SPHERA FRANCHISE GROUP SA

CONSOLIDATED FINANCIAL STATEMENTS

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

31 December 2017

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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 RO 37586457, which comprise the consolidated statement of financial position as at December 31, 2017, 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, 2017, 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. **Business combination and purchase price allocation**

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 forthe Compay's shares. As the Company is a new entity with no significant activities, USFN has been identified as the acquirer of ARS, mainly due to its relative size. The valuation of ARS's business was 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, the capital expenditure and discount rates, as well as economic assumptions such as the evolution of salaries in the economy and inflation. Following the purchase price allocation (in which identifiable assets and liabilities of ARS were recognised at fair value), RON 51 million resulted as goodwill recognised in the consolidated financial position of the Group.
We considered this a key audit matter because of judgement involved in the valuation of ARS's business as well as in the purchase price allocation, the materiality of the transaction and the complexity of the associated accounting.
The Group disclosures about the business combination and goodwill are included in Note 2.3 Business combination and goodwill and Note 5.2 Business combinations to the consolidated financial statements.

How our audit addressed the key audit matter

Our audit procedures focused on the accounting for the business combination, including involvement of our IFRS specialists to assist us in evaluating the application of IFRS 3- Business Combination- with respect to identification of the acquirer and the related accounting entries. We tested the journal entries and the supporting workings and evidence relating to the accounting for the exchange of shares and internal restructuring steps, agreeing them to the contracts and to the terms of the scheme of restructuring.
We included our tax specialists in our team to assist us in evaluating consistency of the steps taken by the Group in effecting the transaction, with relevant tax laws and regulations.

Our audit procedures with respect to the fair value of ARS's business included, but were not limited to, the following procedures:

- Assessing the independence and the competence of the external valuation expert;
- Analyzing the methodology used by management and by the external valuation expert within the reports issued to assess the fair value of ARS's business, to determine its compliance with valuation standards;
- Evaluating the key assumptions and estimates used to determine the discount rate, the future operating cash flows, the growth rate, operating margins, working capital needs and the capital expenditure. We included our valuation specialists in our team to assist us in the evaluation of key assumptions and estimates used by the independent appraiser (and which in turn were mainly provided by the management), 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; iv) the risks associated with the cash flows, including the potential variability in the amount and timing of cash flows and the related effect on the discount rate sensitivity; 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.

We obtained the report issued by the external valuation experts engaged by the Group and used to perform the purchase price allocation and to assist with the identification of identifiable assets in the business combination. Our audit procedures included, but were not limited to, the following procedures:

- Assessing the independence and the competence of the external valuation expert;
- Analyzing on an sample basis the fair value of the identifiable assets acquired and liabilities assumed supporting the purchase price allocation and the resulting goodwill; we involved our internal valuation specialists to assist us in the evaluation of the valuation methodologies used and tested the main assumptions (including indexation factors used in deriving replacement cost new using the indirect/indexation method, testing the remaining and total useful lives assumptions for the valued assets by classes, estimation of specific depreciation factors for idle or obsolete assets, testing market based inputs where relevant) against historical trends and external data;
- Testing on a sample basis the mathematical accuracy of key computations observed within the valuation report prepared by the independent appraiser;
- Including our IFRS specialists in our team to assist us in evaluating compliance with IFRS 3 requirements pertaining to fair valuation.

We further assessed the adequacy of the disclosures about the business combination, the recognition of goodwill in the notes to the consolidated financial statements.

Key audit matter

2. Goodwill impairment testing

The Group is required to test the goodwill for impairment at least annually. The impairment assessment made by the Group over its goodwill balances (of RON 51 million) is a key audit matter as it incorporates significant judgements in respect of 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 Group disclosures about the impairment test are included in Note 2.3.9 Impairment of non-financial assets, including goodwill and 12. Intangible assets.

How our audit addressed the key audit matter

Our audit procedures with respect to the impairment test performed as of 31 December 2017 included, but were not limited to, the following procedures:

- Analysis of the methodology used by management to assess the fair value less costs to sell of the 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. We involved 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;
- Testing the mathematical accuracy of the computations in respect of the sensitivity in the available headroom of ARS's CGU.

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

Key audit matter

3. Useful life of Property, plant and equipment and intangibles

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 recognised 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;
- Including our valuation specialists in our team to assist us in the review 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 assumption 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.

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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, 2017;

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, 2017, 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, 2017. 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 1 year, covering the financial period end December 31, 2017.

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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 2018.

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 with the Chamber of Financial Auditors in Romania
No. 77/15 August 2001

EY
Ernst & Young Assurance Services S.R.L.
26. MAR. 2018
Signed for identification

Name of the Auditor/ Associate Partner: Alina Dimitriu
Registered with the Chamber of Financial Auditors in Romania
No. 1272/17 December 2001

Bucharest, Romania
26 March 2018

All amounts in RON thousand, unless specified otherwise

	Note	2017	2016
Restaurant sales		573,175	417,535
Restaurant expenses			
Food and material expenses		206,704	157,302
Payroll and employee benefits	8.1	109,858	69,577
Rent		41,615	27,498
Royalties		33,885	24,654
Advertising		30,231	20,736
Other operating expenses, net	6	44,412	30,313
Depreciation and amortization	8.2	13,942	9,234
Restaurant operating profit		**92,528**	**78,221**
General and administration expenses, net	7	55,925	22,975
Operating profit		**36,603**	**55,246**
Finance costs	9.1	2,108	825
Finance income	9.2	166	95
Profit before tax		**34,661**	**54,516**
Income tax expense	10	3,233	5,783
Profit for the period		**31,428**	**48,733**
Attributable to:			
Equity holders of the parent		31,304	48,693
Non-controlling interests		124	40
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences on translation of foreign operations		(34)	83
Total comprehensive income for the period, net of tax		**31,394**	**48,816**
Attributable to:			
Equity holders of the parent		31,267	48,774
Non-controlling interests		127	42
Earnings per share, basic and diluted (RON/share)	22	0.8442	0.6412

These consolidated financial statements from page 10 to page 58 were approved by the Board of Directors and were authorised for issue on 21 March 2018.

Ernst & Young
26. MAR. 2018
Signed for identification

Mark Hilton
General Manager Sphera Franchise Group SA

SOCIETATEA SPHERA FRANCHISE GROUP S.A. BUCUREȘTI - ROMÂNIA

Ernst & Young Assurance Services S.R.L.
26. MAR. 2018
Signed for identification

All amounts in RON thousand, unless specified otherwise

	Notes	31 December 2017	31 December 2016
Assets			
Non-current assets		**176,123**	**54,246**
Property, plant and equipment	11	105,220	47,551
Intangible assets	12	67,471	6,365
Deposits for rent guarantee		1,288	290
Deferred tax assets	10	2,144	40
Current assets		**73,291**	**65,399**
Inventories	15	8,509	5,744
Trade and other receivables	16	8,454	8,780
Prepayments		3,673	1,907
Cash and short-term deposits	17	52,655	48,968
Assets held for sale		195	-
Total assets		**249,609**	**119,645**
Equity and liabilities			
Equity			
Issued capital	18	581,990	190
Share premium	18	(520,578)	-
Other capital reserves		-	19
Retained earnings		43,191	58,124
Foreign currency translation reserve		(78)	(41)
Equity attributable to equity holders of the parent		**104,525**	**58,292**
Non-controlling interests		19	(39)
Total equity		**104,544**	**58,253**
Non-current liabilities		**42,191**	**16,304**
Interest-bearing loans and borrowings	13	39,520	14,630
Trade and other payables	20	2,671	1,674
Current liabilities		**102,874**	**45,088**
Trade and other payables	20	77,682	37,292
Interest-bearing loans and borrowings	13	25,192	7,796
Total liabilities		**145,064**	**61,392**
Total equity and liabilities		**249,609**	**119,645**

These consolidated financial statements from page 10 to page 58 were approved by the Board of Directors and were authorised for issue on 21 March 2018.

