SPHERA FRANCHISE GROUP SA

DIRECTORS' REPORT

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

Year ended 31 December 2018

All amounts in RON thousand, unless specified otherwise

1. PRESENTATION OF THE COMPANY

Sphera Franchise Group SA ("Sphera" or "the Company) was incorporated on 16 May 2017 as a joint stock company and is registered at No. 239 Calea Dorobanti, Bucharest, Romania. The Company renders management and support services such as marketing support, development, sales support, human resources and other services to its subsidiaries.

As at 31 December 2018 and 31 December 2017, the Company has the following investments in subsidiaries:

Company name	Country of incorporation	Field of activity	Share interest %
US Food Network SA	Romania	Restaurants	99.9997%
American Restaurant System SA	Romania	Restaurants	99.9997%
California Fresh Flavors SRL	Romania	Restaurants	99.9900%
US Food Network SRL	Moldova	Restaurants	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%

Sphera Franchise Group SA together with its subsidiaries are referred hereinafter as "SFG" or "the Group".

The Group's franchised foodservice business was launched in 1994 with the opening of the first Pizza Hut location, which was followed by the opening in 1997 of the first KFC location, both in Bucharest. As at 31 December 2018, the Group operates 139 restaurants, of which 88 KFC restaurants (76 restaurants located in Romania, 2 restaurants located in the Republic of Moldova and 10 restaurants in Italy), 45 Pizza Hut units (of which 22 are delivery units), 5 Taco Bell units and one restaurant under Paul brand.

Sphera Franchise Group SA has become the parent company of US Food Network SA (USFN) and American Restaurant System SA (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) and on 19 June 2017 it was incorporated California Fresh Flavours SRL.

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 the activities of management and support from USFN and ARS. As at 31 December 2018, the Company has 154 employees.

Sphera's core value proposition centres around the following four pillars, which over the years have contributed to the strong operating performance of the group and track record, based on the following value drivers: (1) the internationally recognizable and successful brands that the Group operates in the portfolio, (2) the successful selection of key locations for the roll-out of our restaurant network, (3) strong marketing efforts and partnerships, and (4) product quality and positioning.

2. CORPORATE GOVERNACE

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 and its board members comply with the corporate governance regime, more details about the compliance with the principles and recommendations stipulated under the Corporate Governance Code being presented on the Company's website www.spheragroup.com and in the Annual Report.

2.1 SHAREHOLDERS AND ISSUED CAPITAL

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

The shareholders of Sphera at 31 December 2018 and 31 Decmber 2017 are: Tatika Investments Ltd. (27.33%), Computerland Romania SRL (formerly named M.B.L. Computers SRL) (20%), Wellkept Company SA (16.34%), Anasa Properties SRL (10.99%) and free float (25.34%).

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

2.2 COMPANY MANAGEMENT

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 (BoD) as of 31 December 2018 is the following:

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

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

On 12 September 2018, Mr. Stylianos Bairaktairis announced his resignation from the position of Director, as member of the Board of Directors of the Company, effective from 25 October 2018.
As a result of the vacancy of the Director position, on 4 October 2018, the Board of Directors decided on the appointment of Mr. Lucian Hoanca as „ad-interim" Director of the Company, member of the Board of Directors, starting with 25.10.2018. The mandate shall be valid until the date on which the General Shareholders Meeting decides to appoint a member of the Board of Directors.

On 4 October 2018, Mr. Kostantinos Mitzalis notified the Company about his resignation from the position of Director, member of the Board of Directors, effective on 16 November 2018.
Starting with 16 November, Mr. Razvan Stefan Lefter is appointed as „ad-interim" Director of the Company, member of the Board of Directors for a priod of 6 months or until the General Shareholders Meeting shall appoint the new member of the Board of Directors, whichever occurs first.

All amounts in RON thousand, unless specified otherwise

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
Daniel Palita	Interim Chief Financial Officer (CFO)	4 October 2018
Cristian Osiac	Chief Development Officer (CDO)	15 June 2017
Călin Viorel Ionescu	Chief Operating Officer (COO)	29 August 2017
Oana Monica Eftimie	Chief Marketing Officer (CMO)	29 August 2017

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

Consultative committees

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

2.3 INTERNAL CONTROL

The Company 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 the Company' 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.

2.4 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.

All amounts in RON thousand, unless specified otherwise

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.

3. FINANCIAL RESULTS

Company's results for the reporting periods are presented below:

	2018	16 May - 31 December 2017
Dividend revenue	61,798	
Revenue from services	26,514	12,420
Payroll and employee benefits	21,598	21,101
Impairment loss of investments in subsidiaries	19,804	-
Other expenses	6,805	2,424
Operating profit/(loss)	**40,105**	**(11,105)**
Financial result	(303)	(110)
Profit/(Loss) before tax	**39,802**	**(11,215)**
Income tax	264	(1,600)
Net profit/(loss) for the period	**39,538**	**(9,615)**
EBITDA	**40,468**	**(11,083)**
Normalized EBITDA	**60,272**	**(6)**

The Company's revenues include dividend income from subsidiaries and revenues from services rendered. Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established which is generally when shareholders approve the dividend.

