

Interim Financial Report

For the three-month period ended 31 March 2019 (Q1-2019)

| | |
|--|--|
| Report date: | 15-May-2019 |
| Name of the issuing entity: | Sphera Franchise Group SA |
| Statutory seat: | Bucharest, Romania |
| Visiting address: | Bucharest, 239 Dorobanti Ave., 2 nd Floor, 1 st District, Romania |
| Phone no/Fax no: | 0040 21 201 1757 / 0040 21 201 1759 |
| Sole Registration Code: | RO 37586457 |
| Order number with the Trade Registry: | J40/7126/2017 |
| Subscribed and paid-in share capital: | RON 581,990,000 |
| Number of shares in issue: | 38,799,340 |
| Number of listed shares: | 9,831,753 |
| Regulated market on which the issued securities are traded: | Bucharest Stock Exchange, Main Segment, Category Premium (Shares) |
| Symbol: | SFG |

Note:

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

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

Contact details:

Investor Relations

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Financial analysis of Q1-2019 financial results

Summary of interim Consolidated Financial Statements for the three-month period ended 31 March 2019 (unaudited)

| Data in RON'000 | Mar-19 | Mar-18 | Y/Y% | % of Sales | | Δ% |
|--|----------------|----------------|---------------|--------------|--------------|--------------|
| | | | 2019/2018 | Mar-19 | Mar-18 | |
| Restaurant sales | 214,725 | 170,232 | 26.1% | | | |
| Restaurant expenses | 191,931 | 144,119 | 33.2% | 89.4% | 84.7% | 4.7% |
| Food and material | 77,186 | 61,909 | 24.7% | 35.9% | 36.4% | -0.4% |
| Payroll and employee benefits | 49,101 | 33,010 | 48.7% | 22.9% | 19.4% | 3.5% |
| Rent | 4,682 | 12,416 | -62.3% | 2.2% | 7.3% | -5.1% |
| Royalties | 12,632 | 9,918 | 27.4% | 5.9% | 5.8% | 0.1% |
| Advertising | 9,336 | 7,060 | 32.2% | 4.3% | 4.1% | 0.2% |
| Other operating expenses, net | 22,829 | 14,938 | 52.8% | 10.6% | 8.8% | 1.9% |
| Depreciation and amortization | 16,166 | 4,867 | 232.2% | 7.5% | 2.9% | 4.7% |
| Restaurant operating profit | 22,794 | 26,113 | -12.7% | 10.6% | 15.3% | -4.7% |
| General and administration expenses, net | 12,968 | 12,350 | 5.0% | 6.0% | 7.3% | -1.2% |
| Operating profit | 9,826 | 13,764 | -28.6% | 4.6% | 8.1% | -3.5% |
| Finance costs | 7,447 | 487 | 1428.1% | 3.5% | 0.3% | 3.2% |
| Finance income | 18 | 183 | -90.3% | 0.0% | 0.1% | -0.1% |
| Profit before tax | 2,397 | 13,459 | -82.2% | 1.1% | 7.9% | -6.8% |
| Income tax expense | 1,122 | 910 | 23.2% | 0.5% | 0.5% | 0.0% |
| Profit for the period | 1,275 | 12,549 | -89.8% | 0.6% | 7.4% | -6.8% |
| EBITDA | 27,075 | 18,836 | 43.7% | 12.6% | 11.1% | 1.5% |

Breakdown of consolidated results by Group companies – Q1-2019

| Data in RON'000 | Mar-19 | Mar-19 | Mar-19 | Mar-19 | Mar-19 | Mar-19 | Mar-19 | Mar-19 |
|--|----------------|----------------|--------------|----------------|----------------|----------------|----------------|----------------|
| | USFN (RO) | ARS | USFN (MD) | USFN (IT) | CFF | SFG | Cons. Adj | SFG Cons. |
| Restaurant sales | 156,561 | 32,157 | 2,742 | 17,203 | 5,750 | 6,123 | (5,812) | 214,725 |
| Restaurant expenses | 135,151 | 31,075 | 2,186 | 17,953 | 5,580 | 0 | (14) | 191,931 |
| Food and material | 60,239 | 8,541 | 1,063 | 5,221 | 2,123 | 0 | 0 | 77,186 |
| Payroll and employee benefits | 31,146 | 10,202 | 407 | 5,727 | 1,620 | 0 | 0 | 49,101 |
| Rent | 4,292 | 204 | 20 | 95 | 71 | 0 | 0 | 4,682 |
| Royalties | 9,383 | 1,903 | 165 | 1,029 | 152 | 0 | 0 | 12,632 |
| Advertising | 5,982 | 2,124 | 75 | 973 | 197 | 0 | (15) | 9,336 |
| Other operating expenses, net | 14,740 | 4,350 | 219 | 2,857 | 663 | 0 | 0 | 22,829 |
| Depreciation and amortization | 9,370 | 3,752 | 237 | 2,052 | 755 | 0 | 0 | 16,166 |
| Restaurant operating profit | 21,410 | 1,082 | 556 | (750) | 170 | 6,123 | (5,798) | 22,794 |
| General and administration expenses, net | 7,336 | 2,355 | 72 | 1,337 | 814 | 6,852 | (5,798) | 12,968 |
| Operating profit | 14,074 | (1,273) | 484 | (2,086) | (643) | (729) | (0) | 9,826 |
| Finance costs | 4,938 | 1,410 | 98 | 902 | 531 | 678 | (1,110) | 7,447 |
| Finance income | 670 | 3 | 0 | 0 | 0 | 455 | (1,110) | 18 |
| Profit before tax | 9,807 | (2,681) | 386 | (2,989) | (1,174) | (952) | (0) | 2,397 |
| Income tax expense | 971 | 391 | 73 | (512) | 43 | 154 | 0 | 1,122 |
| Profit for the period | 8,835 | (3,072) | 312 | (2,476) | (1,218) | (1,106) | (0) | 1,275 |
| EBITDA | 23,999 | 2,528 | 730 | (28) | 149 | (303) | (0) | 27,075 |

Impact of the adoption of IFRS 16 - Leases

Starting 1 January 2019, Sphera applied IFRS 16 that sets out the principles for the recognition, measurement, presentation and disclosure of leases. Given the material impact of the adoption of IFRS 16 on the consolidated financial statements of Sphera, we are providing below a comparison of the financial results including the impact of IFRS 16 and the financial results excluding the impact of IFRS 16.