Ernst & Young Assurance Services S.R.L.
26. MAR. 2018
Signed for identification

All amounts in RON thousand, unless specified otherwise

	Issued capital	Share premium	Other capital reserves	Retained earnings	Foreign currency translation reserve	Total equity	Non-controlling interest	Total equity
As at 1 January 2017	**190**	-	**19**	**58,124**	**(41)**	**58,292**	**(39)**	**58,253**
Profit for the period				31,304		31,304	124	31,428
Other comprehensive income								
Translation differences					(37)	(37)	3	(34)
Total comprehensive income	-	-	-	**31,304**	**(37)**	**31,267**	**127**	**31,394**
Capital contribution from shareholders (Note 1, Note 18)	1,500					1,500		1,500
Group reorganization (Note 1, Note 5.2, Note 18)	580,300	(519,495)	(19)			60,786		60,786
Costs related to reorganization (Note 18)		(1,083)				(1,083)		(1,083)
Cash dividends				(46,237)		(46,237)	(70)	(46,306)
At 31 December 2017	**581,990**	**(520,578)**	-	**43,191**	**(78)**	**104,525**	**19**	**104,544**

	Issued capital	Share premium	Other capital reserves	Retained earnings	Foreign currency translation reserve	Total equity	Non-controlling interest	Total equity
As at 1 January 2016	**190**		**19**	**50,392**	**(122)**	**50,479**	**3**	**50,482**
Profit for the period				48,693		48,693	40	48,733
Other comprehensive income								
Translation differences					81	81	2	83
Total comprehensive income	-			**48,693**	**81**	**48,774**	**42**	**48,816**
Cash dividends				(40,961)		(40,961)	(84)	(41,045)
At 31 December 2016	**190**		**19**	**58,124**	**(41)**	**58,292**	**(39)**	**58,253**

These consolidated financial statements from page 10 to page 58 were approved by the Board of Directors and were authorised for issue on 21 March 2018.

All amounts in RON thousand, unless specified otherwise

	Note	2017	2016
Operating activities			
Profit before tax		34,661	54,516
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of property, plant and equipment	11	13,434	8,977
Amortisation of intangible assets	12	1,387	847
Net foreign exchange differences		123	60
Loss on disposal of property, plant and equipment		493	92
Finance income	9.2	(166)	(95)
Finance costs	9.1	1,162	536
Movement in current assets allowances		-	5
Working capital adjustments:			
(Increase)/Decrease in trade and other receivables and prepayments		1,175	(4,574)
Increase in inventories		(1,567)	(27)
Increase in trade and other payables		26,366	8,655
Interest received		166	31
Interest paid		(1,098)	(561)
Income tax paid		(3,713)	(7,619)
Net cash flows from operating activities		**72,423**	**60,843**
Investing activities			
Proceeds from sale of property, plant and equipment		42	-
Purchase of intangible assets		(9,015)	(2,916)
Purchase of property, plant and equipment		(46,430)	(15,536)
Acquisition of subsidiary, net of cash	5.2	2,161	
Net cash flows used in investing activities		**(53,242)**	**(18,452)**
Financing activities			
Capital contribution from shareholders of Sphera on set up, net of transaction costs paid	18	417	-
Proceeds from borrowings		44,548	11,704
Repayment of borrowings		(13,655)	(7,480)
Payment of finance lease liabilities		(219)	(284)
Dividends paid to equity holders of the parent		(46,237)	(40,961)
Dividends paid to non-controlling interests		(70)	(84)
Net cash flows used in financing activities		**(15,216)**	**(37,105)**
Net increase in cash and cash equivalents		**3,965**	**5,286**
Net foreign exchange differences		(278)	83
Cash and cash equivalents at 1 January		**48,968**	**43,599**
Cash and cash equivalents at 31 December		**52,655**	**48,968**

These consolidated financial statements from page 10 to page 58 were approved by the Board of Directors and were authorised for issue on 21 March 2018.

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 2017 were authorized for issue in accordance with the resolution of the Board of Directors dated 21 March 2018.

The Group operates quick service and takeaway restaurant concepts (a chain of 72 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 (22 restaurants as at 31 December 2017) as well as pizza delivery points (17 locations as at 31 December 2017) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (2 restaurants as at 31 December 2017) and one restaurant under Paul brand, in Romania. The Group's number of employees at 31 December 2017 was 4,492 (31 December 2016: 2,942).

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

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

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

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

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.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2017.

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

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

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

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

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

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

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

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

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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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.1 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.

2.3.2 Fair value measurement

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability
  Or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

All amounts in RON thousand, unless specified otherwise

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.

2.3.3 Revenue recognition

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

Restaurant revenue

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

Rental income

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

Interest income

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

2.3.4 Foreign currencies

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

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

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

	31 December 2017	31 December 2016
RON - EUR	4.6597	4.5411
RON - USD	3.8915	4.3033
RON - MDL	0.2283	0.2174

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.

2.3.5 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.

2.3.6 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.

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.

2.3.7 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.

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.

2.3.8 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.9 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.

2.3.10 Financial instruments

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

i) Financial assets

Initial recognition and measurement

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

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

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

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

Subsequent measurement

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

For more information on receivables, refer to Note 16. Receivables due in less than 12 months are not discounted.

De-recognition

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

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

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

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

ii) Impairment of financial assets

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

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

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

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate

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

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

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

iii) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

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

De-recognition

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

iv) Offsetting of financial instruments

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

2.3.11 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.

2.3.12 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.

2.3.13 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.

2.3.14 Equity

Share capital

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

2.3.15 Royalties

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

2.3.16 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.

2.3.17 Employee benefits

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

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

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

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

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

Classification of lease agreements

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

Estimates and assumptions

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

Useful lives of property and equipment

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

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

Business combination

As Sphera is a new entity with no significant activities, USFN has been identified as the acquirer of ARS, mainly due to its relative size.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.

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

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 2017

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2017:

IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)
The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. Management has not made use of this amendment.

IAS 7: Disclosure Initiative (Amendments)
The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The new information required has been included in Note 13.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. This improvement did not have an effect on the Group's financial statements.

- ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

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

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

IFRS 9 Financial Instruments: Classification and Measurement
The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. 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.

