

## **Preliminary Financial Report**

**For the year ended 31 December 2017**

Name of the issuer: **Sphera Franchise Group S.A.**

Registered Office: **Bucharest, 239 Calea Dorobantilor, 2<sup>nd</sup> Floor, Sector 1, Romania**

**Fax no.: 0040 21 201 1759**

Unique Registration Code at the National Office of Trade Registry: **37586457**

Order number on the Trade Registry: **J40/7126/2017**

Subscribed and paid-in share capital: **RON 581,990,000**

Regulated market on which the issued securities are traded: **Bucharest Stock Exchange**

**Note:**

The consolidated financial information included in this Preliminary Financial Report is based on the Sphera Franchise Group SA unaudited IFRS preliminary Consolidated financial statements for the year ended 31 December 2017.

Financial and operational data from this Preliminary Financial Report are estimates. The final Annual Report for the year ended 31 December 2017 will include the final financial and operational data, which may vary by reference to this Preliminary Financial Report. A final Annual Report will be released by Sphera Franchise Group SA to the market in accordance with the Financial Calendar announced on Bucharest Stock Exchange.

Contact details:

**Investor Relations**

E-mail: [investor.relations@spheragroup.com](mailto:investor.relations@spheragroup.com)



## Financial analysis of preliminary results

### 1) Consolidated results

#### Summary of preliminary Consolidated Financial Statements for the year ended 31 December 2017 (unaudited)

Data in RON'000	2017	2016	Y/Y%	% of Sales			
				2017/2016	2017	2016	Δ%
<b>Restaurant sales</b>	<b>573,175</b>	<b>417,535</b>	<b>37.3%</b>				
<b>Restaurant expenses</b>	<b>480,647</b>	<b>339,314</b>	<b>41.7%</b>				
Food and material	206,704	157,302	31.4%		36.1%	37.7%	-1.6%
Payroll and employee benefits	109,858	69,577	57.9%		19.2%	16.7%	2.5%
Rent	41,615	27,498	51.3%		7.3%	6.6%	0.7%
Royalties	33,885	24,654	37.4%		5.9%	5.9%	0.0%
Advertising	30,231	20,736	45.8%		5.3%	5.0%	0.3%
Other operating expenses, net	44,412	30,313	46.5%		7.7%	7.3%	0.5%
Depreciation and amortization	13,942	9,234	51.0%		2.4%	2.2%	0.2%
<b>Restaurant operating profit</b>	<b>92,528</b>	<b>78,221</b>	<b>18.3%</b>		<b>16.1%</b>	<b>18.7%</b>	<b>-2.6%</b>
General and administration expenses, net	55,925	22,975	143.4%		9.8%	5.5%	4.3%
<b>Operating profit</b>	<b>36,603</b>	<b>55,246</b>	<b>-33.7%</b>		<b>6.4%</b>	<b>13.2%</b>	<b>-6.8%</b>
Finance costs	2,156	825	161.3%		0.4%	0.2%	0.2%
Finance income	214	95	125.3%		0.0%	0.0%	0.0%
<b>Profit before tax</b>	<b>34,661</b>	<b>54,516</b>	<b>-36.4%</b>		<b>6.0%</b>	<b>13.1%</b>	<b>-7.0%</b>
Income tax expense	3,233	5,783	-44.1%		0.6%	1.4%	-0.8%
<b>Profit for the year</b>	<b>31,428</b>	<b>48,733</b>	<b>-35.5%</b>		<b>5.5%</b>	<b>11.7%</b>	<b>-6.2%</b>
EBITDA	51,424	65,070	-21.0%		9.0%	15.6%	-6.6%
Normalised EBITDA	63,181	65,070	-2.9%		11.0%	15.6%	-4.6%