For more information on the adoption of IFRS 16 and the impact on the financial statements of Sphera, please refer to Note 2 from the Appendix 1, Interim Condensed Consolidated Financial Statements.

| Data in RON'000 | Including impact of IFRS 16 | Excluding impact of IFRS 16 | Impact of IFRS 16 adoption | % of Sales | | |
|--|-----------------------------|-----------------------------|----------------------------|-----------------------------|-----------------------------|----------------------------|
| | | | | Including impact of IFRS 16 | Excluding impact of IFRS 16 | Impact of IFRS 16 adoption |
| Restaurant sales | 214,725 | 214,725 | 0 | | | |
| Restaurant expenses | 191,931 | 192,921 | (990) | 89.4% | 89.8% | -0.5% |
| Food and material | 77,186 | 77,186 | 0 | 35.9% | 35.9% | |
| Payroll and employee benefits | 49,101 | 49,101 | 0 | 22.9% | 22.9% | |
| Rent | 4,682 | 15,491 | (10,810) | 2.2% | 7.2% | -5.0% |
| Royalties | 12,632 | 12,632 | 0 | 5.9% | 5.9% | |
| Advertising | 9,336 | 9,336 | 0 | 4.3% | 4.3% | |
| Other operating expenses, net | 22,829 | 22,739 | 90 | 10.6% | 10.6% | |
| Depreciation and amortization | 16,166 | 6,437 | 9,729 | 7.5% | 3.0% | 4.5% |
| Restaurant operating profit | 22,794 | 21,804 | 990 | 10.6% | 10.2% | 0.5% |
| General and administration expenses, net | 12,968 | 13,087 | (119) | 6.0% | 6.1% | -0.1% |
| Operating profit | 9,826 | 8,717 | 1,110 | 4.6% | 4.1% | 0.5% |
| Finance costs | 7,447 | 2,455 | 4,992 | 3.5% | 1.1% | 2.3% |
| Finance income | 18 | 18 | 0 | 0.0% | 0.0% | |
| Profit before tax | 2,397 | 6,279 | (3,882) | 1.1% | 2.9% | -1.8% |
| Income tax expense | 1,122 | 1,149 | (27) | 0.5% | 0.5% | 0.0% |
| Profit for the period | 1,275 | 5,131 | (3,855) | 0.6% | 2.4% | -1.8% |
| EBITDA | 27,075 | 15,540 | 11,535 | 12.6% | 7.2% | 5.4% |

Consolidated sales of Sphera reached RON 214.7 million in Q1-2019, representing an increase of 26.1% compared to the previous year. The main drivers for this performance were the growth in the sales of USFN Romania (KFC restaurants) (+19.5% Y/Y), which had a contribution of 15.0pp in the sales growth rate, and USFN Italy (KFC restaurants in Italy), whose sales advanced 317% Y/Y and contributed 7.7pp to the sales growth rate. CFF (Taco Bell restaurants) sales grew 126% and had a contribution of 1.9pp to the sales growth rate, while ARS (Pizza Hut restaurants) sales advanced 7.3% Y/Y and had a contribution of 1.3pp to the sales growth rate.

In Q1-2019, like-for-like sales across Sphera brands increased 7.3% Y/Y, being supported by a 10.9% advance of KFC Romania, while Pizza Hut operations fell 2.0%, Taco Bell fell 28.6% and KFC Italy fell 13.6%. The strong like-for-like growth of KFC Romania continued to be supported by a very good performance of the stores outside Bucharest, as well as by incremental sales generated by our increasing delivery business, especially in Bucharest. Pizza Hut's negative performance was mainly driven by the underperformance of the delivery channel, which were partly offset by gains in the dine-in channel.

| Data in RON thousand | Q1-2019 | Q1-2018 | Change 2019/2018 | Contribution to sales growth |
|---|----------------|----------------|------------------|------------------------------|
| | | | | |
| Sales by companies (principal brand) | | | | |
| USFN Romania (KFC) | 156,561 | 131,007 | 19.5% | 15.0% |
| USFN Moldova (KFC) | 2,742 | 2,188 | 25.3% | 0.3% |
| USFN Italy (KFC) | 17,203 | 4,123 | 317.3% | 7.7% |
| ARS (Pizza Hut) | 32,157 | 29,962 | 7.3% | 1.3% |
| CFF (Taco Bell) | 5,750 | 2,544 | 126.0% | 1.9% |
| Other revenues ¹⁾ | 311 | 408 | -23.8% | -0.1% |
| Total sales | 214,725 | 170,232 | 26.1% | 26.1% |

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

| Data in RON thousand | Q1-2019 | Q1-2018 | Change 2019/2018 | Contribution to sales growth |
|------------------------|----------------|----------------|------------------|------------------------------|
| | | | | |
| Sales by region | | | | |
| Romania | 194,780 | 163,921 | 18.8% | 18.1% |
| Italy | 17,203 | 4,123 | 317.3% | 7.7% |
| Republic of Moldova | 2,742 | 2,188 | 25.3% | 0.3% |
| Total sales | 214,725 | 170,232 | 26.1% | 26.1% |

Consolidated operational expenses reached RON 191.9 million in Q1-2019, representing an increase of 33.2% compared to the previous year. As percentage of sales, operational expenses increased by 4.7pp year-on-year to 89.4% in Q1-2019, driven mainly by a 3.5pp increase in the cost of labour and a 1.9pp increase in other operating expenses, while being partly offset by a 0.4pp decrease in cost of food and materials. As a result of the adoption of IFRS 16, rent expenses decreased by 5.0pp to 2.2% of sales, while depreciation expenses increased by 4.5pp to 7.5% of sales.