Management has assessed that the application of this standard will not have any significant impact on the financial position or performance of the Group, more specifically:
- The classification of financial assets and liabilities will not change significantly
- The measurement of financial assets and liabilities (including impairment of financial assets) will not change significantly
- The Group currently has no hedging instruments.

4. CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 15 Revenue from Contracts with Customers

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will 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 will also apply 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 will be 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. Management has assessed that the application of this standard will not have any significant impact on the financial position or performance of the Group.

IFRS 15: Revenue from Contracts with Customers (Clarifications)

The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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. Management has assessed that the application of this standard (including the clarifications) will not have any significant impact on the financial position or performance of the Group.

IFRS 16: Leases

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Group is currently assessing the impact of the standard on its financial statements. Taking into consideration the significant number and value of signed lease agreements, the Group expects a significant impact following the adoption of the standard on its consolidated statement of financial position, and a less significant impact on its statement of comprehensive income.

IFRS 17: Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet endorsed by the EU. The Group does not have activities in scope of this new standard.

4. CHANGES IN ACCOUNTING POLICIES (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. The amendments have not yet been endorsed by the EU. Management has assessed that the application of the amendments will not have any impact on the financial position or performance of the Group.

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

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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. These Amendments have not yet been endorsed by the EU. Management has assessed that the application of these amendments will not have any impact on the financial position or performance of the Group.

IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. The Group does not have activities in scope of this new standard.

IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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. Management has assessed that the application of these amendments will 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 are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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. These Amendments have not yet been endorsed by the EU. The Group does not currently hold investment property.

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4. CHANGES IN ACCOUNTING POLICIES (continued)

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.

The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The amendments below are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These improvements are not applicable to the Group.

- ***IFRS 1 First-time Adoption of International Financial Reporting Standards*:** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- ***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 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.

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4. CHANGES IN ACCOUNTING POLICIES (continued)

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.

5. GROUP INFORMATION

5.1 Investments in controlled companies

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

Company name	Country of incorporation	Field of activity	Control 31 December 2017	Control 31 December 2016
US Food Network SA	Romania	Restaurants	99.9997%	Parent
American Restaurant System SA	Romania	Restaurants	99.9997%	n/a
California Fresh Flavours SRL	Romania	Restaurants	99.9900%	n/a
US Foods Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%	100.0000%

The value of non-controlling interests in USFN and ARS as of 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 is a new entity with no significant activities, USFN has been identified as the acquirer of ARS, mainly due to its relative size, USFN being far larger then ARS. Since Sphera was not a business, the transition from USFN to Sphera as legal parent of the Group was accounted for as described in Note 18.

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5 GROUP INFORMATION (continued)

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.

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.

From the date of acquisition, ARS contributed 66,381 of revenue and (2,811) to profit before tax of the Group. If the combination had taken place at the beginning of the year, Group restaurant sales would have been 618,804 and profit before tax for the Group would have been 36,342.

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6. OTHER OPERATING EXPENSES, NET

	2017	2016
Third-party services	11,803	9,330
Utilities	12,574	8,721
Maintenance and repairs	5,722	3,906
Cleaning supplies	3,439	2,535
Small-wares	4,713	2,725
Transport	2,404	1,582
Telephone and postage	465	371
Insurance	397	185
Net gain/(loss) on disposal of property, plant and equipment	493	92
Miscellaneous expenses and income, net	2,402	861
Provision for receivables, net	-	5
Total	**44,412**	**30,313**

7. GENERAL AND ADMINISTRATION EXPENSES, NET

	2017	2016
Payroll and employee benefits	32,369	9,317
Third-party services	12,373	7,359
Depreciation and amortization	879	590
Rent	2,253	1,392
Banking charges	1,771	1,046
Transport	2,278	811
Maintenance and repairs	989	990
Small-wares	728	444
Insurance	376	224
Advertising	614	143
Telephone and postage	432	251
Miscellaneous expenses and income, net	863	408
Total	**55,925**	**22,975**

Payroll and employee benefits include the bonus granted to management based on the listing of Sphera's shares (please refer also to Note 21).

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

8.1 Payroll and employee benefits

	2017	2016
Payroll and employee benefits recognized in "Restaurant expenses"	109,858	69,577
Payroll and employee benefits recognized in "General and administration expenses, net"	32,368	9,317
Total payroll and employee benefits	**142,226**	**78,894**
Of which, defined contribution to State pension plan	29,616	9,022

8.2 Depreciation and amortization

	2017	2016
Depreciation and amortization recognized in "Restaurant expenses"	13,942	9,234
Depreciation and amortization recognized in "General and administration expenses, net"	879	590
Total depreciation and amortization	**14,821**	**9,824**

9. FINANCE COSTS AND INCOME

9.1 Finance costs

	2017	2016
Interest on loans and borrowings	1,136	518
Finance charges payable under finance leases	25	18
Foreign exchange loss, net	947	289
Total finance costs	**2,108**	**825**

9.2. Finance income

	2017	2016
Interest income	166	95
Total finance income	**166**	**95**

All amounts in RON thousand, unless specified otherwise

10. INCOME TAX

The major components of income tax expense for the years ended 31 December 2017 and 31 December 2016 are:

	2017	2016
Current income tax:		
Current income tax charge	5,337	7,541
Deferred tax:		
Relating to origination and reversal of temporary differences	(2,104)	(1,758)
Income tax expense reported in the statement of comprehensive income	**3,233**	**5,783**

A reconciliation between tax expense and the product of accounting profit multiplied by Romania's domestic tax rate for the years ended 31 December 2017 and 31 December 2016 is as follows:

	2017	2016
Accounting profit before income tax	**34,661**	**54,516**
At statutory income tax rate of 16%	5,546	8,723
Effect of higher tax rates in Italy	(195)	-
Effect of lower tax rates in the Republic of Moldova	(28)	(13)
Other income exempted from tax	(334)	(49)
Effect of changes in the tax legislation and tax rates	(2,145)	(1,892)
Sponsorship fiscal credit	(92)	(1,633)
Non-deductible expenses for tax purposes	482	647
At the effective income tax rate	**3,233**	**5,783**

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 (amounting to 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 2017	31 December 2016	2017	2016
Property, plant and equipment	(28)	22	50	(1,715)
Intangible assets	-	-	-	(172)
Fiscal losses	2,126	-	(2,126)	-
Operating lease incentives	46	18	(28)	125
Loans and borrowings	-	-	-	4
Deferred tax benefit	-	-	**(2,104)**	**(1,758)**
Net deferred tax assets	**2,144**	**40**		

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.

