

Explanatory Memorandum

for Item 2 on the agenda of the Extraordinary General Meeting of Shareholders of Sphera Franchise Group S.A. summoned for April 26/27, 2018 regarding the share capital reduction

The Board of Directors of Sphera Franchise Group S.A., a joint stock company, managed according to the one-tier corporate model and operating according to the Romanian laws, having the registered office in Romania, Bucharest, 239 Calea Dorobanți Str., 2nd floor, Office 4, 1st District (*București, str. Calea Dorobanți nr. 239, et. 2, biroul 4, sector 1*), registered at the Trade Register attached to Bucharest Tribunal under no.: J40/7126/2017, Tax Identification Number: 37586457 (hereinafter referred to as the **“Company”**) submits for the approval of Company’s shareholders the Company’s share capital reduction, by reducing the nominal value of each share issued by the Company from the current value of RON 15 to the final value of RON 13.55, as follows:

1. Approval of the Company’s subscribed and paid-in share capital reduction from RON 581,990,100 to RON 525,731,057 by reducing the nominal value of the Company’s shares from RON 15 to RON 13.5500, through a reduction mechanism consisting of two operations (coverage of accounting loss and distribution to shareholders) as follows:

a) Approval of the accumulated losses coverage for 2017, as reflected in the Company’s annual financial statements as of December 31, 2017 amounting to the total of RON 10,195,561.39, by reducing the Company’s subscribed and paid-in share capital from RON 581,990,100 to RON 571,794,538.61 which can be accomplished by reducing the nominal value of Company’s shares from RON 15 to RON 14.7372. The share capital reduction is performed pursuant to art. 207 par. (1) letter (b) from Law no. 31/1990.

b) Approval of Company’s subscribed share capital reduction from RON 571,794,538.61 to RON 525,731,057 by reducing the nominal value of the Company’s shares from RON 14.7372 to RON 13.5500, followed by the return to shareholders of a share from contributions, in proportion to their holding of Company’s paid-in share capital and calculated equally for each share. The share capital reduction is performed pursuant to art. 207 par. (2) letter (b) from Law no. 31/1990 and the shareholders registered in the Company’s shareholder register on the reduction registration date shall receive RON 1.1872/share.

After the share capital reduction described above at a) and b), the Company’s subscribed and paid-in share capital reduction shall have the value of RON 525,731,057, divided into 38,799,340 ordinary shares, each share having a nominal value of RON 13.5500.

The reduction is justified by the Company’s share capital optimization involving the alignment of the share capital to the Company’s development objectives and to the distribution policies as presented in the Company’s dividend policy.

The first operation of reduction of the Company’s share capital by reducing the nominal value of shares from RON 15/share to RON 14.7372/share is performed for covering the loss for 2017 amounting to RON 9,615,363 and certain reorganization costs recognized in own capitals amounting to RON 580,198. Therefore, the accumulated losses for 2017 amounting to the total of RON 10,195,561.39.

The second operation of reduction of the Company’s share capital by reducing the nominal value of shares from RON 14.7372 to RON 13.5500 is performed for the return to shareholders

of a share from contributions, in proportion to their holding of Company's paid-in share capital and calculated equally for each share. Therefore, each shareholder of the Company registered in the Company's shareholder register on the registration date approved by the general meeting of shareholders shall receive RON 1.1872/share. The return of a part of contributions is performed accord to the Company's dividend policy.

The share capital reduction is performed pursuant to art. 207 from Companies Law no. 31/1990 and to the capital market regulations and shall come into force after meeting the following conditions:

- (i) Shareholders' Resolution on the share capital reduction is published in the Official Journal of Romania, Part IV;
- (ii) Expiry of 2-month period since the date of publication of the resolution on the share capital reduction in the Official Journal of Romania;
- (iii) No opposition shall be formulated to the shareholders' resolution on the reduction. In case oppositions are formulated to the resolution, the share capital reduction shall not take effect and no payment shall be made for the benefit of shareholders until the creditors have obtained the performance of their receivables or adequate guarantees or until the date on which the court rejected the creditor's request as inadmissible or, appreciating that the company has offered adequate guarantees to the creditors or that, taking into consideration the company's assets, the guarantees are not necessary, rejected the creditor's request as unsubstantiated, and the judgment remained final;
- (iv) The share capital reduction shall be registered at the Trade Register;
- (v) The Financial Supervisory Authority shall issue a new registration certificate of securities having the new characteristics, respectively the reduced nominal value;
- (vi) The new characteristics of the shares issued by the Company shall be registered in the Company's shareholder register held by Depozitarul Central S.A. and updated in the trading system of the Bucharest Stock Exchange; and
- (vii) The payments shall be made for the operation of return to eligible shareholders of a share from the capital.

Cristian OSIAC
Chairman of the Board of Directors