Excluding the impact of IFRS 16, consolidated operational expenses reached RON 192.9 million in Q1-2019, representing an increase of 33.9% compared to the previous year. As percentage of sales, operational expenses increased by 5.2pp year-on-year to 89.8% in Q1-2019.

| | Data in RON thousand | | | Change (%) | | Percentage of sales | | |
|------------------------------------|----------------------|----------------|----------------|----------------------------|----------------------------|---------------------|--------------|--------------|
| | Q1-2019 | Q1-2019 | Q1-2018 | 2019 ⁽¹⁾ / 2018 | 2019 ⁽²⁾ / 2018 | Q1-2019 | Q1-2019 | Q1-2018 |
| | (1) | (2) | | | | (1) | (2) | |
| Restaurant expenses | 191,931 | 192,921 | 144,119 | 33.2% | 33.9% | 89.4% | 89.8% | 84.7% |
| Food and material | 77,186 | 77,186 | 61,909 | 24.7% | 24.7% | 35.9% | 35.9% | 36.4% |
| Payroll and employee benefits | 49,101 | 49,101 | 33,010 | 48.7% | 48.7% | 22.9% | 22.9% | 19.4% |
| Rent | 4,682 | 15,491 | 12,416 | -62.3% | 24.8% | 2.2% | 7.2% | 7.3% |
| Royalties | 12,632 | 12,632 | 9,918 | 27.4% | 27.4% | 5.9% | 5.9% | 5.8% |
| Advertising | 9,336 | 9,336 | 7,060 | 32.2% | 32.2% | 4.3% | 4.3% | 4.1% |
| Other operating expenses | 22,829 | 22,739 | 14,938 | 52.8% | 52.2% | 10.6% | 10.6% | 8.8% |
| Depreciation | 16,166 | 6,437 | 4,867 | 232.2% | 32.3% | 7.5% | 3.0% | 2.9% |
| Restaurant operating profit | 22,794 | 21,804 | 26,113 | -12.7% | -16.5% | 10.6% | 10.2% | 15.3% |

Note: (1) Including the impact of the adoption of IFRS 16; (2) Excluding the impact of the adoption of IFRS 16.

Restaurant operating profit reached RON 22.8 million in Q1-2019 (10.6% of sales), down 12.7% compared with the previous year (15.3% of sales), of which RON 21.4 million was accounted for by USFN Romania operations (3.4% below previous year) and another RON 1.1 million by ARS Romania (63% below previous year). Excluding the impact of IFRS 16 adoption, restaurant operating profit reached 21.8 million in Q1-2019 (10.2% of sales), down 16.5% compared with the previous year, of which RON 20.7 million was accounted for by USFN Romania operations (6.6% below previous year) and another RON 1.0 million by ARS Romania (66% below previous year).

General and administration (G&A) expenses reached RON 13.0 million in Q1-2019 (6.0% of sales), up 5.0% compared to previous year (7.3% of sales). Excluding the impact of IFRS 16 adoption, general and administration (G&A) expenses reached RON 13.1 million in Q1-2019 (6.1% of sales), up 6.0% compared to previous year.

| | Data in RON thousand | | | Change (%) | | Percentage of sales | | |
|---|----------------------|---------------|---------------|----------------------------|----------------------------|---------------------|-------------|-------------|
| | Q1-2019 | Q1-2019 | Q1-2018 | 2019 ⁽¹⁾ / 2018 | 2019 ⁽²⁾ / 2018 | Q1-2019 | Q1-2019 | Q1-2018 |
| | (1) | (2) | | | | (1) | (2) | |
| General and administration expenses (net), of which: | 12,968 | 13,087 | 12,350 | 5.0% | 6.0% | 6.0% | 6.1% | 7.3% |
| Payroll and employee benefits | 7,276 | 7,276 | 6,828 | 6.5% | 6.5% | | | |
| Third-party services | 2,016 | 2,016 | 2,405 | -16.2% | -16.2% | | | |
| Depreciation and amortization | 1,083 | 386 | 205 | 427.4% | 88.3% | | | |
| Rent | 99 | 915 | 762 | -87.0% | 20.0% | | | |
| Banking charges | 819 | 819 | 635 | 29.0% | 29.0% | | | |
| Transport | 974 | 974 | 742 | 31.4% | 31.4% | | | |
| Other expenses | 700 | 700 | 772 | -9.3% | -9.3% | | | |

Note: (1) Including the impact of the adoption of IFRS 16; (2) Excluding the impact of the adoption of IFRS 16.

EBITDA rose 43.7% Y/Y to RON 27.1 million in Q1-2019, while operating profit decreased 12.7% Y/Y to RON 22.8 million. EBITDA margin improved 1.5pp to 12.6% in Q1-2019, mainly as a result of the impact of IFRS 16 on restaurant operating margin, as described before. Net profit reached RON 1.3 million in Q1-2019, being 89.8% lower than in the previous year. The net profit margin decreased 6.8pp to 0.6% of sales in Q1-2019.

Excluding the impact of IFRS 16, EBITDA fell 17.5% Y/Y to RON 15.5 million in Q1-2019, while operating profit decreased 36.7% Y/Y to RON 8.7 million. EBITDA margin contracted 3.8pp to 7.2% in Q1-2019, mainly as a result of lower restaurant operating margin, as described before. Net profit reached RON 5.1 million in Q1-2019, being 59.1% lower than in the previous year. The net profit margin decreased 5.0pp to 2.4% of sales in Q1-2019.

| | Data in RON thousand | | | Change (%) | | | Percentage of sales | | |
|-----------------------|----------------------|---------|---------|-------------------------------|-------------------------------|-------|---------------------|---------|---------|
| | Q1-2019 | Q1-2019 | Q1-2018 | 2019 ⁽¹⁾ / 2018 | 2019 ⁽²⁾ / 2018 | (1) | Q1-2019 | Q1-2019 | Q1-2018 |
| | (1) | (2) | | | | (1) | (2) | | |
| EBITDA | 27,075 | 15,540 | 18,836 | 43.7% | -17.5% | 12.6% | 7.2% | 11.1% | |
| Operating profit | 22,794 | 8,717 | 26,113 | -12.7% | -36.7% | 10.6% | 4.1% | 15.3% | |
| Profit before tax | 2,397 | 6,279 | 13,459 | -82.2% | -53.3% | 1.1% | 2.9% | 7.9% | |
| Profit for the period | 1,275 | 5,131 | 12,549 | -89.8% | -59.1% | 0.6% | 2.4% | 7.4% | |

Note: (1) Including the impact of the adoption of IFRS 16; (2) Excluding the impact of the adoption of IFRS 16.