All amounts in RON thousand, unless specified otherwise

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold buildings and leasehold improvements	Plant and machinery	Other equipment	Construction in progress	Total
Cost					
At 1 January 2016	**39,972**	**37,078**	**10,954**	**1,368**	**89,372**
Additions	4,746	6,074	2,778	2,451	**16,049**
Disposals	92	-	-	513	**605**
At 31 December 2016	**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**
Depreciation					
At 1 January 2016	**20,108**	**21,269**	**6,911**	**-**	**48,288**
Depreciation charge for the year	3,757	3,792	1,428	-	**8,977**
Disposals	-	-	-	-	**-**
At 31 December 2016	**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**
Net Book Value					
At 1 January 2016	**19,864**	**15,809**	**4,043**	**1,368**	**41,084**
At 31 December 2016	**20,761**	**18,091**	**5,393**	**3,306**	**47,551**
At 31 December 2017	**50,593**	**34,681**	**9,679**	**10,267**	**105,220**

The Group has several finance lease contracts for motor vehicles. The carrying value of the leased assets as of 31 December 2017 and 31 December 2016 was: 731 and 485 respectively. The assets acquired under finance lease are pledged in favour of the leasing company.

As of 31 December 2017 and 31 December 2016, the gross book value of fully depreciated property, plant and equipment that were still in use amounted to 34,420 and 18,926 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 2017 is of 54,944 (31 December 2016: 35,517).

The additions during the years ended 31 December 2017 and 31 December 2016 consist mainly in new restaurants' leasehold improvements, as well as restaurants' kitchen equipment. The increase of the additions during 2017 is related mainly to the expansion of KFC, Pizza Hut and Pizza Hut Delivery operations in Romania in the new cities and locations, expansion of KFC operations in a new geographical area (Northern Italy). as well set-up of a new business unit operating restaurants under Taco Bell brand.

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12. INTANGIBLE ASSETS

	Goodwill	Franchise rights	Other intangible assets	Intangibles in progress	Total
Cost					
At 1 January 2016	-	**8,174**	**24**	**151**	**8,349**
Additions	-	2,257	63	594	**2,914**
At 31 December 2016	-	**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**
Amortisation					
At 1 January 2016	-	**4,040**	**11**	-	**4,051**
Amortisation	-	838	9	-	**847**
At 31 December 2016	-	**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**
Net book value					
At 1 January 2016	-	**4,134**	**13**	**151**	**4,298**
At 31 December 2016	-	**5,553**	**67**	**745**	**6,365**
At 31 December 2017	**50,585**	**14,417**	**857**	**1,612**	**67,471**

Additions during the years ended 31 December 2017 and 31 December 2016 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 2017.

The recoverable amount of the CGU as at 31 December 2017, has been determined at 70,422 based on fair value less costs of disposal determined using forecasted free cash-flows in RON for a discrete period of 5 years (2018-2022). 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.

As a result of the analysis, as compared to the CGU carrying value of 67,759, there is headroom of 2,663 and management did not identify an impairment for this CGU.

The calculation of fair value less cost of disposal is most sensitive to the following assumptions:
• EBITDA margin
• Discount rates

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 0.15% the recoverable amount of the CGU would be equal to its carrying amount.

The post-tax discount rate used was based on the weighted average cost of capital ("WACC") estimated at CGU level and determined at the level of 12.00%. If WACC would increase to 12.2% the recoverable amount of the CGU would be equal to its carrying amount.

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13. INTEREST-BEARING LOANS AND BORROWINGS

	Interest rate, %	Maturity	31 December 2017	31 December 2016
Current interest-bearing loans and borrowings				
Obligations under finance leases			216	174
Bank loan	EURIBOR 3M + relevant spread	5 years from each withdrawal	24,976	7,622
Total current interest-bearing loans and borrowings			**25,192**	**7,796**
Non-current interest-bearing loans and borrowings				
Obligations under finance leases			220	226
Bank loan	EURIBOR 3M + relevant spread	5 years from each withdrawal	39,300	14,404
Total non-current interest-bearing loans and borrowings			**39,520**	**14,630**
Total interest-bearing loans and borrowings			**64,712**	**22,426**

The Group has a credit facility from Alpha Bank Romania made up of 8 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, credit facility for purchase of land for new restaurants, 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 limited has been utilised, pledge on business goodwill, 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 which should not exceed at any point in time 2.5.

Breaches in meeting the financial covenant would permit the bank to call the loan amount needed to meet the financial covenant. There have been no breaches of the financial covenant for the years ended 31 December 2017 and 31 December 2016.

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13. INTEREST-BEARING LOANS AND BORROWINGS

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

	31 December 2016	Non-cash changes				Cash changes				31 December 2017
		Changes from acquisition of subsidiary	Interest accrual (Note 9.1)	Bank charges related to financing	Foreign exchange gains/losses	Drawings	Repayments	Interest paid	Bank charges paid	
Interest-bearing loans and borrowings	**22,426**	**10,675**	**1,162**	**227**	**833**	**44,708**	**(13,996)**	**(1,098)**	**(227)**	**64,712**
Bank loans	22,026	10,524	1,136	227	768	44,548	(13,655)	(1,072)	(227)	64,276
Financial leases	400	152	26	-	65	160	(341)	(26)	-	436

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 2017	1%	(647)
EUR		
31 December 2016		
EUR	1%	(224)

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:

	Increase in EUR rate	Effect on profit before tax	Increase in USD rate	Effect on profit before tax
31 December 2017	1%	(677)	1%	(10)
31 December 2016	1%	(229)	1%	(23)

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 2017 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 Caa3 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 2017 and 31 December 2016 based on contractual undiscounted payments.

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**

31 December 2016	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings	20	2,203	6,105	15,017	190	**23,535**
Trade and other payables	4,391	20,058	43	1,674	-	**26,166**
Total:	**4,411**	**22,261**	**6,148**	**16,691**	**190**	**49,701**

At 31 December 2017, the Group had available 25,556 of undrawn committed borrowing facilities (31 December 2016: 50,323), 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, trade and other payables, less cash and cash deposits.

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14. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

	31 December 2017	31 December 2016
Interest-bearing loans and borrowings	64,712	22,426
Financial trade and other payables	46,909	26,167
Less: cash and short-term deposits	52,655	48,968
Net debt	**58,966**	**(375)**
Equity	104,544	58,292
Capital and net debt	**163,510**	**57,917**
Gearing ratio:	36%	n/a

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 2017 and 31 December 2016 please refer to Note 13.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

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 2017	31 December 2016
Raw materials	5,740	3,979
Consumables	2,069	1,211
Finished goods	700	554
Total	**8,509**	**5,744**

For the year ended 31 December 2017, inventories amounting to 215,583 (2016: 163,006) were recognised as an expense in profit or loss, in "Food and materials" as well as in "General and administrative expenses, net" ("Small-wares" and "Cleaning supplies").

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16. TRADE AND OTHER RECEIVABLES

	31 December 2017	31 December 2016
Trade receivables, net	393	1,233
Trade receivables from related parties	982	442
Advances to related parties	169	4,531
Loans to related parties	505	483
Tax receivables	4,075	440
Advance to suppliers	647	974
Meal tickets	1,521	677
Other debtors	162	-
Total	**8,454**	**8,780**

Terms and conditions relating to related party transactions are described in Note 24.

