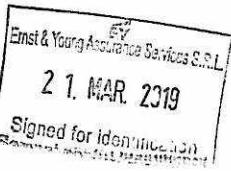
Consolidated sales of Sphera reached RON 771.2 million for the year 2018, representing an increase of 34.5% compared to the previous year. The main drivers for this performance were the growth in the sales of USFN Romania (KFC restaurants) (+21.5% Y/Y), which had a contribution of 18.1pp in the consolidated 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.

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.

General and administration (G&A) expenses reached RON 73.0 million in the year 2018 (9.5% of sales), up 30.6% compared to previous year (9.8% of sales). Excluding non-recurring expenses, G&A expense reached 52.6 million in the year 2018 (6.8% of sales), up 25.3% compared to the previous year (7.3% of sales).

Non-recurring expenses included in the G&A category amount to RON 20.7m, of which RON 11.5m represents a provision for potential liabilities (VAT and late penalties) that Sphera recognised upon receiving the draft report issued by the tax authorities on 27 February 2019, following the tax audit performed at USFN RO by the fiscal authorities for the periods 2013-2017 (VAT) and 2012-2016 (income tax), RON 8.31m represents an impairment loss in relation with the goodwill recorded on the acquisition of ARS, while another RON 0.95m refer to the compensations claimed in court and paid to a former employee who has suffered injuries in a work accident.

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.



CONSOLIDATED DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018
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Net profit reached RON 24.3 million in the year 2018, being 22.8% lower than in the previous year. The net profit margin decreased 2.3pp to 3.1% of sales in the year 2018, in line with the reduction of operating profit margin.

	2018	2017
Operating profit	30,130	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	51,637	51,424
Non-recurring general and administration expenses	20,722	14,202
Normalised EBITDA	72,359	65,626

Normalized EBITDA advanced 10.3% Y/Y to RON 72.4 million in the year 2018, while EBITDA increased 0.4% Y/Y to RON 51.6 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 0.5pp improvement in the normalized G&A expenses (as percentage of sales).

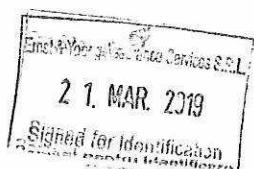
A summary of consolidated financial position as of ended 31 December 2018 and 31 December 2017, respectively is presented below:

	31 December	31 December
	2018	2017
	%	%
Non-current assets	229,173	176,123
Current assets	122,979	73,291
Total assets	352,152	249,609
Total equity	128,826	104,544
Non-current liabilities	91,536	42,191
Current liabilities	131,790	102,874
Total liabilities	223,326	145,064
Total equity and liabilities	352,152	249,609
	100%	100%

Consolidated total assets increased by 41% Y/Y to RON 352.2 million as of 31 December 2018, driven by a 30% Y/Y increase in non-current assets (mainly as a result of the opening of 25 stores) and a 68% in current assets (mainly as a result of higher cash and short-term deposits).

Total liabilities advanced 54% Y/Y to RON 223.3 million as of 31 December 2018, of which 56% were accounted for by interest-bearing loans (up 92% Y/Y to RON 124.5 million, principally to finance the development of the new stores) and another 40% were accounted for by trade and other payables (up 9% Y/Y to RON 87.4 million).

Consolidated total equity grew by 23% Y/Y to RON 128.8 million, as a result of the net profit achieved by the group during the year 2018.



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8. KEY FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATIONS

The Group's results of operations have been and are expected to continue to be affected by a number of key factors.

General economic environment in the markets

The Group's results of operations are affected by specific local economic conditions in the markets and geographic areas in which it operates. Such conditions include levels of employment, commodity inflation, real disposable income, private consumption, the availability of consumer credit, consumer confidence, applicable taxes, and consumer willingness to spend. In an unfavourable economic environment with a decrease in disposable income, the Group's customers may reduce the frequency with which they dine out or order-in or may choose more inexpensive dining options. This trend is however offset by the general affordability of our products, as customers may substitute the Group's products for other, more expensive, options. Positive economic conditions, in contrast, tend to increase consumer demand for the Group's products. Changes in general economic conditions therefore affect customer traffic, average ticket price and the Group's ability to pass through cost increases to customers.