Main financial ratios as at 31 March 2019

(presented in accordance with the requirements of the National Securities Commission Regulation No. 1/2006)

(Financial data in RON thousand)

Current ratio

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{101,976}{156,932} = 0.65$$

Debt to Equity ratio

$$\frac{\text{Interest-bearing debt}}{\text{Equity}} = \frac{84,259}{133,233} = 63\%$$

$$\frac{\text{Interest-bearing debt}}{\text{Capital employed}} = \frac{84,259}{217,492} = 39\%$$

Trade receivables turnover (days)*

$$\frac{\text{Average receivables}}{\text{Sales}} = \frac{13,385}{214,725} = 5.6$$

Fixed asset turnover*

$$\frac{\text{Sales}}{\text{Net fixed assets}} = \frac{214,725}{410,738} = 0.52$$

Note: Annualized values, based on NCS methodology.

APPENDIX 1

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)**

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)**

| | Three-month period ended | |
|--|---------------------------------|-----------------|
| | 31 March | 31 March |
| | 2019 | 2018 |
| Restaurant sales | 214,725 | 170,232 |
| Restaurant expenses | | |
| Food and material expenses | 77,186 | 61,909 |
| Payroll and employee benefits | 49,101 | 33,010 |
| Rent | 4,682 | 12,416 |
| Royalties | 12,632 | 9,918 |
| Advertising | 9,336 | 7,060 |
| Other operating expenses, net | 22,829 | 14,938 |
| Depreciation and amortization | 16,166 | 4,867 |
| Restaurant operating profit | 22,794 | 26,113 |
| General and administration expenses, net | 12,968 | 12,350 |
| Operating profit | 9,826 | 13,764 |
| Finance costs | 7,447 | 487 |
| Finance income | 18 | 183 |
| Profit before tax | 2,397 | 13,459 |
| Income tax expense | 1,122 | 910 |
| Profit for the period | 1,275 | 12,549 |
| Attributable to: | | |
| Equity holders of the parent | 1,213 | 12,515 |
| Non-controlling interests | 62 | 34 |
| Other comprehensive income | | |
| <i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i> | | |
| Exchange differences on translation of foreign operations | (96) | 21 |
| Total comprehensive income for the period, net of tax | 1,179 | 12,570 |
| Attributable to: | | |
| Equity holders of the parent | 1,110 | 12,534 |
| Non-controlling interests | 69 | 36 |

For the three-month period ended 31 March 2019, restaurant sales include revenues from services rendered by Sphera in amount of 293 (2018: 433).

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019 (UNAUDITED)

| | 31 March 2019 | 31 December 2018 |
|--|--------------------------|-----------------------------|
| Assets | | |
| Non-current assets | 422,172 | 229,173 |
| Property, plant and equipment | 347,339 | 158,122 |
| Intangible assets | 63,399 | 62,150 |
| Deposits for rent guarantee | 7,306 | 5,219 |
| Deferred tax assets | 4,128 | 3,682 |
| Current assets | 101,976 | 122,979 |
| Inventories | 9,755 | 10,564 |
| Trade and other receivables | 23,208 | 16,444 |
| Prepayments | 2,074 | 5,306 |
| Cash and short-term deposits | 66,939 | 90,665 |
| Total assets | 524,148 | 352,152 |
| Equity and liabilities | | |
| Equity | | |
| Issued capital | 581,990 | 581,990 |
| Share premium | (520,578) | (520,578) |
| Retained earnings | 71,641 | 67,248 |
| Foreign currency translation reserve | (83) | 20 |
| Equity attributable to equity holders of the parent | 132,970 | 128,680 |
| Non-controlling interests | 263 | 146 |
| Total equity | 133,233 | 128,826 |
| Non-current liabilities | 233,983 | 91,536 |
| Interest-bearing loans and borrowings | 84,259 | 86,787 |
| Lease liabilities | 149,724 | - |
| Trade and other payables | - | 4,749 |
| Current liabilities | 156,932 | 131,790 |
| Trade and other payables | 69,110 | 82,658 |
| Interest-bearing loans and borrowings | 39,922 | 37,669 |
| Lease liabilities | 36,437 | - |
| Provisions | 11,463 | 11,463 |
| Total liabilities | 390,915 | 223,326 |
| Total equity and liabilities | 524,148 | 352,152 |

SPHERA FRANCHISE GROUP SA

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019
(UNAUDITED)**

All amounts in RON thousand, unless specified otherwise

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE-MONTH PERIOD ENDED
31 MARCH 2019 (UNAUDITED)**

| | Issued capital | Share premium | Other capital reserves | Retained earnings | Foreign currency translation reserve | Total equity | Non-controlling interest | Total equity |
|---|-----------------------|----------------------|-------------------------------|--------------------------|---|---------------------|---------------------------------|---------------------|
| As at 1 January 2019, as previously reported | 581,990 | (520,578) | - | 67,248 | 20 | 128,680 | 146 | 128,826 |
| Impact of change in accounting policies (IFRS 16) | | | | 3,179 | | 3,179 | 47 | 3,227 |
| As at 1 January 2019 | 581,990 | (520,578) | - | 70,428 | 20 | 131,859 | 194 | 132,053 |
| Profit for the period | - | - | - | 1,213 | - | 1,213 | 62 | 1,275 |
| Other comprehensive income | | | | | | | | |
| Translation differences | | | | | (103) | (103) | 7 | (96) |
| Total comprehensive income | - | - | - | 1,213 | (103) | 1,110 | 69 | 1,179 |
| Cash dividends | - | - | - | - | - | - | - | - |
| At 31 March 2019 | 581,990 | (520,578) | - | 71,641 | (83) | 132,969 | 263 | 133,233 |
| As at 1 January 2018 | 581,990 | (520,578) | - | 43,191 | (78) | 104,525 | 19 | 104,544 |
| Profit for the period | - | - | - | 12,515 | - | 12,515 | 34 | 12,549 |
| Other comprehensive income | | | | | | | | |
| Translation differences | - | - | - | - | 19 | 19 | 2 | 21 |
| Total comprehensive income | - | - | - | 12,515 | 19 | 12,534 | 36 | 12,570 |
| At 31 March 2018 | 581,990 | (520,578) | - | 55,705 | (59) | 117,058 | 55 | 117,113 |