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

As at 31 December 2017, trade receivables with a value of 392 were impaired and fully provided for. See below for the movements in the provision for impairment of receivables:

	Total
At 1 January 2016	**380**
Charge for the year	4
At 31 December 2016	**384**
Acquisition of subsidiary	8
At 31 December 2017	**392**

As at 31 December 2017 and 31 December 2016, the ageing analysis of trade receivables and trade receivables from related parties, net of allowances, is, as follows:

	Total	Neither past due nor impaired	Past due but not impaired < 30 days	30-60 days	61-90 days	91-120 days	> 120 days
31 December 2017	1,375	363	183	30	4	56	739
31 December 2016	1,675	361	1,061	75	10	3	165

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17. CASH AND SHORT-TERM DEPOSITS

	31 December 2017	31 December 2016
Cash at banks and on hand	21,774	35,874
Cash in transit	1247	340
Short-term deposits	29,634	12,754
Total	**52,655**	**48,968**

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 2017 is of 31,021 (31 December 2016: 44,239).

18. ISSUED CAPITAL

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

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

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

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

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18. ISSUED CAPITAL (continued)

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

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

Costs related to reorganization represent the one-off fees paid by the Group for the consultancy services (580), legal services (349) and valuation services (154) required by the reorganization process.

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

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

19. DISTRIBUTIONS MADE AND PROPOSED

	2017	2016
Declared and paid during the period:		
To owners of USFN	46,237	40,961
To non-controlling interests	70	84
Total dividends for the period	**46,307**	**41,045**
Dividends per share (RON/share) – USFN shares	122	108

There is no proposed distribution of dividends from 2017 profit due to the fact that Sphera has recorded a loss in its standalone accounts, which are the basis for dividend distribution.

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20. TRADE AND OTHER PAYABLES

	31 December 2017	31 December 2016
Trade payables	43,433	23,781
Other payables to related parties	50	55
Other payables	3,426	2,331
Salary liability	15,814	7,679
Social contribution liability	8,551	2,001
Other employee related liabilities	3,337	739
Current income tax	3,471	1,848
VAT payable	2,211	32
Other taxes	60	500
Total	**80,353**	**38,966**
Less: non-current portion of other payables	2,671	1,674
Trade and other payables, current	**77,682**	**37,292**

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 24.

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

	31 December 2017	31 December 2016
Lease incentives (current and non-current)	2,258	725
Free of charge fit-outs (current and non-current)	926	1,528
Other payables (current)	242	77
Total	**3,426**	**2,330**

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.

21. EBITDA

	Note	2017	2016
Operating profit		**36,603**	**55,246**
Adjustments to bridge operating profit to EBITDA:			
Depreciation and amortization included in restaurant expenses	8.2	13,942	9,234
Depreciation and amortization included in general and administration expenses	8.2	879	590
EBITDA		**51,424**	**65,070**
Non-recurring expenses		14,202	-
Normalised EBITDA		**65,626**	**65,070**

EBITDA is one of the key performance measures monitored by senior management. For the year ended 31 December 2017, EBITDA was normalized to exclude the non-recurring expenses: management bonus (12,154), legal fees (681), audit and advisory services (534), professional commercial services (652) and other fees (181); no such exclusions were necessary for the period ended 31 December 2016.

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22. EARNINGS PER SHARE (EPS)

	31 December 2017	31 December 2016
Profit attributable to ordinary equity holders of the parent	31,304	48,693
Weighted average number of ordinary shares	37,081,504	34,646,954
Earnings per share, basic and diluted (RON/share)	**0.8442**	**1.4054**

Earnings per share calculation reflects the weighted number of shares of Sphera as follows: the shares issued for the contribution of USFN shares are considered to be outstanding since 1 January 2016 (thus the earnings per share for the year ended 31 December 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.

23. 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. The lease terms are between five and ten years. Future minimum rentals payable under non-cancellable operating leases are as follows:

	31 December 2017	31 December 2016
Within one year	35,755	23,303
After one year but not more than five years	79,669	56,836
More than five years	39,604	23,987
Total:	**155,028**	**104,126**

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 2017		31 December 2016	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	233	216	186	174
After one year but not more than five years	237	219	239	226
More than five years	-	-	-	-
Total minimum lease payments	**470**	**435**	**425**	**400**
Less amounts representing finance charges	35	-	25	-
Present value of minimum lease payments	**435**	**435**	**400**	**400**

23. COMMITMENTS AND CONTINGENCIES (continued)

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. Should the Group fail to achieve these targets, the Group will pay KFC Europe a penalty equivalent to the initial franchise rights fee for each such location and an assumed continuing fee of USD 5,000 per month until the earlier of the eventual opening date or the end of the subsequent year. The Group will remain obliged to construct and open any outstanding outlet in the subsequent year to the year in which the target has not been met. The average initial rights fee is in amount of 190.

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 2017). Should the Group fail to achieve these targets, the Group will pay PH Europe Sarl a penalty equivalent to the initial franchise rights fee for each such location and an assumed continuing fee of USD 5,000 per month until the earlier of the eventual opening date or the end of the subsequent year. The Group will remain obliged to construct and open any outstanding outlet in the subsequent year to the year in which the target has not been met. The average initial rights fee is in amount of 190 for a PH restaurant and 100 for a PHD location.

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 (a reduction in franchise rights payable by the Group of 4% of each restaurant's turnover for the first year and 2% for the second year).

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. In 2017 the Group has opened two locations. Should the Group fail to achieve these targets, the Group will pay KFC Europe a penalty equivalent to the initial franchise rights fee for each such location. The average initial rights fee is in amount of 200.

Bank letter of guarantees

The Group has issued bank letters of guarantee in favour of suppliers as at 31 December 2017 in amount of 8,650 (31 December 2016: 5,257).

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24. RELATED PARTY DISCLOSURES

During the years ended 31 December 2017 and 31 December 2016, the Group has carried out transactions with the following related parties:

Related party	Nature of the relationship	Country of incorporation	Nature of transactions
Cinnamon Bake&Roll SRL	Entity with several common members of key management personnel	Romania	Sale of goods and services, loans provided
American Restaurant System SA	Entity with several common members of key management personnel	Romania	Sale of services, acquisition of goods
Moulin D'Or SRL	Entity with several common members of key management personnel	Romania	Sale of goods and services
Midi Development SRL	Entity with several common members of key management personnel	Romania	Services
Grand Plaza Hotel SA	Entity affiliated to a shareholder of the parent	Romania	Rent and utilities store PH Dorobanti
Arggo Software Development and Consulting SRL	Entity affiliated to a shareholder of the parent	Romania	Implementation services
Lunic Franchising and Consulting Ltd.	Shareholder (until 9 November 2017)	Cyprus	Recharge costs related to listing on BSE
M.B.L.Computers SRL	Shareholder	Romania	Recharge costs related to listing on BSE
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

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. As a result, transactions for the 5 months of 2017, until the acquisition date, are disclosed below.