All amounts in RON thousand, unless specified otherwise

In 2018, the Company received dividends from US Food Network SA (61,446) and US Food Network SRL (Republic of Moldova).

Revenues from services refer to management and support services provided to its subsidiaries, such as: marketing support, development, sales support, human resources and other services. For calculating the price of services rendered, the Company applies a mark-up of 10% to cost of service, determined based on benchmark analysis as requested by transfer pricing legislation.

As of 31 December 2018, the Company assessed whether there are indicators of impairment for its investments in subsidiaries, as follows:

- USFN and USFN Moldova's activities in 2018 have continued in line or at better performance than anticipated through the cash flow projections based on which their fair value was determined in May 2017, therefore no impairment indicator was identified;
- USFN Italy, that started activity during 2017, has performed in 2018 as anticipated through the cash flow projections based on which its fair value was determined in May 2017, therefore no impairment indicator was identified;
- Taco Bell, that started activity during 2017, has performed in 2018 in accordance with management's expectations, therefore no impairment indicator was identified;
- Pizza Hut's performance in 2018 was below the cash flow projections based on which their fair value was determined in May 2017. The impairment test that was prepared determined the recoverable amount of the investment based on fair value less costs of disposal determined using forecasted free cash-flows in RON for a discrete period of 5 years (2019-2023). The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor. As a result of the analysis, as compared to the investment carrying value of 60,786, there was a decrease of the investment's recoverable amount of 19,804 for which the Company recognized a valuation allowance in the financial statements as at and for the year ended 31 December 2018. This impairment loss may be reversed in the future financial years, subject to improving performance of the subsidiary.

The structure of Other expenses is presented below:

	2018	**16 May - 31 December 2017**
Third-party services	2,882	1,076
Advertising	183	210
Other taxes	210	195
Rent	989	91
Banking charges	81	10
Travel expenses	1,016	346
Office supplies	478	213
Depreciation	363	22
Insurance	259	73
Maintenance and repairs	61	23
Utilities	38	12
Miscellaneous expenses	245	153
Total	**6,805**	**2,424**

All amounts in RON thousand, unless specified otherwise

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

	2018	16 May - 31 December 2017
Operating profit	**40,105**	**(11,105)**
Depreciation and amortization	363	21
EBITDA	**40,468**	**(11,083)**
Non-recurring expenses	19,804	11,077
Normalised EBITDA	**60,272**	**(6)**

For the year ended 31 December 2018, EBITDA was normalized to exclude the non-recurring expenses related to impairment of the investment in ARS. For the year ended 31 December 2017, the non-recurring expenses were related to the process of listing of Sphera's shares (11,077).

Net profit for the year was RON 39,538 (2017: net loss of 9,615). Normalised by the non-recurring expenses presented above, the current profit was in amount of 59,342 (2017:1,462). The significant increase compared to the previous reporting period was the result of the dividend income received from subsidiaries.

In what regards the financial position, the main elements of the balance sheet as of 31 December 2018 are detailed below:

	31 December 2018	%	31 December 2017	%
Assets				
Non-current assets	583,833	89%	602,701	98%
Current assets	71,254	11%	14,957	2%
Total assets	**655,087**	**100%**	**617,658**	**100%**
Equity and liabilities				
Total equity	**611,333**	93%	**571,795**	93%
Non-current liabilities	35,992	5%	16,660	3%
Current liabilities	7,762	1%	29,203	5%
Total liabilities	**43,754**	**7%**	**45,863**	**7%**
Total equity and liabilities	**655,087**	**100%**	**617,658**	**100%**

Besides cash, currents assets refer to loans granted to the subsidiaries (45,505) and amounts invoiced to related parties for management and support services provided during the period (8,925).

Current and non-current liabilities are in relation to the bank loan and one of its subsidiaries, US Food Network SA.

Starting 2018, the Company is part of a credit facility from Alpha Bank Romania signed jointly by the Company and its Romanian subsidiaries. The Company may draw from two sub-limits, one for financing of working capital and one for financing of Italian subsidiary. The loan is secured with 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.