#### Breakdown of preliminary consolidated results by Group companies – Year 2017

Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons.Adj	SFG Cons.
<b>Restaurant sales</b>	<b>482,587</b>	<b>66,381</b>	<b>8,492</b>	<b>12,377</b>	<b>2,876</b>	<b>12,420</b>	<b>(11,958)</b>	<b>573,175</b>
<b>Restaurant expenses</b>	<b>397,194</b>	<b>60,376</b>	<b>7,648</b>	<b>12,501</b>	<b>3,837</b>	<b>0</b>	<b>(909)</b>	<b>480,647</b>
Food and material	180,421	17,892	3,628	3,822	1,087	0	(146)	206,704
Payroll and employee benefits	85,660	18,155	1,252	4,005	786	0	0	109,858
Rent	33,719	5,746	796	878	476	0	0	41,615
Royalties	28,754	3,832	506	736	57	0	0	33,885
Advertising	23,835	4,329	364	809	969	0	(75)	30,231
Other operating expenses, net	34,068	8,147	831	1,734	320	0	(688)	44,412
Depreciation and amortization	10,737	2,275	271	517	142	0	0	13,942
<b>Restaurant operating profit</b>	<b>85,393</b>	<b>6,005</b>	<b>844</b>	<b>(124)</b>	<b>(961)</b>	<b>12,420</b>	<b>(11,049)</b>	<b>92,528</b>
General and administration expenses, net	32,612	8,204	241	1,601	791	23,525	(11,049)	55,925
<b>Operating profit</b>	<b>52,781</b>	<b>(2,199)</b>	<b>603</b>	<b>(1,725)</b>	<b>(1,752)</b>	<b>(11,105)</b>	<b>0</b>	<b>36,603</b>
Finance costs	1,491	613	138	358	37	141	(622)	2,156
Finance income	14,634	1	15	0	0	30	(14,466)	214
<b>Profit before tax</b>	<b>65,924</b>	<b>(2,811)</b>	<b>480</b>	<b>(2,083)</b>	<b>(1,789)</b>	<b>(11,216)</b>	<b>(13,844)</b>	<b>34,661</b>
Income tax expense	4,375	793	82	(428)	11	(1,600)	0	3,233
<b>Profit for the year</b>	<b>61,549</b>	<b>(3,604)</b>	<b>398</b>	<b>(1,655)</b>	<b>(1,800)</b>	<b>(9,616)</b>	<b>(13,844)</b>	<b>31,428</b>
EBITDA	64,257	142	926	(1,208)	(1,610)	(11,083)	0	51,424
Normalised EBITDA	64,752	327	926	(1,208)	(1,610)	(6)	0	63,181

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

Data in RON thousand	2017	2016	2017/2016	Change	Contribution to
					sales growth
<b>Sales by companies (principal brand)</b>					
USFN Romania (KFC)	482,587	410,043	17.7%		17.4%
USFN Moldova (KFC)	8,492	7,492	13.3%		0.2%
USFN Italy (KFC)	12,377				3.0%
ARS (Pizza Hut) - for the June-December period <sup>1)</sup>	66,381				15.9%
CFF (Taco Bell)	2,876				0.7%
Other revenues <sup>2)</sup>	462				0.1%
<b>Total sales</b>	<b>573,175</b>	<b>417,535</b>	<b>37.3%</b>		<b>37.3%</b>

Note: 1) Additional information regarding the accounting treatment of the consolidation of ARS into Sphera is provided in the Public Offering Prospectus. 2) Other revenues consist of revenues of Sphera stand-alone less consolidation adjustments.

Data in RON thousand	2017	2016	2017/2016	Change	Contribution to
					sales growth
<b>Sales by region</b>					
Romania	552,306	410,043	34.7%		34.1%
Italy	12,377				3.0%
Republic of Moldova	8,492	7,492	13.3%		0.2%
<b>Total sales</b>	<b>573,175</b>	<b>417,535</b>	<b>37.3%</b>		<b>37.3%</b>

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

- The consolidation of ARS contributed 0.9pp to the increase in the consolidated restaurant operating expenses, being mainly driven by a 1.1pp increase in the cost of labour, a 0.2pp increase in the cost of rent, a 0.6pp increase in other operating expenses and a 1.2pp decrease in the cost of food and materials;
- Our KFC operations in Italy contributed 0.4pp to the increase in the consolidated restaurant operating expenses, being driven by a 0.3pp increase in the cost of labour, a 0.1pp increase in other operating expenses and a 0.1pp decrease in the consolidated cost of food and materials;
- Our Taco Bell operations contributed 0.2pp to the increase in the consolidated restaurant operating expenses, being driven by a 0.1pp increase in the cost of advertising.