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

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24. RELATED PARTY DISCLOSURES (continued)

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 2017	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
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**

Related party	31 December 2016	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL		22	5	257	5
American Restaurant System SA		721	76,069	4,694	50
Moulin D'Or SRL		136	648	22	-
Lucian Vlad		-	498	-	-
Radu Dimofte		-	148	-	-
Grand Plaza Hotel SA		-	978	-	-
Arggo Software Development and Consulting SRL		-	346	-	-
Anasa Properties SRL		-	405	-	-
Midi Development SRL		-	102	-	-
		879	**79,199**	**4,973**	**55**

During 2010-2013, the Group has granted a loan to Cinnamon Bake&Roll SRL. The loan balance as at 31 December 2017 was of 485 (31 December 2016: 483) and the interest accrual as at 31 December 2017 was of 20 (31 December 2016: 10).

Prepayments include an amount of 44 (31 December 2016: 211) representing prepaid rent to above mentioned related parties.

Intangibles in progress include an amount of 830 (31 December 2016: 619) representing the capital expenditure related to the new ERP system implementation services provided by Arggo Software and Development SRL.

Additionally, 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 M.B.L. Computers SRL (Note 18).

All amounts in RON thousand, unless specified otherwise

24. 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 2017 and 31 December 2016, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group:

	2017	2016
Short-term employee benefits	14,296	1,929
Fees paid to management entity	2,560	3,057
Total compensation paid to key management personnel	**16,856**	**4,986**

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 14,296 the amounts related to the contributions to the State pension plan in respect of key management personnel amounts to 3,180.

25. SEGMENT INFORMATION

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

- KFC restaurants
- Pizza Hut restaurants
- Taco Bell restaurants

For the year ended 31 December 2017 the Group also had one more immaterial operating segment, being one Paul restaurant which is managed by USFN, and which was aggregated into the KFC segment.

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

All amounts in RON thousand, unless specified otherwise

25. SEGMENT INFORMATION (continued)

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.

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.

For the year ended 31 December 2016 the only reportable segment was KFC (USFN also manages one pizza delivery point but its revenues, expenses, assets and liabilities were not significant enough to become a separate reporting segment).

Geographic information:

Revenue from external customers	2017	2016
Romania	552,306	410,043
Italy	12,377	-
Republic of Moldova	8,492	7,492
Total restaurant revenue	**573,175**	**417,535**

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25. SEGMENT INFORMATION (continued)

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

Non-current assets	**31 December 2017**	**31 December 2016**
Romania	165,696	52,004
Italy	8,092	-
Republic of Moldova	2,335	2,242
Total	**176,123**	**54,246**

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

The amounts for Italy as of 31 December 2016 were immaterial and were therefore aggregated into Romania line.

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

26. 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 2017 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 2017 of US Food Network SA and American Restaurant System SA in accordance cu MOF 1802/2014 was of 260 (excluding VAT).

Other assurance services amounted 920 (excluding VAT) and other non-assurance services (permitted services) amounted 289 (excluding VAT) out of which the fees connected to the listing process in amount of 560 (excluding VAT) were part of the costs recharged to the selling shareholders (Note 24).

27. EVENTS AFTER THE REPORTING PERIOD

After 31 December 2017, the Group opened two new KFC Drive-Thru restaurants: KFC Olteniței and KFC Botoșani.

On 6 February 2018, Mr. Elyakim Davidai resigned from its independent director mandate within the Board of Directors (BoD) of the Company, for personal reasons. Starting 9 February 2018, the Group has appointed Mr. Stere-Constantin Farmache as "ad-interim" independent member of the Board of Directors. The nomination is valid for a 3-month period from BoD decision date, or until the date the Company's Ordinary General Shareholders Meeting shall appoint the new member of the Board of Directors, whichever occurs first.

On 21 February 2018 the Board of Directors has approved a new addendum to be signed with Alpha Bank Romania SA to existing credit facility contract, in order to increase the Group's credit limit to EUR 36,186 thousand up from EUR 20,630 thousand.

27. EVENTS AFTER THE REPORTING PERIOD (continued)

On 7 March 2018, it was approved the closing of one branch from Constanta meant to develop a new PHD store which is not going to be materialised.

On 21 March 2018 the Board of Directors has approved/validated, subject to shareholders' future approval, the following:

- Covering accumulated losses from 2017, as reflected in the annual financial statements of Sphera ("Company") as at 31 December 2017 in a total amount of 10,196, by decreasing the subscribed and paid up share capital of the Company from 581,990 to 571,795 by reducing the nominal value of the Company's shares from 15 RON to 14.7372 RON.

- Decrease of the subscribed and paid up share capital of Sphera from 571,795 to 525,731 by reducing the nominal value of Sphera's shares from 14.7372 RON to 13.5500 RON, followed by the restitution to shareholders of a part of their contribution, pro-rata with their holding in the paid up share capital of the Company and calculated equally for each share. Thus, Company's shareholders as per shareholders registry at the record data for the decrease will receive 1.1872 RON/share.

- Relevant data for share capital decrease are:
  - 9 November 2018 as record date for the share capital decrease, for the identification of the shareholders to whom the effects of the share capital increase shall apply;
  - 9 November 2018 as ex date; and
  - 29 November 2018 as payment date for the amount representing part of the contributions to the share capital which will be restituted to the Company's shareholders;

- The implementation of a long-term incentive plan for Board members, key management personnel and other eligible employees of the Group. Under this plan the beneficiaries will receive share options (with zero exercise price) if they will meet certain key performance indicators, that are yet to be established. Accordingly, the long-term incentive plan may have a certain dilutive effect on earnings per share starting 2018;

- The provision of a non-refundable amount of 405,956.63 EUR to US Food Network S.r.L (Italy) to cover the statutory accounting loss of the financial year ended 31 December 2017;

- Statutory financial statements and Administrator's Report of US Food Network SRL (Republic of Moldova) for the financial year ended 31 December 2017 and distribution of entire profit for the financial year 2017 as dividends to associates.

SPHERA FRANCHISE GROUP SA

CONSOLIDATED DIRECTORS' REPORT

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

31 December 2017

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 72 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 (22 restaurants as at 31 December 2017) as well as pizza delivery points (17 locations as at 31 December 2017) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (2 restaurants as at 31 December 2017) and one restaurant under Paul brand, in Romania. The Group's number of employees at 31 December 2017 was 4,492 (31 December 2016: 2,942).

The purpose of the Group reorganization that resulted in the establishment of Sphera as the legal parent company of US Food Network SA (USFN), American Restaurant System SA (ARS), US Food Network SRL (USFN Italy or Italian subsidiary), US Food Network SRL (USFN Moldova or Moldavian subsidiary) and California Fresh Flavors SRL (Taco Bell) was to ensure a better coordination of activities and enhance value creation, by taking advantage of the synergies at group level and by achieving economies of scale. In terms of activities, Sphera took over gradually until the end of September 2017 certain activities as well as 105 employees from USFN and ARS and 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 2017 and 31 December 2016 are as follows:

Company name	Country of incorporation	Field of activity	Control 31 December 2017	Control 31 December 2016
US Food Network SA	Romania	Restaurants	99.9997%	Parent
American Restaurant System SA	Romania	Restaurants	99.9997%	n/a
California Fresh Flavours SRL	Romania	Restaurants	99.9900%	n/a
US Foods Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%	100.0000%

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.