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)

| | Three-month period ended | |
|---|---------------------------------|-----------------|
| | 31 March | 31 March |
| | 2019 | 2018 |
| Operating activities | | |
| Profit before tax | 2,397 | 13,459 |
| Adjustments to reconcile profit before tax to net cash flows: | | |
| Depreciation of property, plant and equipment | 16,455 | 4,552 |
| Amortisation of intangible assets | 794 | 520 |
| Unrealised net foreign exchange differences | 5,038 | (215) |
| (Gain)/Loss on disposal of property, plant and equipment | (5) | 55 |
| Finance income | (18) | (13) |
| Finance costs (interest) | 2,736 | 484 |
| Working capital adjustments: | | |
| Increase in trade and other receivables and prepayments | (8,635) | (1,727) |
| Increase in inventories | 809 | 324 |
| Increase in trade and other payables | (12,374) | (12,404) |
| Interest received | 18 | 13 |
| Interest paid | (2,741) | (486) |
| Income tax paid | (2,197) | (3,598) |
| Net cash flows from operating activities | 2,276 | 964 |
| Investing activities | | |
| Proceeds from sale of property, plant and equipment | 7 | 4 |
| Purchase of intangible assets | (2,043) | (987) |
| Purchase of property, plant and equipment | (12,001) | (7,696) |
| Net cash flows used in investing activities | (14,036) | (8,680) |
| Financing activities | | |
| Proceeds from borrowings | 4,930 | 4,743 |
| Repayment of borrowings | (6,922) | (5,009) |
| Payment of lease liabilities | (9,818) | (104) |
| Dividends paid to equity holders of the parent | - | - |
| Dividends paid to non-controlling interests | - | - |
| Net cash flows used in financing activities | (11,810) | (370) |
| Net increase in cash and cash equivalents | (23,571) | (8,085) |
| Net foreign exchange differences | (155) | 19 |
| Cash and cash equivalents at 1 January | 90,665 | 52,655 |
| Cash and cash equivalents at 31 March | 66,939 | 44,588 |

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT
AND FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)

1 CORPORATE INFORMATION

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

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 Group operates quick service and takeaway restaurant concepts (a chain of 88 restaurants as at 31 March 2019) under the Kentucky Fried Chicken ("KFC"), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (23 restaurants) as well as pizza delivery points (22 locations) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (5 restaurants) and one restaurant under Paul brand, in Romania.

US Food Network SA (USFN), the subsidiary which operates the KFC franchise in Romania was incorporated in 1994 as a joint stock company and is registered at No. 28-30 Gheorghe Magheru Boulevard, Bucharest, Romania.

American Restaurant System SA (ARS) operating the Pizza Hut and Pizza Hut Delivery franchises was incorporated in 1994 as a joint stock company and is registered at No. 5-7 Calea Dorobantilor Street, Bucharest, Romania.

The Moldavian subsidiary, US Food Network SRL, 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, US Food Network Srl which operates the KFC franchise in Italy was incorporated in 2016 as a limited liability company and is registered at No. 6 Via Pietro Palestro Street, Milano, Italy. The Group owns 100% of the company's shares.

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

2 BASIS OF PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed unaudited financial statements of the Group as of and for the three-month period ended 31 March 2019 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Romanian Lei ("RON") and all values are rounded to the nearest thousand RON, except when otherwise indicated. Accordingly, there may be rounding differences.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018.

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

The interim condensed consolidated financial statements for three-month period ended 31 March 2019 included in this report are unaudited.

General accounting policies

The accounting policies and valuation methods adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new standards and amendments effective as of 1 January 2019; out of these new standards and amendments, IFRS 16 Leases had a material effect on the Group's financial statements.

The Group applied IFRS 16 starting on 1 January 2019 using the modified retrospective approach for transition, thus not restating comparative amounts for the comparative period presented. As a consequence, comparative data presented in these condensed consolidated interim financial statements are not fully comparable to the reporting period data. The Group recognized the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings at the date of initial application.

The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

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

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

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

Transition to IFRS 16 Leases

Taking into consideration the significant number and value of signed lease agreements as a lessee of restaurant premises, the Group had a material impact on its consolidated statement of financial position and on its consolidated statement of comprehensive income following the adoption of this new standard. The most significant impact was that the Group recognized new assets and liabilities for its operating leases under IAS 17, unless an exemption from IFRS 16 was applicable. The change in presentation of operating lease expenses resulted in a corresponding improvement in cash flows from operating activities and a decline in cash flows from financing activities.

The Group's rental agreements for restaurants include either:

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

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

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

Apart from the premises for restaurant operations, the Group has several lease contracts for office premises and vehicles that had a less significant impact on the consolidated financial statements.

The right-of-use assets for previous operating leases were measured at the date of initial application at the amount of the lease liability, adjusted by prepaid or accrued lease payments. Sphera Group applied the following practical expedients for transition:

- The Group elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group did not therefore apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The Group elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e. printing and photocopying machines) that are considered of low value.
- The lease term was considered to be the non-cancellable period in the contract, without taking into consideration the renewal option.
- The Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment). The lease payments were discounted using the incremental borrowing rate as at 1 January 2019. The Group estimated the incremental borrowing rates applicable for its leases portfolios considering the following inputs:
 - yield on most recent loans contracted by the Group entities, and
 - applicable risk-free yields for relevant maturities.

To get the incremental borrowing rate for different portfolios, the Group assumed a constant risk spread over the risk-free yield curve for relevant maturities.

- The Group relies on its assessment of whether leases are onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review.
- The Group used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The first-time application of IFRS 16 resulted in recognizing 193,386 as right-of-use assets and 191,642 (equivalent of 41,090 EUR thousand) as lease liabilities for previous operating leases. For leases previously classified as finance leases the Group recognized the carrying amount of the lease asset and lease liability before transition as the carrying amount of the right-of-use asset and lease liability at the date of initial application.