Data in RON thousand	2017	2016	Change 2017/2016	Percentage of sales	
				2017	2016
<b>Restaurant expenses</b>	<b>480,647</b>	<b>339,314</b>	<b>41.7%</b>	<b>83.9%</b>	<b>81.3%</b>
Food and material	206,704	157,302	31.4%	36.1%	37.7%
Payroll and employee benefits	109,858	69,577	57.9%	19.2%	16.7%
Rent	41,615	27,498	51.3%	7.3%	6.6%
Royalties	33,885	24,654	37.4%	5.9%	5.9%
Advertising	30,231	20,736	45.8%	5.3%	5.0%
Other operating expenses	44,412	30,313	46.5%	7.7%	7.3%
Depreciation	13,942	9,234	51.0%	2.4%	2.2%

General and administration expenses reached RON 55.9 million in 2017 (9.8% of sales), up 143% compared to previous year (5.5% of sales). Of the RON 33 million increase in this expense category, RON 10.6 million came from the consolidation of ARS, USFN Italy and CFF operations, while another RON 11.6 million were accounted for by non-recurring expenses related to the Group's reorganization process (management bonus, audit and advisory services, legal fees and other fees).

Data in RON thousand	2017	2016	Change 2017/2016	Percentage of sales	
				2017	2016
<b>General and administration expenses (net), of which:</b>	<b>55,925</b>	<b>22,975</b>	<b>143.4%</b>	<b>9.8%</b>	<b>5.5%</b>
Payroll and employee benefits	32,368	9,317	247.4%		
Third-party services	12,373	7,359	68.1%		
Depreciation and amortization	879	590	49.0%		
Rent	2,253	1,392	61.9%		
Banking charges	1,771	1,046	69.3%		
Transport	2,279	811	181.0%		
Other expenses	4,002	2,460	62.7%		

EBITDA reached RON 51.4 million in 2017, being 21% lower than in the previous year, while normalized EBITDA (adjusted for non-recurring expenses) reached RON 63.2 million in 2017, being 2.9% lower compared with the previous year. Operating profit reached RON 36.3 million in 2017, being 33.7% lower than in the previous year. The drop in the EBITDA margin (by 6.6pp to 9.0% in 2017) and operating profit margin (by 6.8pp to 6.4% in 2017) was mainly due to the increase in the general and administration expenses (up 4.3pp) and to a lesser extent by the increase in the restaurant operating expenses (by 2.6pp), as described before.

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

Data in RON thousand	2017	2016	Change 2017/2016	Percentage of sales	
				2017	2016
EBITDA	51,426	65,070	-21.0%	9.0%	15.6%
Normalized EBITDA <sup>1)</sup>	63,183	65,070	-2.9%	11.0%	15.6%
Operating profit	36,603	55,246	-33.7%	6.4%	13.2%
Profit before tax	34,661	54,516	-36.4%	6.0%	13.1%
Profit for the period	31,428	48,733	-35.5%	5.5%	11.7%

Note: 1) Excluding non-recurring expenses related to the Group's reorganization process (management bonus, audit and advisory services, legal fees and other fees).

## 2) Pro forma results

Compared to the consolidated results, pro forma results include the full-year performance of ARS in both 2017 and 2016.