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

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

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

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 2017 are Tatika Investments Ltd. (27.33%), M.B.L. Computers SRL (20%), Wellkept Group SA (16.34%), Anasa Properties SRL (10.99%) and free float (25.34%).

	31 December 2017
Authorised shares (Sphera)	
Ordinary shares of 15 RON each	38,799,340
Share capital (RON thousand)	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 M.B.L Computers SRL

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

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

4. CORPORATE GOVERNANCE

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

The Company 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 Annual Report.

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 a fost the following:

Name	Date of appointment	Title	Role
Cristian Osiac	16 May 2017	Chairman of the BoD	Executive member
Stylianos Bairaktaris	16 May 2017	Member of the BoD	Executive member
Mark Nicholas Hilton	16 May 2017	Member of the BoD	Executive member
Silviu Gabriel Cârmaciu	16 May 2017	Member of the BoD	Non-executive member
Ion Marius Nasta	16 May 2017	Member of the BoD	Non-executive member
Elyakim Davidai	5 October 2017	Vice-Chairman of the BoD	Independent member
Konstantinos Mitzalis	5 October 2017	Member of the BoD	Independent member

On 6 February 2018, Mr. Elyakim Davidai resigned from its independent director mandate within the Board of Directors of the Company, for personal reasons.

Starting 9 February 2018, the Group has appointed Mr. Stere-Constantin Farmache as "ad-interim" independent member of the Board of Directors. The nomination is valid for a 3-month period, or until the date the Company's Ordinary General Shareholders Meeting shall appoint the new member of the Board Of Directors, whichever occurs first.

The BoD 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
Stylianos Bairaktaris	Chief Financial Officer (CFO)	6 October 2017
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

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.

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 2017, the Group operates 113 restaurants, of which 72 KFC restaurants (68 restaurants located in Romania, 2 restaurants located in the Republic of Moldova and 2 restaurants in Italy), 39 Pizza Hut units (of which 17 are delivery units) and 2 Taco Bell units. Through USFN (Romania), with consolidated restaurant sales of RON 482 million in 2017, we are the second largest restaurant group in the quick-service restaurant sector in Romania and, through ARS (Romania), with restaurant sales of RON 112 million in 2017, 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 2017, there were 68 KFC restaurants in Romania (70 as at 15 March 2018). 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 (one in Verona and the other one in Mestre, located in the metropolitan city of Venice).

Of the 68 KFC restaurants operating in Romania as at 31 December 2017, 45 are food court locations (in malls or commercial centres), 14 are inline (street locations), while another 9 are Drive-Thru locations. In the Republic of Moldova, we operate one food court restaurant and one inline restaurant, while both restaurants in Italy are food court locations. All our inline and Drive-Thru locations offer seating area.

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 2017, there were 22 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 2017, our Pizza Hut Delivery network totalled 17 restaurants.

Of the 22 Pizza Hut Dine-In restaurants operating in Romania as at 31 December 2017, 19 are located near food courts with our dedicated seating (in malls or commercial centres) and 3 are inline (street locations). At the same time, 8 out of the 17 Pizza Hut Delivery restaurants were located within commercial centres, while the remaining 9 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.

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All amounts in RON thousand, unless specified otherwise

7. FINANCIAL RESULTS

Consolidated results for the years ended 31 December 2017 and 31 December 2016 are presented below:

	2017	2016
Restaurant sales	573,175	417,535
Restaurant expenses	480,647	339,314
Restaurant operating profit	**92,528**	**78,221**
General and administration expenses, net	55,925	22,975
Operating profit	**36,603**	**55,246**
Finance result	(1,942)	(730)
Profit before tax	**34,661**	**54,516**
Income tax expense	3,233	5,783
Profit for the period	**31,428**	**48,733**
EBITDA	**51,424**	**65,070**
Normalized EBITDA	**65,626**	**65,070**

Consolidated sales of Sphera reached RON 573.2 million for the year 2017, representing an increase of 37.3% compared to the previous year. The main drivers for this performance were the growth in the sales of USFN Romania (KFC restaurants) (+17.7% Y/Y), which had a contribution of 17.4pp in the consolidated sales growth rate, and the consolidation of ARS (Pizza Hut restaurants) sales starting with June 2017, which contributed 15.9pp in the consolidated sales growth rate. Our KFC operations in Italy, which were launched at the end of March, contributed 3.0pp in the consolidated sales growth rate, while our Taco Bell operations in Romania, which were launched in October, contributed another 0.7pp in the consolidated sales growth rate.

Consolidated operational expenses reached RON 480.6 million in 2017, representing an increase of 41.7% compared to the previous year. As percentage of sales, operational expenses increased by 2.6pp year-on-year to 83.9% in 2017, driven mainly by a 2.5pp increase in the cost of labour, a 0.7pp increase in rent expenses and 0.5pp increase in other operating expenses, which were partly offset by a 1.6pp decrease in cost of food and materials. The main reason for the variation of these expenses was due to the consolidation of ARS results into Sphera and to a lesser extent by the opening of KFC stores in Italy and of Taco Bell in Romania, with a combined impact of 1.6pp on the increase in the consolidated restaurant operating expenses (as percentage of sales).

Net profit reached RON 31.4 million in 2017, being 35.5% lower than in the previous year. The reduction in the net profit margin, by 6.2pp to 5.5% of sales in 2017, was driven by the 6.8pp decrease in the operating profit margin and was partly offset by the reduction in the income tax expense, which was down 44% Y/Y to RON 3.2 million. The main reason for the variation in the income tax expense was the change in the profit tax system to a flat tax per restaurants' commercial area.

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	2017	2016
Operating profit	**36,603**	**55,246**
Adjustments to bridge operating profit to EBITDA:		
Depreciation and amortization included in restaurant expenses	13,942	9,234
Depreciation and amortization included in general and administration expenses	879	590
EBITDA	**51,424**	**65,070**
Non-recurring general and administration expenses	14,202	
Normalised EBITDA	**65,626**	**65,070**

EBITDA is one of the key performance measures monitored by senior management.
For the year ended 31 December 2017, EBITDA was normalized to exclude the non-recurring general and administration expenses: management bonus (12,154), legal fees (681), professional commercial services (652), audit and advisory services (534) and other fees (181); no such exclusions were necessary for the period ended 31 December 2016.

EBITDA reached RON 51.4 million in 2017, being 21% lower than in the previous year, while normalized EBITDA (adjusted for non-recurring expenses) reached RON 65.6 million in 2017, being 1% higher compared with the previous year.
Operating profit reached RON 36.3 million in 2017, being 33.7% lower than in the previous year. The drop in the EBITDA margin (by 6.6pp to 9.0% in 2017) and operating profit margin (by 6.8pp to 6.4% in 2017) was mainly due to the increase in the general and administration expenses (up 4.3pp) and to a lesser extent by the increase in the restaurant operating expenses (by 2.6pp), as described before.

General and administration expenses reached RON 55.9 million in 2017 (9.8% of sales), up 143% compared to previous year (5.5% of sales). Of the RON 33 million increase in this expense category, RON 10.6 million came from the consolidation of ARS, USFN Italy and CFF operations, while another RON 14.2 million were accounted for by non-recurring expenses related to the Group's reorganization process (management bonus, audit and advisory services, legal fees and other fees).