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

As at 1 January 2019, the change in the accounting policy affected the following items in the consolidated statement of financial position:

| | 1 January 2019 |
|---|-----------------------|
| Property, plant and equipment (Right-of-use assets) | 193,386 |
| Property, plant and equipment (carrying value of the leased vehicles - finance leases under IAS 17) | (689) |
| Prepayments | (3,018) |
| Total assets | 189,679 |
| Retained earnings | 3,227 |
| Lease liabilities -non-current | 153,706 |
| Lease liabilities - current | 37,649 |
| Trade and other payables | (4,903) |
| Total equity and liabilities | 189,679 |

Reconciliation of future operating lease commitments as at 31 December 2018 to lease liability as at 1 January 2019:

| | 1 January 2019 |
|---|-----------------------|
| Future minimum lease payments under non-cancellable operating leases as at 31 December 2018 | 224,865 |
| less minimum lease payments for short-term leases and low value assets | (147) |
| Gross lease liability for previously unrecognized operating lease commitments as at 1 January 2019 | 224,718 |
| less discounting effect as at 1 January 2019 | (33,077) |
| Lease liability for previously unrecognized operating lease commitments as at 1 January 2019 | 191,642 |
| Finance lease liability recognized as at 31 December 2018 | 733 |
| Lease liability recognized as at 1 January 2019 | 192,375 |

As at 31 December 2018, the finance lease liabilities amounting of 733 were presented within Interest-bearing loans and borrowings (short term debt of 301 and long-term debt of 432) in the Statement of financial position. Due to the significant value of the lease liabilities resulting from the implementation of IFRS 16, the lease liabilities were separately presented in the Interim consolidated statement of financial position as at 31 March 2019, with no restatement of comparative data.

Right-of-use assets are presented within Property, plant and equipment in the Interim consolidated statement of financial position.

As at and for the three-month period ended 31 March 2019, an overview on the leasing is as follows:

| | 31 March 2019 |
|--|---|
| Right of use assets | |
| Right-of-use assets – <i>Freehold buildings and leasehold improvements</i> | 179,729 |
| Right-of-use assets - <i>Plant and machinery</i> | 4,472 |
| Total right of use assets (net book value) | 184,201 |
| | |
| | Three-month period ended 31 March 2019 |
| Depreciation expense | |
| Depreciation of right-of-use assets included in Restaurant expenses | 9,729 |
| Depreciation of right-of-use assets non-operating, recognized in General and administration expenses | 696 |
| Total depreciation expense | 10,425 |

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

| Lease liabilities | 31 March 2019 |
|--------------------------------|----------------------|
| Non-current lease liabilities | 149,724 |
| Current lease liabilities | 36,437 |
| Total lease liabilities | 186,161 |

| Finance costs | Three-month period ended |
|----------------------------|---------------------------------|
| | 31 March 2019 |
| Interest expense | 1,622 |
| Foreign exchange loss | 3,370 |
| Total finance costs | 4,992 |

Foreign currencies

The Group's interim condensed financial statements are presented in Romanian New Lei ("RON"), which is also the legal parent Company's functional currency. 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 March 2019 and 31 December 2018 were:

| | 31 March 2019 | 31 December 2018 |
|-----------|----------------------|-------------------------|
| RON – EUR | 4.7628 | 4.6639 |
| RON – USD | 4.2434 | 4.0736 |
| RON – MDL | 0.2451 | 0.2389 |

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.

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

3 GROUP INFORMATION

Investments in controlled companies

Details of the Group consolidated subsidiaries at 31 March 2019 and 31 December 2018 are as follows:

| Company name | Country of incorporation | Field of activity | Control 31 March 2019 | Control 31 December 2018 |
|-------------------------------|--------------------------|-------------------|-----------------------|--------------------------|
| US Food Network SA | Romania | Restaurants | 99.9997% | 99.9997% |
| American Restaurant System SA | Romania | Restaurants | 99.9997% | 99.9997% |
| California Fresh Flavours SRL | Romania | Restaurants | 99.9900% | 99.9900% |
| US Foods Network SRL | Moldova | Restaurants | 80.0000% | 80.0000% |
| US Food Network SRL | Italy | Restaurants | 100.0000% | 100.0000% |

The value of non-controlling interests in USFN and ARS as of 31 March 2019 is below 1 thousand RON therefore there are no other presentations thereof.

4 OTHER OPERATING EXPENSES, NET

| | Three-month period ended | |
|--|---------------------------------|----------------------|
| | 31 March 2019 | 31 March 2018 |
| Third-party services | 7,721 | 4,750 |
| Utilities | 5,859 | 4,281 |
| Maintenance and repairs | 3,195 | 1,785 |
| Cleaning supplies | 1,854 | 1,084 |
| Small-wares | 941 | 1,106 |
| Transport | 1,482 | 828 |
| Telephone and postage | 234 | 148 |
| Insurance | 194 | 126 |
| Net (gain)/loss on disposal of property, plant and equipment | (5) | 55 |
| Miscellaneous expenses and income, net | 1,355 | 775 |
| Total | 22,829 | 14,938 |

5 GENERAL AND ADMINISTRATION EXPENSES, NET

| | Three-month period ended | |
|--|---------------------------------|----------------------|
| | 31 March 2019 | 31 March 2018 |
| Payroll and employee benefits | 7,276 | 6,828 |
| Third-party services | 2,017 | 2,405 |
| Depreciation and amortization | 1,083 | 205 |
| Rent | 99 | 738 |
| Banking charges | 819 | 635 |
| Transport | 974 | 742 |
| Maintenance and repairs | 57 | 127 |
| Small-wares | 134 | 153 |
| Insurance | 121 | 121 |
| Advertising | 74 | 108 |
| Telephone and postage | 94 | 114 |
| Miscellaneous expenses and income, net | 219 | 174 |
| Total | 12,968 | 12,350 |

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

6 DEPRECIATION AND AMORTIZATION

| | Three-month period ended | 31 March | 31 March |
|---|---------------------------------|---------------------|-----------------|
| | 2019 | 2018 | |
| Depreciation and amortization of right-of-use assets, recognized in "Restaurant expenses" | 9,729 | | - |
| Depreciation and amortization of property, plant and equipment and intangible assets owned, recognized in "Restaurant expenses" | 6,437 | 4,867 | |
| Depreciation and amortization of non-operating right-of-use assets recognized in "General and administration expenses, net" | 696 | | - |
| Depreciation and amortization of non-operating property, plant and equipment and intangible assets recognized in "General and administration expenses, net" | 387 | 205 | |
| Total depreciation and amortization | <u>17,249</u> | <u>5,072</u> | |