### Summary of preliminary Pro Forma Financial Statements for the year ended 31 December 2017 (unaudited)

Data in RON'000			Y/Y% 2017/2016	% of Sales		
	2017	2016		2017	2016	Δ%
<b>Restaurant sales</b>	<b>618,804</b>	<b>514,475</b>	<b>20.3%</b>			
<b>Restaurant expenses</b>	<b>520,031</b>	<b>422,204</b>	<b>23.2%</b>	<b>84.0%</b>	<b>82.1%</b>	<b>2.0%</b>
Food and material	219,232	183,409	19.5%	35.4%	35.6%	-0.2%
Payroll and employee benefits	121,623	91,960	32.3%	19.7%	17.9%	1.8%
Rent	45,512	35,525	28.1%	7.4%	6.9%	0.4%
Royalties	36,567	30,356	20.5%	5.9%	5.9%	0.0%
Advertising	32,727	26,521	23.4%	5.3%	5.2%	0.1%
Other operating expenses, net	48,720	41,972	16.1%	7.9%	8.2%	-0.3%
Depreciation and amortization	15,650	12,461	25.6%	2.5%	2.4%	0.1%
<b>Restaurant operating profit</b>	<b>98,773</b>	<b>92,271</b>	<b>7.0%</b>	<b>16.0%</b>	<b>17.9%</b>	<b>-2.0%</b>
General and administration expenses, net	60,297	31,988	88.5%	9.7%	6.2%	3.5%
<b>Operating profit</b>	<b>38,476</b>	<b>60,283</b>	<b>-36.2%</b>	<b>6.2%</b>	<b>11.7%</b>	<b>-5.5%</b>
Finance costs	2,354	929	153.4%	0.4%	0.2%	0.2%
Finance income	220	113	94.7%	0.0%	0.0%	0.0%
<b>Profit before tax</b>	<b>36,342</b>	<b>59,467</b>	<b>-38.9%</b>	<b>5.9%</b>	<b>11.6%</b>	<b>-5.7%</b>
Income tax expense	3,786	6,144	-38.4%	0.6%	1.2%	-0.6%
<b>Profit for the year</b>	<b>32,556</b>	<b>53,323</b>	<b>-38.9%</b>	<b>5.3%</b>	<b>10.4%</b>	<b>-5.1%</b>
EBITDA	55,065	73,502	-25.1%	8.9%	14.3%	-5.4%
Normalised EBITDA	66,822	73,502	-9.1%	10.8%	14.3%	-3.5%

### Breakdown of preliminary consolidated results by Group companies – year 2017

Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons. Adj.	ICO ellim.	PPA Adj.	SFG Cons.
<b>Restaurant sales</b>	<b>482,587</b>	<b>112,011</b>	<b>8,492</b>	<b>12,377</b>	<b>2,876</b>	<b>12,420</b>	<b>(11,958)</b>	<b>(1)</b>	<b>241</b>	<b>618,804</b>
<b>Restaurant expenses</b>	<b>397,194</b>	<b>99,520</b>	<b>7,648</b>	<b>12,501</b>	<b>3,837</b>	<b>0</b>	<b>(909)</b>	<b>(1)</b>	<b>241</b>	<b>520,031</b>
Food and material	180,421	30,422	3,628	3,822	1,087	0	(146)	(2)		219,232
Payroll and employee benefits	85,660	29,920	1,252	4,005	786	0	0	0		121,623
Rent	33,719	9,643	796	878	476	0	0	0		45,512
Royalties	28,754	6,514	506	736	57	0	0	0		36,567
Advertising	23,835	6,846	364	809	969	0	(75)	(21)		32,727
Other operating expenses, net	34,068	12,433	831	1,734	320	0	(688)	22		48,720
Depreciation and amortization	10,737	3,742	271	517	142	0	0	0	241	15,650
<b>Restaurant operating profit</b>	<b>85,393</b>	<b>12,491</b>	<b>844</b>	<b>(124)</b>	<b>(961)</b>	<b>12,420</b>	<b>(11,049)</b>	<b>0</b>	<b>(241)</b>	<b>98,773</b>
General and administration expenses, net	32,612	12,576	241	1,601	791	23,525	(11,049)			60,297
<b>Operating profit</b>	<b>52,781</b>	<b>(85)</b>	<b>603</b>	<b>(1,725)</b>	<b>(1,752)</b>	<b>(11,105)</b>	<b>0</b>	<b>0</b>	<b>(241)</b>	<b>38,476</b>
Finance costs	1,491	811	138	358	37	141	(622)			2,354
Finance income	14,634	7	15	0	0	30	(14,466)			220
<b>Profit before tax</b>	<b>65,924</b>	<b>(889)</b>	<b>480</b>	<b>(2,083)</b>	<b>(1,789)</b>	<b>(11,216)</b>	<b>(13,844)</b>	<b>0</b>	<b>(241)</b>	<b>36,342</b>
Income tax expense	4,375	1,346	82	(428)	11	(1,600)	0			3,786
<b>Profit for the year</b>	<b>61,549</b>	<b>(2,235)</b>	<b>398</b>	<b>(1,655)</b>	<b>(1,800)</b>	<b>(9,616)</b>	<b>(13,844)</b>	<b>0</b>	<b>(241)</b>	<b>32,556</b>
EBITDA	64,257	3,783	926	(1,208)	(1,610)	(11,083)	0	0	0	55,065
Normalised EBITDA	64,752	3,968	926	(1,208)	(1,610)	(6)	0	0	0	66,822