Competitive environment

The Group operates in a highly competitive market, particularly with respect to food quality, price, service, convenience and concept, which in turn may be affected by considerations such as changes in consumer preferences. The Group competes against international chains, as well as many national, regional and local businesses in the quick-service, casual dine-in and delivery/takeaway restaurant sectors not only for customers, but also for management and store employees, suitable real estate sites and qualified sub-franchisees. This competition can put downward pressure on product prices and demand for the Group's products as well as upward pressure on wages and rents, resulting in reduced profitability.

Price risk

Cost of sales represents the most significant expense of the Group. Gross margin is affected by a number of factors, including movements in the cost of sales (including with respect to the prices of raw materials), the extent to which the Group can negotiate favourable prices and rebates from suppliers as well as the mix of products that it sells from time to time.

The Group seeks to procure its principal inputs from multiple suppliers, in the event that the Group's primary suppliers cannot deliver the components in the contracted amounts and specifications, the Group's requirements exceed the Group's minimum contracted amounts or the Group is subjected to unanticipated price increases. Prices of the Group's raw materials are generally set by market conditions and the Group is not always able to pass these changes along to the Group's customers, particularly in the short term. The Group seeks to manage factors which put pressure on the Group's gross margin. For example, the Group maintains relationships with additional suppliers.

Payroll

Cost of labour represent our second most important expense and was the fastest growing expense item at restaurant level. It is expected that personnel costs to grow proportionally with the growth of the number of the restaurants and our restaurant revenue complemented by appropriate increase in sales prices. Factors that influence fluctuations in the labour costs include minimum wage and payroll tax legislation, the frequency and severity of labour-related claims, health care costs, the performance of our restaurants, new openings and whether new employees are fixed overhead costs or are restaurant hires.

Marketing and advertising activities

The Group's marketing and advertising activities are an essential part of attracting new customers as well as retaining existing customers. Marketing is particularly important for the Group to communicate its product innovation and price promotion programs to customers and to reinforce the Group's brand awareness, build the Group's image and drive customer volumes. According to the franchise agreements signed so far, the Group is obliged to spend at least 5% of its restaurant sales on marketing and advertising activities.

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The effectiveness of the marketing and advertising activities can vary from one year to another and from one campaign to another, depending on the products under promotion, the quality of our communication as well as on the ability of our employees to communicate to customers the ongoing campaigns and promote trade-up products.

The Group also monitors closely the expenditure and frequency of marketing and advertising campaigns by the Group's competition and seeks to maintain a relatively constant presence in the market.

Consumer preferences

Consumer preferences in the quick-service, casual dine-in and delivery/takeaway foodservice segments are affected by a range of factors, including consumer tastes, national, regional and local economic conditions and demographic trends. For instance, prevailing health or dietary preferences may cause consumers to avoid fast-food products or pizza products offered by the Group in favour of foods that are perceived to be healthier. Changes in consumer preferences can significantly impact demand for the Group's products, but this impact may be somehow limited by our exposure to multiple segments of the foodservice sector.

The Group seeks to maintain the appeal of its products to customers through product innovation, characterized by frequent introduction of new product offerings, and the consumer reaction to new product launches can affect the Group's sales.

Accordingly, the Group's results of operations are affected by the Group's success against the Group's competitors in the quick-service, casual dine-in and delivery/takeaway foodservice segments, which is dependent on a variety of factors, including the comparative attractiveness and taste of the Group's products, perceived product and service quality and the availability of comparable products from its competitors. The pricing of the Group's products, and in particular, the timing and terms of specially-priced offers to customers, can have a significant impact on both the volume of the Group's sales and the Group's margins, as well as the Group's market share against competitors.

9. FINANCIAL INSTRUMENTS RISK MANAGEMENT

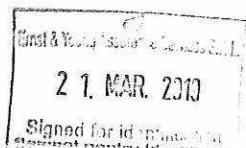
The Group's principal financial liabilities comprise loans and borrowings, including finance leases and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's financial assets are represented by loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations, as well as long-term deposits to guarantee rent payables.

The Group is exposed to interest rate risk, foreign exchange rate risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management ensures the Group's financial risk activities are performed under appropriate procedures and that financial risks are identified, measured and managed in accordance with Group risk appetite.

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Trade and other receivables and payables are non-interest-bearing financial assets and liabilities. The borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term and short-term credit facilities. Interest rates on the Group's debt finance are variable. Changes in interest rates impact primarily loans and borrowings by changing either their future cash flows (variable rate debt). Management policy is to resort mainly to variable rate financing. However, at the time of rising new loans or borrowings management uses its judgment to decide whether it believes that fixed or variable rate would be more favourable to the Group over the expected period until maturity.