7 FINANCE COSTS AND INCOME

7.1 Finance costs

| | Three-month period ended | 31 March | 31 March |
|--|---------------------------------|-------------------|-----------------|
| | 2019 | 2018 | |
| Interest on loans and borrowings | 1,114 | 473 | |
| Finance charges payable under finance leases | 1,622 | 11 | |
| Foreign exchange loss, net | 4,712 | 3 | |
| Total finance costs | <u>7,447</u> | <u>487</u> | |

7.2 Finance income

| | Three-month period ended | 31 March | 31 March |
|-----------------------------|---------------------------------|-------------------|-----------------|
| | 2019 | 2018 | |
| Interest income | 18 | 13 | |
| Foreign exchange income | - | 170 | |
| Total finance income | <u>18</u> | <u>183</u> | |

8 ISSUED CAPITAL

| | 31 March | 31 December |
|--------------------------------|-----------------|--------------------|
| | 2019 | 2018 |
| Authorised shares | | |
| Ordinary shares of 15 RON each | 38,799,340 | 38,799,340 |
| Share capital (RON thousand) | 581,990 | 581,990 |

The shareholders of Sphera Franchise Group SA at 31 March 2019 and 31 December 2018, respectively are: Tatika Investments Ltd. (27.33%), Computerland Romania SRL (formerly named M.B.L. Computers SRL) (20%), Wellkept Group SA (16.34%), Anasa Properties SRL (10.99%) and free float (25.34%).

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

At the Annual General Shareholders Meeting held on 25 April 2019, the shareholders of Sphera Franchise Group SA approved the following distribution of the net profit of Sphera Franchise Group SA, as presented in its separate financial statements as at and for the year ended 31 December 2018:

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

9 PROVISIONS

In 2018 and 2019, USFN SA has been subject to a tax audit in relation with income tax (period 2012-2016) and VAT (period 2013-2017). As at 31 December 2018, based on the draft report issued by the tax authorities on 27 February 2019, the Group recognized in the consolidated financial statements a provision for tax in amount of 11,463, representing the income tax (4,541) and VAT adjustments (3,220) for the period under review and related interest and late payment charges (3,703). The issues raised in this draft report are subject of further discussion and documentation, but due to the unpredictability of the outcome, the Group's management has decided to recognise a provision for these tax adjustments in the consolidated financial statements as at and for the year ended 31 December 2018. The recorded amount represents the best estimate based on the available information at the date of the consolidated financial statements.

The final report has been issued on 12 April 2019 and is not substantially different compared with the draft version. As a result, the value of the provision has not been adjusted as of 31 March 2019. Administrative and legal proceedings aiming at the reduction of the financial impact provisioned in the financial results of the year 2018 have been initiated and are currently in progress.

10 EBITDA

| | Three-month period ended | |
|---|---------------------------------|-----------------|
| | 31 March | 31 March |
| | 2019 | 2018 |
| Operating profit | 9,826 | 13,764 |
| Adjustments to bridge operating profit to EBITDA: | | |
| Depreciation and amortization included in restaurant expenses | 16,166 | 4,867 |
| Depreciation and amortization included in general and administration expenses | 1,083 | 205 |
| EBITDA | 27,075 | 18,836 |

The application of IFRS 16 resulted in a positive impact on EBITDA: the fixed lease payments of an operating lease under IAS 17 were previously presented within operating expenses (Rent), while under the right-of-use model adopted from 1 January 2019, the Group recognised depreciation of right-of-use assets and interest expense on lease liabilities (Note 2).

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

11 RELATED PARTY DISCLOSURES

During the three-month period ended 31 March 2019 and 31 March 2018 respectively, the Group has carried out transactions with the following related parties:

| Related party | Nature of the relationship | Country of incorporation | Nature of transactions |
|---|--|--------------------------|--|
| Moulin D'Or SRL | Entity with common members of key management personnel | Romania | Sale of goods and services |
| Midi Development SRL | Entity with common members of key management personnel | Romania | Services |
| Grand Plaza Hotel SA | Entity affiliated to a shareholder of the parent | Romania | Rent and utilities store PH Dorobanti |
| Arggo Software Development and Consulting SRL | Entity affiliated to a shareholder of the parent | Romania | Implementation services |
| Anasa Properties SRL | Shareholder | Romania | Rent and utilities administrative area |
| Wellkept Group SA | Shareholder | Romania | Rent training center |
| Cinnamon Bake&Roll SRL | Entity with common members of key management personnel | Romania | Sale of goods and services, loans provided |
| 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 |
| Elicom SRL | Entity affiliated to a shareholder of the parent | Romania | Call-centre services |
| Elicom Connect SRL | Entity affiliated to a shareholder of the parent | Romania | Marketing services |

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

| | Transactions during the three-month period ended 31 March 2019 | | Balances as at 31 March 2019 | |
|---|--|--------------------------------|---------------------------------|---------------------------------|
| | Sales to related parties | Purchases from related parties | Amounts owed by related parties | Amounts owed to related parties |
| | | | | |
| Cinnamon Bake&Roll SRL | 1 | 2 | 974 | 2 |
| Moulin D'Or SRL | 298 | 25 | 753 | 2 |
| Lucian Vlad | - | 94 | - | - |
| Radu Dimofte | - | 39 | - | - |
| Wellkept Group SA | - | 116 | - | 2 |
| Midi Development SRL | 4 | - | - | - |
| Grand Plaza Hotel SA | - | 278 | - | 16 |
| Arggo Software Development and Consulting SRL | - | 60 | - | 13 |
| Elicom SRL | - | 287 | - | 165 |
| Elicom Connect SRL | - | 2 | - | 1 |
| | 303 | 903 | 1,727 | 201 |

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

| | Transactions during the three-month period ended 31 March 2018 | | Balances as at 31 December 2018 | |
|---|---|---------------------------------------|--|--|
| | Sales to related parties | Purchases from related parties | Amounts owed by related parties | Amounts owed to related parties |
| Cinnamon Bake&Roll SRL | 3 | - | 1,271 | 2 |
| Moulin D'Or SRL | 391 | 18 | 854 | 5 |
| Lucian Vlad | - | 75 | - | - |
| Radu Dimofte | - | 51 | - | - |
| Wellkept Group SA | - | - | - | - |
| Anasa Properties SRL | 1 | 3 | - | - |
| Midi Development SRL | 2 | 2 | 4 | 26 |
| Grand Plaza Hotel SA | - | 247 | - | 97 |
| Arggo Software Development and Consulting SRL | - | 27 | - | 30 |
| Elicom SRL | - | 165 | - | 169 |
| Elicom Connect SRL | - | 3 | - | 1 |
| | 397 | 591 | 2,129 | 330 |

The Group has granted a loan to Cinnamon Bake&Roll SRL during the period 2003-2018. The loan balance as at 31 March 2019 was of 929 (31 December 2018: 924) and the interest accrual as at 31 March 2019 was of 44 (31 December 2018: 42).