Pro forma sales of Sphera reached RON 618.8 million for the year 2017, representing an increase of 20.3% compared to the previous year. The main drivers for this performance were the growth in the sales of KFC Romania (up 17.7% Y/Y), which had a contribution of 14.1pp in the pro forma sales growth rate and the growth in the sales of ARS (up 15.5% Y/Y), which contributed 2.9pp in the pro forma sales growth rate. Our KFC operations in Italy, which were launched at the end of March, contributed 2.4pp in the consolidated sales growth rate, while our Taco Bell operations in Romania, which were launched in October, contributed another 0.6pp in the pro forma sales growth rate.

Data in RON thousand	2017	2016	2017/2016	Change	Contribution to
					sales growth
<b>Sales by companies (principal brand)</b>					
USFN Romania (KFC)	482,587	410,043	17.7%		14.1%
USFN Moldova (KFC)	8,492	7,492	13.3%		0.2%
USFN Italy (KFC)	12,377				2.4%
ARS (Pizza Hut)	112,011	96,940	15.5%		2.9%
CFF (Taco Bell)	2,876				0.6%
Other revenues <sup>1)</sup>	461				0.1%
<b>Total sales</b>	<b>618,804</b>	<b>514,475</b>	<b>20.3%</b>		<b>20.3%</b>

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

Data in RON thousand	2017	2016	2017/2016	Change	Contribution to
					sales growth
<b>Sales by region</b>					
Romania	597,935	506,983	17.9%		17.7%
Italy	12,377				2.4%
Republic of Moldova	8,492	7,492	13.3%		0.2%
<b>Total sales</b>	<b>618,804</b>	<b>514,475</b>	<b>20.3%</b>		<b>20.3%</b>

In Romania, the like-for-like sales of KFC restaurants grew by 12.5% Y/Y in 2017 (+17.0% in 2016), driven by the continued strong performance of the Drive-Thru format as well as by the better performance of the restaurants located outside Bucharest. At the same time, the like-for-like sales of Pizza Hut restaurants grew by 3.1% Y/Y in 2017 (+13.0% in 2016), despite the large number of restaurants opened over the past two years (13 units, of which 8 in cities with existing Pizza Hut stores) and, like KFC, has enjoyed an overall stronger performance of the restaurants located outside Bucharest.

Pro forma operational expenses reached RON 520.0 million in 2017, representing an increase of 23.3% compared to the previous year. As percentage of sales, operational expenses increased by 1.9pp year-on-year to 84.0% in 2017, driven mainly by a 1.8pp increase in the cost of labour and a 0.5pp increase in rent expenses, which were partly offset by a 0.2pp decrease in cost of food and materials and a 0.3pp decrease in other operating expenses. The opening of KFC stores in Italy and of Taco Bell in Romania had a combined impact of 0.6pp on the increase in the pro forma restaurant operating expenses (as percentage of sales), of which 0.3pp in cost of labour and 0.2pp in advertising expenses.