The Group does not hedge its interest rate risk.



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Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's financing activities, as the financing contracted by the Group is Euro based. The vast majority of revenues and expenses, trade and other receivables and payables is in RON.

The Group monitors the currency risk by following changes in exchange rates in currencies in which its intercompany balances and external debts are denominated. The Group does not have formal arrangements to mitigate its currency risk.

Credit risk

The Group is not significantly exposed to credit risk as the majority of its sales are on a cash basis. The Group's credit risk is primarily attributed to trade and other receivables and balances with banks. The carrying amount of trade and other receivables, net of allowance for impairment and deposits for rent guarantee as per statement of financial position plus balances with banks, represent the maximum amount exposed to credit risk. Management believes that there is no significant risk of loss to the Group beyond the allowances already recorded.

The Group invests cash and cash equivalents with highly reliable financial institutions. The Group has only plain vanilla deposits with reputable banks, none of which has experienced any difficulties in 2018 or up to the date of these consolidated financial statements. The majority of cash is transacted through and placed with Alpha Bank Romania, member of Alpha Bank Group from Greece and Banca Romana de Dezvoltare (BRD), a member of Societe Generale Group from France, as well as with Unicredit Bank Italy. The long-term credit rating of Alpha Bank Greece is Caa2 as provided by Moody's rating agency, no credit rating being available for its Romanian subsidiary. The long-term credit rating of BRD is Baa3, while the one for Unicredit is Baa1, both provided by Moody's

There is no significant concentration of credit risk in respect of trade and other receivables due to the fact that sales are based mainly on cash and credit card payments. Therefore, there are no formal policies in the Group to manage credit risk for trade receivables. The Group's credit risk is primarily attributed to loans and receivables from related parties, for which the probability of losses is considered remote.

Liquidity risk

The Group has adopted a prudent financial liquidity management approach, assuming that sufficient cash and cash equivalents are maintained and that further financing is available from guaranteed funds from credit lines.

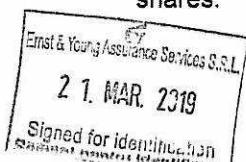
At 31 December 2018, the Group had available 47,449 of undrawn uncommitted borrowing facilities (31 December 2017: 25,556), thus being able to respond to any unforeseen higher cash outflow needs.

Capital management

Capital includes the equity attributable to the equity holders of the parent.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.



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The Group may monitor capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group does not have a target gearing ratio, as the overall gearing is low. The Group includes within net debt, interest bearing loans and borrowings, financial trade and other payables, less cash and cash deposits.

	31 December 2018	31 December 2017
Interest-bearing loans and borrowings	124,456	64,712
Financial trade and other payables	57,615	46,909
Less: cash and short-term deposits	90,665	52,655
Net debt	91,406	58,966
 Equity	 128,826	 104,544
 Capital and net debt	 220,232	 163,510
Gearing ratio:	42%	36%

The Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

Fair values

The Group has no financial instruments carried at fair value in the statement of financial position.

The carrying amount of the interest-bearing loans and borrowings approximate their fair value. Management estimates that the margin applicable over Euribor at the balance sheet date would be similar to the ones at the dates of each previous withdrawal, due to the fact that the Group maintained over the past years a low gearing ratio and a stable financial condition, and also based on statistics published by the National Bank of Romania.

Financial instruments which are not carried at fair value on the statement of financial position also include deposits to guarantee rent, trade and other receivables, cash and cash equivalents, and trade and other payables.

The carrying amounts of these financial instruments are considered to approximate their fair values, due to their short-term nature (in majority) and low transaction costs of these instruments.

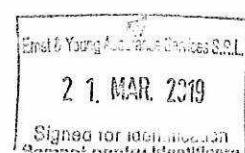
10. INTERNAL CONTROL

The Group has implemented an internal control system, which includes activities implemented in order to prevent or detect undesirable events and risks such as fraud, errors, damages, noncompliance, unauthorized transactions and misstatements in financial reporting.

The existence of a control environment forms the basis for an effective internal control system. It consists of the definition and adherence to group-wide values and principles (e.g. business ethics) and of organizational measures (e.g. clear assignment of responsibility and authority, commitment to competence, signature rules and segregation of duties).

Sphera's internal control system covers all areas of Group operations with the following goals:

- Compliance with laws and internal regulations
- Reliability of financial reporting (accuracy, completeness and correct disclosure)
- Prevention and detection of fraud and error
- Effective and efficient business operations.