Intangibles in progress include an amount of 860 (31 December 2018: 956) representing the capital expenditure related to the new ERP system implementation services provided by Arggo Software and Development SRL.

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 three months periods ended 31 March 2019 and for similar period of the year 2018, 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:

| | Three months ended | |
|--|---------------------------|----------------------|
| | 31 March 2019 | 31 March 2018 |
| Short-term employee benefits | 1,455 | 1,787 |
| Total compensation paid to key management personnel | 1,455 | 1,787 |

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

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

12 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

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

The Group's service revenues in amount of 293 (2018: 433) resulting from the contracts signed with other related parties are presented in the "Other" category. The parent-company's revenues from services rendered to its subsidiaries are presented in the "Inter-segment revenues" line and eliminated during consolidation.

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

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

| Three-month period ended 31 March 2019 | KFC | Pizza Hut | Taco Bell | Other | Eliminations | Consolidated |
|---|----------------|------------------|------------------|----------------|---------------------|---------------------|
| Revenues from external customers | 176,506 | 32,157 | 5,750 | 311 | - | 214,725 |
| Inter-segment revenues | | | | 5,812 | (5,812) | |
| Dividend revenues | - | - | - | - | - | - |
| Operating expenses | 164,034 | 33,431 | 6,393 | 6,852 | (5,812) | 204,898 |
| Segment operating profit | 12,472 | (1,274) | (643) | (729) | - | 9,826 |
| Finance costs | 5,477 | 1,410 | 531 | 678 | (649) | 7,447 |
| Finance income | 209 | 3 | - | 455 | (649) | 18 |
| Income taxes | 532 | 391 | 43 | 154 | - | 1,122 |
| Net profit/(loss) | 6,672 | (3,073) | (1,217) | (1,106) | - | 1,275 |
| Total assets | 373,158 | 70,393 | 22,779 | 84,319 | (26,503) | 524,148 |
| Total liabilities | 306,920 | 79,937 | 28,653 | 50,402 | (74,997) | 390,915 |

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

| | Three-month period ended | KFC | Pizza Hut | Taco Bell | Other | Eliminations | Consolidated |
|----------------------------------|---------------------------------|----------------|------------------|------------------|----------------|---------------------|---------------------|
| | 31 March 2018 | | | | | | |
| Revenues from external customers | | 137,318 | 29,962 | 2,544 | 408 | - | 170,232 |
| Inter-segment revenues | | - | - | - | 5,541 | (5,541) | - |
| Operating expenses | | 122,927 | 29,769 | 3,056 | 6,257 | (5,541) | 156,468 |
| Segment operating profit | | 14,391 | 193 | (512) | (308) | - | 13,764 |
| Finance costs | | - | - | - | 487 | - | 487 |
| Finance income | | - | - | - | 183 | - | 183 |
| Income taxes | | - | - | - | 910 | - | 910 |
| Net profit/(loss) | | 14,391 | 193 | (512) | (1,523) | - | 12,549 |
| Total assets | | | | | | | |
| 31 March 2018 | | 174,746 | 37,972 | 6,350 | 30,871 | (3,243) | 246,696 |
| Total liabilities | | | | | | | |
| 31 March 2018 | | 89,401 | 37,898 | 8,667 | (3,140) | (3,243) | 129,583 |
| Total assets | | | | | | | |
| 31 December 2018 | | 234,865 | 48,846 | 14,904 | 78,777 | (25,241) | 352,152 |
| Total liabilities | | | | | | | |
| 31 December 2018 | | 177,614 | 55,760 | 19,934 | 43,754 | (73,736) | 223,326 |

Geographic information:

| | | Three-month period ended | 31 March 2019 | 31 March 2018 |
|--|--|---------------------------------|----------------------|----------------------|
| Revenue from external customers | | | | |
| Romania | | | 194,780 | 163,921 |
| Italy | | | 17,203 | 4,123 |
| Republic of Moldova | | | 2,742 | 2,188 |
| Total restaurant revenue | | | 214,725 | 170,232 |

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

13 EVENTS AFTER THE REPORTING PERIOD

After 31 March 2019, the Group opened two new Taco Bell restaurants in Sibiu and Timisoara, one new KFC restaurant in Sibiu and one new KFC restaurant in Bologna (Italy).

On 25 April 2019, the Ordinary General Shareholders Meeting approved the distribution of dividends for the financial year 2018 in the gross amount of 13,673 representing a gross dividend per share of 0.3524 RON (Note 8), the income and expenses budget and the business plan for 2019 and elected the Board of Directors for the 2019- 2023 mandate.

The Extraordinary General Shareholders Meeting held on 25 April 2019 granted mandate to the Board of Directors of the Group to negotiate and to enter into a banking facility agreement, not exceeding a banking indebtedness of 70 million EUR.

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

Starting with 1 May 2019, Mr. Georgios Argentopoulos took over the role of Chief Executive Officer of Sphera Franchise Group SA.

On 9 May 2019 Mr. Valentin-Ionut Budes started his mandate as Chief Financial Officer of Sphera Franchise Group SA.

Declaration of the management

We confirm to the best of our knowledge that the unaudited interim condensed consolidated financial statements for the three-month period ended 31 March 2019 give a true and fair view of Sphera Franchise Group's assets, liabilities, financial position and profit and loss, as required by the applicable accounting standards, and that the Directors' Report gives a true and fair view of important events that have occurred during the first three months of the 2019 financial year and their impact on the interim condensed consolidated financial statements.

Bucharest, 15 May 2019

Chief Executive Officer & Chairman of the Board of Directors

George Argentopoulos

Chief Financial Officer

Valentin Budes