A summary of consolidated financial position as of ended 31 December 2017 is presented below:

	31 December 2017	%	31 December 2016	%
Non-current assets	176,123	71%	54,246	45%
Current assets	73,291	29%	65,399	55%
Total assets	**249,609**	100%	**119,645**	100%
Total equity	**104,544**	42%	**58,253**	49%
Non-current liabilities	42,191	17%	16,304	14%
Current liabilities	102,874	41%	45,088	38%
Total liabilities	**145,065**	58%	**61,392**	51%
Total equity and liabilities	**249,609**	100%	**119,645**	100%

For the purpose of preparing IFRS consolidated financial statements, USFN has been identified as being the acquirer of ARS on 30 May 2017 (in accordance with the requirements of IFRS 3). On this basis, the consolidated financial statements of SFG are a continuation of the consolidated financial statements of USFN and the comparative consolidated financial position as of 31 December 2016 presents the financial position of the USFN Group (USFN together with USFN Italy and USFN Moldova being the "USFN Group").

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.

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 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 2017 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 Caa3 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 2017, the Group had available 25,556 of undrawn committed borrowing facilities (31 December 2016: 50,323), 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, trade and other payables, less cash and cash deposits.

All amounts in RON thousand, unless specified otherwise

	31 December 2017	31 December 2016
Interest-bearing loans and borrowings	64,712	22,426
Financial trade and other payables	46,906	26,167
Less: cash and short-term deposits	52,655	48,968
Net debt	**58,963**	**(375)**
Equity	104,544	58,292
Capital and net debt	**163,507**	**57,917**
Gearing ratio:	36%	n/a

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 2017 and 31 December 2016.

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.

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 measurables 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 expand the restaurant network. Over the medium term, the Group intends to accelerate 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. In the longer term, it is expected that the store network potential to continue to increase, mainly on the back of the further expected growth of the Romanian economy, with positive impact on nominal and real-terms personal disposable income, but also of further migration of the population from the rural areas towards larger cities.

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.

At the same time, the Group's management is looking for opportunities to add more food concepts into the Group's portfolio, which would be complementary to the current offer. In 2017 the Group signed a new franchise agreement with Yum! and brought on the Romanian market the famous Taco Bell brand with the commitment to open 10 Taco Bell restaurants within the following three years.

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 2017, the Company incurs no debts relating to anticipated costs relating to environmental aspects. The Company 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 2017, 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. The lease terms are between five and ten years. Future minimum rentals payable under non-cancellable operating leases are disclosed in the financial statements.

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. Should the Group fail to achieve these targets, the Group will pay KFC Europe a penalty equivalent to the initial franchise rights fee for each such location and an assumed continuing fee of USD 5,000 per month until the earlier of the eventual opening date or the end of the subsequent year. The Group will remain obliged to construct and open any outstanding outlet in the subsequent year to the year in which the target has not been met. The average initial rights fee is in amount of 190.

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 2017). Should the Group fail to achieve these targets, the Group will pay PH Europe Sarl a penalty equivalent to the initial franchise rights fee for each such location and an assumed continuing fee of USD 5,000 per month until the earlier of the eventual opening date or the end of the subsequent year. The Group will remain obliged to construct and open any outstanding outlet in the subsequent year to the year in which the target has not been met. The average initial rights fee is in amount of 190 for a PH restaurant and 100 for a PHD location.

Per the Romania network development plan concluded with TB International Holdings II SARL (the Franchisor), 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 (a reduction in franchise rights payable by the Group of 4% of each restaurant's turnover for the first year and 2% for the second year).

Per the Italy network development plan, the Group has agreed with KFC Europe to open a minimum of 25 KFC locations during the years 2017- 2021 in the Northern region of Italy. In 2017 the Group has opened two locations. Should the Group fail to achieve these targets, the Group will pay KFC Europe a penalty equivalent to the initial franchise rights fee for each such location. The average initial rights fee is in amount of 200.

Bank letter of guarantees

The Group has issued bank letters of guarantee in favour of suppliers as at 31 December 2017 in amount of 8,650 (31 December 2016: 5,257).

15. SUBSEQUENT EVENTS

After 31 December 2017, the Group opened two new KFC Drive-Thru restaurants: KFC Olteniței and KFC Botoșani.

On 6 February 2018, Mr. Elyakim Davidai resigned from its independent director mandate within the Board of Directors (BoD) of the Company, for personal reasons. Starting 9 February 2018, the Group has appointed Mr. Stere-Constantin Farmache as "ad-interim" independent member of the Board of Directors. The nomination is valid for a 3-month period from BoD decision date, or until the date the Company's Ordinary General Shareholders Meeting shall appoint the new member of the Board of Directors, whichever occurs first.

On 21 February 2018 the Board of Directors has approved a new addendum to be signed with Alpha Bank Romania SA to existing credit facility contract, in order to increase the Group's credit limit to EUR 36,186 thousand up from EUR 20,630 thousand.

On 7 March 2018, it was approved the closing of one branch from Constanta meant to develop a new PHD store which is not going to be materialised.

On 21 March 2018 the Board of Directors has approved/validated, subject to shareholders' future approval, the following:

- Covering accumulated losses from 2017, as reflected in the annual financial statements of Sphera as at 31 December 2017 in a total amount of 10,196, by decreasing the subscribed and paid up share capital of the Company from 581,990 to 571,795 by reducing the nominal value of the Company's shares from 15 RON to 14.7372 RON.

- Decrease of the subscribed and paid up share capital of the Company from 571,795 to 525,731 by reducing the nominal value of the Company's shares from 14.7372 RON to 13.5500 RON, followed by the restitution to shareholders of a part of their contribution, pro-rata with their holding in the paid up share capital of the Company and calculated equally for each share. Thus, Company's shareholders as per shareholders registry at the record data for the decrease will receive 1.1872 RON/share.

- Relevant data for share capital decrease are:
  - 9 November 2018 as record date for the share capital decrease, for the identification of the shareholders to whom the effects of the share capital increase shall apply;
  - 9 November 2018 as ex date; and
  - 29 November 2018 as payment date for the amount representing part of the contributions to the share capital which will be restituted to the Company's shareholders;

- The implementation of a long-term incentive plan for Board members, key management personnel and other eligible employees of the Group. Under this plan the beneficiaries will receive share options (with zero exercise price) if they will meet certain key performance indicators, that are yet to be established. Accordingly, the long-term incentive plan may have a certain dilutive effect on earnings per share starting 2018;

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- The provision of a non-refundable amount of 405,956.63 EUR to US Food Network S.r.L (Italy) to cover the statutory accounting loss of the financial year ended 31 December 2017;

- Statutory financial statements and Administrator's Report of US Food Network SRL (Republic of Moldova) for the financial year ended 31 December 2017 and distribution of entire profit for the financial year 2017 as dividends to associates.

On behalf of Board of Directors,

Cristian Osiac

Chairman of the Board