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11. NON-FINANCIAL TOPICS AND DIVERSITY POLICY

Corporate Social Responsibility

Sphera Group has been actively involved in social-related activities for the last ten years and, on the back of the sustained growth and profitability there is a firm commitment to further consolidate as a socially responsible Company. One of our CSR strategic pillars is children's education, which is complemented through several different initiatives as presented on the Company's website www.spheragroup.com.

Environmental protection

The Company's philosophy is to minimise the impact on the environment and leave the smallest footprint possible. There is a strong commitment to create a sustainable business, starting from the way of source the food products to the design, packaging of the final products and how the restaurants are built.

The Company is committed to safety and quality and, in the meantime, to the preservation and protection of the nature and its resources by using only what is necessary, reduce waste and focus each day to enhance the livelihoods of the Company's employees and surrounding communities.

Training and career development for own employees

There is a firm commitment to offer employees the chance for a continuous learning opportunity and personal development that will allow them to continue their career development.

All our new employees go through a thorough training process for familiarizing with overall standards, understand the business and operations as well as the job-specific procedures.

There is an actively sought to create training programs that address not only the job skill set necessary to perform day-to-day tasks within restaurants, but also extended skills such as active responsibility, accountability, time keeping, customer service, communication skills and team work. The training programs across the various brands and geographies that the Group operates come to ensure an effective and decentralized control structure and create an organizational culture that drives workforce engagement.

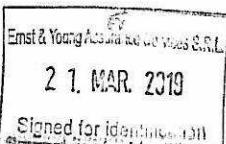
Diversity policy

Company has developed an internal culture which promotes equal opportunities and diversity in all its processes and functions. Although formal policies are not yet in function, management is guided by the following principles:

- Equal opportunities and fair treatment, meaning no unjust discrimination must exist in recruitment, retention and development of all employees;
- Diversity strategy, built upon inclusion and diversity in what regards open communication, multiples languages spoken, multicultural experience, adherence to equal opportunities principles etc.;
- Equal opportunities, meaning that employees seek and are provided with adequate support for their development, employees with disabilities are provided with necessary accommodation.

Performance evaluation

Compensation of employees is linked with performance. The performance of each employee is evaluated based on measurable indicators. In addition, managers are appraised based on some indicators measuring their abilities to observe principles concerning equal opportunities and adequate management of employees' particular needs and behaviours. Allocation of tasks and projects are done objectively without any bias. Human resources processes support these goals.



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12. OTHER INFORMATION

a) Predictable development of the Group

Network rollout

In order to attract new customers and consolidate the brand's market share, the Group plans to continue the expansion of the restaurant network. Over the medium term, the Group intends to keep the rollout of new stores to an annual average of approximately 25 stores. As a result, new store openings have been a significant driver of the Group's revenue growth and will continue to materially affect the results of operations for the foreseeable future.

A significant component of future network rollout will be the development of the restaurant network in the North-Eastern part of Italy. During the first half of the year 2017, the Group have signed two development agreements with Yum! for opening at least 32 KFC stores within five years. During 2018, the Group has opened 8 new stores in Italy consolidating the brand position on the Italian market.

In 2017 the Group signed a new franchise agreement with Yum! and brought on the Romanian market the Taco Bell brand with the commitment to open 10 Taco Bell restaurants within the following three years. In 2018, the Taco Bell network was extended from 2 stores to 5.

Performance of existing restaurants

The growth of our revenues over the past period was driven almost equally by opening of new restaurants and the strong like-for-like performance of our existing restaurants. KFC was the main contributor to this performance, both in terms of store count and year-on-year growth rates.

In the following years, we expect the like-for-like performance to be influenced positively by the continuous improvement in the purchasing power of the population, higher propensity for dining-out or delivery ordering, increased awareness of our brands across the territories we operate and negatively by the number and speed with which we open new units in cities where we are already present, as well as by the increased competition

b) Environmental matters

As of 31 December 2018, the Group incurs no debts relating to anticipated costs for environmental aspects. The Group does not consider that costs relating to environmental aspects are significant.

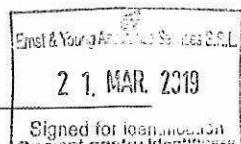
13. NON-FINANCIAL STATEMENT

In accordance with legal requirements, the Company will publish the Non-financial Statement no later than six months after the reporting date, 31 December 2018, as part of Annual Report.