Data in RON thousand	2017	2016	2017/2016	Percentage of sales	
				2017	2016
<b>Restaurant expenses</b>					
Food and material	219,232	183,409	19.5%	35.4%	35.6%
Payroll and employee benefits	121,623	91,960	32.3%	19.7%	17.9%
Rent	45,512	35,525	28.1%	7.4%	6.9%
Royalties	36,567	30,356	20.5%	5.9%	5.9%
Advertising	32,727	26,521	23.4%	5.3%	5.2%
Other operating expenses	48,720	41,972	16.1%	7.9%	8.2%
Depreciation	15,650	12,461	25.6%	2.5%	2.4%

General and administration expenses reached RON 60.3 million in 2017 (9.7% of sales), up 88% compared to previous year (6.2% of sales). Of the RON 28.3 million increase in this expense category, RON 2.4 million came from USFN Italy and CFF operations, while another RON 11.6 million were accounted for by non-recurring expenses related to the Group's reorganization process (management bonus, audit and advisory services, legal fees and other fees).

Data in RON thousand	2017	2016	Change 2017/2016	Percentage of sales	
				2017	2016
<b>General and administration expenses (net), of which:</b>	<b>60,297</b>	<b>31,988</b>	<b>88.5%</b>	<b>9.7%</b>	<b>6.2%</b>
Payroll and employee benefits	34,695	13,564	155.8%		
Third-party services	13,605	10,197	33.4%		
Depreciation and amortization	939	758	23.9%		
Rent	2,344	1,736	35.0%		
Banking charges	1,921	1,525	26.0%		
Transport	2,599	1,314	97.8%		
Other expenses	4,194	2,894	44.9%		

EBITDA reached RON 55.1 million in 2017, being 25.1% lower than in the previous year, while normalized EBITDA (adjusted for non-recurring expenses) reached RON 66.8 million in 2017, being 9.1% lower compared with the previous year. Operating profit reached RON 38.5 million in 2017, being 36.2% lower than in the previous year. The drop in the EBITDA margin (by 5.4pp to 8.9% in 2017) and operating profit margin (by 5.5pp to 6.2% in 2017) was mainly due to the increase in the general and administration expenses (up 3.5pp) and to a lesser extent by the increase in the restaurant operating expenses (by 1.9pp), as described before.

Net profit reached RON 32.6 million in 2017, being 38.9% lower than in the previous year. The reduction in the net profit margin, by 5.1pp to 5.3% of sales in 2017, was driven by the 5.5pp decrease in the operating profit margin and was partly offset by the reduction in the income tax expense, which was down 38% Y/Y to RON 3.8 million. The main reason for the reduction in the income tax expense was the change in the profit tax system to a flat tax per restaurants' commercial area.

Data in RON thousand	2017	2016	Change 2017/2016	Percentage of sales	
				2017	2016
EBITDA	55,065	73,502	-25.1%	8.9%	14.3%
Normalized EBITDA <sup>1)</sup>	66,822	73,502	-9.1%	10.8%	14.3%
Operating profit	38,476	60,283	-36.2%	6.2%	11.7%
Profit before tax	36,342	59,467	-38.9%	5.9%	11.6%
Profit for the period	32,556	53,323	-38.9%	5.3%	10.4%

Note: 1) Excluding non-recurring expenses related to the Group's reorganization process (management bonus, audit and advisory services, legal fees and other fees).