Services S.R.L.
21. MAR. 2019
Signed for identification

All amounts in RON thousand, unless specified otherwise

Non-current assets comprise mainly net investments in subsidiaries (576,309). List of entities owned by the Company is presented in section 1 and the details regarding the net value of the investments as at 31 December 2018 and 31 December 2017 are presented below:

	31 December 2018			31 December 2017
Company name	**Investment at cost**	**Valuation allowance**	**Net book value**	**Net book value**
US Food Network SA	519,704	-	519,704	519,704
American Restaurant System SA	60,786	19,804	40,982	60,786
California Fresh Flavors SRL	100	-	100	100
US Food Network SRL (Republic of Moldova)	1,735	-	1,735	1,735
US Food Network SRL (Italy)	13,788	-	13,788	11,897
Total	**596,113**	**19,804**	**576,309**	**594,222**

In 2018, the Company increased the value of the investment in the Italian subsidiary, US Food Network Srl by providing a non-refundable amount of 1,891(EUR 405,956.63) to cover the statutory accounting loss of the subsidiary for the financial year ended 31 December 2017, as requested by the Italian regulations.

Other non-current assets refer to receivables from third parties (6,322), property, plant and equipment and intangible assets (2,565) and deferred tax asset recognized for the fiscal loss carried forward (1,336).

4. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Company's principal financial liabilities comprise interest bearing loans from banks and its subsidiary, USFN, and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations as well as give finance support to the subsidiaries.

The Company's financial assets are represented by investment in subsidiaries, trade and other receivables, and cash and cash equivalents that derive directly from its operations

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

Interest rate risk

Sphera'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 rate on the Company's debt finance from bank is variable. Interest rates on the Company's debt finance from Group companies are fixed. Changes in interest rate do not impact loans and borrowings to third parties either since future cash flows are not affected by such changes in interest rates. In connection to loans granted or obtained from related parties, management policy is to resort mainly to fixed rate financing. However, at the time of rising or granting new loans or borrowings management shall use its judgment to decide whether it believes that fixed or variable rate would be more favourable to the Company over the expected period until maturity.

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 Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's financing activities, as the financing contracted by the Company is Euro based. The vast majority of revenues and expenses, trade and other receivables and payables is in RON. Part of the loans granted to related parties are denominated in EUR. Natural hedging occurs from the Company's financing activities, as the Company grants loans to its subsidiaries in the same currencies in which the funds are obtained from the bank.

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

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company's credit risk is primarily attributed to loans and receivables from related parties, for which the probability of losses is considered remote. The carrying amount of trade and other receivables, plus balances with banks, represent the maximum amount exposed to credit risk.

The Company collaborates with highly reliable financial institutions. The majority of cash is transacted through and placed with Alpha Bank Romania, member of Alpha Bank Company from Greece and Banca Romana de Dezvoltare (BRD), a member of Societe Generale Company from France. 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 provided by Moody's.

Liquidity risk

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

At 31 December 2018, the Company had available 73,439 of undrawn committed borrowing facility from US Food Network SA and 4,664 from the bank loan facility with Alpha Bank, thus being able to respond to any unforeseen higher cash outflow needs.

Capital management

Capital includes the equity attributable to the Company's shareholders.

The primary objective of the Company'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 Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

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

All amounts in RON thousand, unless specified otherwise

	31 December 2018	31 December 2017
Interest-bearing loans and borrowings	38,610	16,660
Trade and other payables	5,144	29,203
Less: cash and short-term deposits	19,939	5,747
Net debt	**23,815**	**40,116**
Equity	611,333	571,795
Capital and net debt	**635,148**	**611,911**
Gearing ratio:	4%	7%

Fair values

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

The carrying amount of the interest bearing loans and borrowings and receivables from loans granted to related parties approximates their fair value (level 3 measurement).

Financial instruments which are not carried at fair value on the statement of financial position also include 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 (level 3 measurement).

5. COMMITMENTS AND CONTINGENCIES

Operating lease commitments - Company as lessee

The Company has entered into operating lease agreements for the headquarters premises and other administrative areas and several vehicles and equipment. The real estate lease terms are between five and ten years. The contract period of the operating lease agreements for vehicles and equipment does not exceed five years term.

Finance leases

The Company has finance leases for vehicles. The Company's obligations under finance leases are secured by the lessor's title to the leased assets.

Borrowing facilities granted to third parties

At 31 December 2018, the value of the undrawn borrowing facilities granted to related parties was of 2,020.

Contingencies

Taxation

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

The Romanian tax legislation was subject to significant changes and contradictory interpretations, which may apply retroactively. Moreover, in practice, the tax authorities can take a strong approach and assess

additional tax liabilities and related late payment penalties based on their individual interpretations of the tax legislation. As a result, penalties and delay payment interest could result in a significant amount payable to the state.
Contingent liabilities may arise in relation to additional tax assessments that may be imposed by the tax authorities as a result of reviews performed. Corporate tax returns can be subject to review by tax authorities within a 5-year period in Romania.
Recently, there has been an increase in audits carried out by the tax authorities.

Transfer pricing

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

On behalf of Board of Directors,

Cristian Osiac

Chairman of the Board

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21 MAR. 2019