14. COMMITMENTS AND CONTINGENCIES

Operating lease commitments — Group as lessee

The Group has entered into operating lease agreements for the premises of most of its restaurants and several vehicles and equipment. The lease terms are between five and ten years, with very few agreements exceeding ten years period. The contract period of the operating lease agreements for vehicles and equipment does not exceed five years term. Future minimum rentals payable under non-cancellable operating leases are disclosed in the financial statements.



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Finance leases

The Group has finance leases for vehicles. The Group's obligations under finance leases are secured by the lessor's title to the leased assets as disclosed in the consolidated financial statements.

Other commitments

Per the Romania new network development plan signed in October 2017, the Group has agreed with KFC Europe to open a minimum of 39 new KFC locations (out of which 29 standard format restaurants and 10 smaller format restaurants meaning rural drive-thru or an agreed small box design) during the years 2018-2022 (out of which 6 units in 2018). Should the Group fail to achieve these targets, the Group will pay KFC Europe a penalty for each such location; the Group has not paid such penalties to date. In 2018, the Group opened 8 new KFC stores in Romania, exceeding the committed development plan.

Per the Romania new network development plan concluded with Pizza Hut Europe (Master Franchisor) in October 2017, the Group has agreed to open a minimum of 34 outlets (restaurants and pizza delivery) during the years 2017- 2021 (out of which 5 locations in 2018). Should the Group fail to achieve these targets, the Group will pay PH Europe Sarl a penalty for each such location; the Group has not paid such penalties to date. In 2018, the Group extended the Pizza Hut network with 6 new stores (1 PH unit and 5 PHD units), exceeding the committed development plan.

Per the Romania network development plan concluded with TB International Holdings II SARL (the Franchisor) in April 2017, the Group has agreed to open a minimum of 10 Taco Bell restaurants during the years 2017- 2019 (2 restaurants in 2017, 3 restaurants in 2018 and 5 restaurants in 2019). In 2018, the Group increased Taco Bell network by 3 new stores, in line with the committed development plan.

Per the Italy network development plan, the Group has agreed in October 2016 (Tri Veneto region) and August 2017 (Piemonte region) with KFC Europe to open a minimum of 25 KFC locations during the years 2017- 2021 in the Northern part of Italy. Should the Group fail to achieve these targets, the Group will pay KFC Europe a penalty for each such location; the Group has not paid such penalties to date. In 2018, the Group extended the Italian network with 8 new locations, exceeding the commitment plan.

Bank letter of guarantees

The Group has issued bank letters of guarantee in favour of suppliers as at 31 December 2018 in amount of 10,449 (31 December 2017: 8,650).

Other contingencies

Taxation

The interpretation of the text and practical implementation procedures of the tax regulations could vary, and there is a risk that certain transactions could be viewed differently by the tax authorities as compared to the Group's treatment.

The tax legislation, especially in Romania, was subject to significant changes and contradictory interpretations, which may apply retroactively. Moreover, in practice, the tax authorities can take a strong approach and assess additional tax liabilities and related late payment penalties based on their individual interpretations of the tax legislation. As a result, penalties and delay payment interest could result in a significant amount payable to the state.

Contingent liabilities may arise in relation to additional tax assessments that may be imposed by the tax authorities as a result of reviews performed. Corporate tax returns can be subject to review by tax authorities within a 5-year period in Romania and Italy and a 4-years period in Republic of Moldova. Recently, there has been an increase in audits carried out by the tax authorities.

As of the date of these financial statements, the Group's Romanian subsidiary, US Food Network SA is under a tax audit from Romanian fiscal authorities. Management has reassessed the risk and considers that the subsidiary might be charged with additional tax liabilities and related interest and late payment

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penalties for which a provision for taxes has been recognised in the consolidated financial statements as at 31 December 2018.

Transfer pricing

According to the applicable relevant tax legislation in the countries in which the Group operates, the tax assessment of related party transactions is based on the concept of market value for the respective transfers. Following this concept, the transfer prices should be adjusted so that they reflect the market prices that would have been set between unrelated companies acting independently (i.e. based on the "arm's length principle"). It is likely that transfer pricing reviews will be undertaken in the future in order to assess whether the transfer pricing policy observes the "arm's length principle" and therefore no distortion exists that may affect the taxable base of the tax payers.

The Group has prepared transfer pricing files.

Legal proceedings

During the period, the Group was involved in a small number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of Management, based on legal advice, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated Financial Statements.

On behalf of Board of Directors,

Cristian Osiac

Chairman of the Board