**APPENDIX 1**

**PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
DECEMBER 2017 (UNAUDITED)**

**PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER  
2017 (UNAUDITED) – SELECTED INFORMATION**

**PRELIMINARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2017 (UNAUDITED)**

*(thousand RON)*

	<b>2017</b>	<b>2016</b>
Restaurant sales	573,175	417,535
Restaurant expenses		
Food and material expenses	206,704	157,302
Payroll and employee benefits	109,858	69,577
Rent	41,615	27,498
Royalties	33,885	24,654
Advertising	30,231	20,736
Other operating expenses, net	44,412	30,313
Depreciation and amortization	13,942	9,234
<b>Restaurant operating profit</b>	<b>92,528</b>	<b>78,221</b>
General and administration expenses, net	55,925	22,975
<b>Operating profit</b>	<b>36,603</b>	<b>55,246</b>
Finance costs	2,156	825
Finance income	214	95
<b>Profit before tax</b>	<b>34,661</b>	<b>54,516</b>
Income tax expense/(credit)	3,233	5,783
<b>Profit for the period</b>	<b>31,428</b>	<b>48,733</b>
<b>Attributable to:</b>		
Equity holders of the parent	31,304	48,693
Non-controlling interests	124	40
<b>Other comprehensive income</b>		
<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	(34)	83
<b>Total comprehensive income for the period, net of tax</b>	<b>31,394</b>	<b>48,816</b>
<b>Attributable to:</b>		
Equity holders of the parent	31,267	48,774
Non-controlling interests	127	42

**PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER  
2017 (UNAUDITED) – SELECTED INFORMATION**

**PRELIMINARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER  
2017 (UNAUDITED)**

*(thousand RON)*

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Assets</b>		
<b>Non-current assets</b>	<b>176,123</b>	<b>54,246</b>
Property, plant and equipment	105,220	47,551
Intangible assets	67,471	6,365
Deposits for rent guarantee	1,288	290
Deferred tax assets	2,144	40
<b>Current assets</b>	<b>73,255</b>	<b>65,399</b>
Inventories	8,509	5,744
Trade and other receivables	8,418	8,780
Prepayments	3,673	1,907
Cash and short-term deposits	52,655	48,968
Assets held for sale	195	-
<b>Total assets</b>	<b>249,573</b>	<b>119,645</b>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Issued capital	581,990	190
Share premium	(520,578)	-
Other capital reserves	-	19
Retained earnings	43,191	58,124
Foreign currency translation reserve	(78)	(41)
<b>Equity attributable to equity holders of the parent</b>	<b>104,525</b>	<b>58,292</b>
Non-controlling interests	19	(39)
<b>Total equity</b>	<b>104,544</b>	<b>58,253</b>
<b>Non-current liabilities</b>	<b>42,190</b>	<b>16,304</b>
Interest-bearing loans and borrowings	39,520	14,630
Trade and other payables	2,670	1,674
<b>Current liabilities</b>	<b>102,839</b>	<b>45,088</b>
Trade and other payables	77,647	37,292
Interest-bearing loans and borrowings	25,192	7,796
<b>Total liabilities</b>	<b>145,029</b>	<b>61,391</b>
<b>Total equity and liabilities</b>	<b>249,573</b>	<b>119,645</b>

**PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (UNAUDITED) – SELECTED INFORMATION**

**PRELIMINARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017 (UNAUDITED)**

<i>(thousand RON)</i>	<b>Issued capital</b>	<b>Share premium</b>	<b>Other capital reserves</b>	<b>Retained earnings</b>	<b>Foreign currency translation reserve</b>	<b>Total equity</b>	<b>Non-controlling interest</b>	<b>Total equity</b>
<b>As at 1 January 2017</b>	<b>190</b>	<b>0</b>	<b>19</b>	<b>58,124</b>	<b>(41)</b>	<b>58,292</b>	<b>(39)</b>	<b>58,253</b>
Profit for the period				31,304		31,304	124	31,428
<b>Other comprehensive income</b>					(37)	(37)	3	(34)
Translation differences	0	0	0	31,304	(37)	31,267	127	31,394
<b>Total comprehensive income</b>								
Capital contribution from shareholders	1,500					1,500		1,500
Group reorganization	580,300	(519,495)	(19)			60,786		60,786
Costs related to reorganization (Note 6)		(1,083)				(1,083)		(1,083)
Cash dividends				(46,237)		(46,237)	(69)	(46,307)
<b>At 31 December 2017</b>	<b>581,990</b>	<b>(520,578)</b>	<b>0</b>	<b>43,191</b>	<b>(78)</b>	<b>104,525</b>	<b>19</b>	<b>104,544</b>
<i>(thousand RON)</i>	<b>Issued capital</b>	<b>Share premium</b>	<b>Other capital reserves</b>	<b>Retained earnings</b>	<b>Foreign currency translation reserve</b>	<b>Total equity</b>	<b>Non-controlling interest</b>	<b>Total equity</b>
<b>As at 1 January 2016</b>	<b>190</b>	-	<b>19</b>	<b>50,392</b>	<b>(122)</b>	<b>50,479</b>	<b>3</b>	<b>50,482</b>
Profit for the period	-	-	-	48,693	-	48,693	40	48,733
<b>Other comprehensive income</b>								
Translation differences	-	-	-	-	81	81	2	83
<b>Total comprehensive income</b>					81	48,774	42	48,816
Cash dividends	-	-	-	(40,961)	-	(40,961)	(84)	(41,045)
<b>At 31 December 2016</b>	<b>190</b>	-	<b>19</b>	<b>58,124</b>	<b>(41)</b>	<b>58,292</b>	<b>(39)</b>	<b>58,253</b>

# **PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (UNAUDITED) – SELECTED INFORMATION**

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## **SELECTED INFORMATION TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

### **1 CORPORATE INFORMATION**

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

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

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

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

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

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

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

On 19 June 2017 Sphera has set up a new subsidiary, 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 PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS**

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

The preliminary consolidated 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.

The preliminary 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 of 31 December 2016.

**PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER  
2017 (UNAUDITED) – SELECTED INFORMATION**

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**Foreign currencies**

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

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

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

	<b>31 December 2017</b>	<b>31 December 2016</b>
RON – EUR	4.6597	4.5411
RON – USD	3.8915	4.3033
RON – MDL	0.2283	0.2174

**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.

**PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER  
2017 (UNAUDITED) – SELECTED INFORMATION**

**3 GROUP INFORMATION**

**3.1 Investments in controlled companies**

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

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

The value of non-controlling interests in USFN and ARS as of 31 December 2017 is below 1 thousand RON therefore there are no other presentations thereof.

**3.2 Business combinations**

On 30 May 2017, Sphera acquired 99.9997% of the shares in USFN and ARS, in exchange for Sphera shares. As Sphera is a new entity with no significant activities, USFN has been identified as the acquirer of ARS, mainly due to its relative size, USFN being far larger than ARS. Since Sphera was not a business, the transition from USFN to Sphera as legal parent of the Group was accounted for as described in Note Issued Capital.

The fair values of the identifiable assets and liabilities of ARS as at the date of acquisition were:

	<b>Fair values recognised on acquisition</b>
<b>Assets</b>	
Property, plant and equipment	24,661
Intangible assets	2,874
Deposits for guarantees	235
Trade and other receivables	3,030
Inventories	1,198
Cash and cash equivalents	2,162
Assets held for sale	195
<b>Liabilities</b>	
Interest-bearing loans and borrowings	10,675
Trade and other payables	13,479
<b>Total identifiable net assets at fair value</b>	<b>10,201</b>
Goodwill arising on acquisition	50,585
<b>Fair value of ARS business, equal to the nominal value of the shares issued by Sphera for the contribution of ARS shares</b>	<b>60,786</b>

The fair value of the assets and liabilities acquired at the date of acquisition as well as the fair value of the business of ARS (based on which was effected the share capital increase of Sphera) were determined by an independent appraiser.

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

**PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER  
2017 (UNAUDITED) – SELECTED INFORMATION**

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

**4 OTHER OPERATING EXPENSES, NET**

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

**5 GENERAL AND ADMINISTRATION EXPENSES, NET**

	<b>2017</b>	<b>2016</b>
Payroll and employee benefits	32,368	9,317
Third-party services	12,373	7,359
Depreciation and amortization	879	590
Rent	2,253	1,392
Banking charges	1,771	1,046
Transport	2,279	811
Maintenance and repairs	989	990
Small-wares	728	444
Insurance	376	224
Advertising	614	143
Telephone and postage	432	251
Miscellaneous expenses and income, net	863	408
<b>Total</b>	<b>55,925</b>	<b>22,975</b>

**PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER  
2017 (UNAUDITED) – SELECTED INFORMATION**

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**6 ISSUED CAPITAL**

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

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

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

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

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

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

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

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

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

**PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER  
2017 (UNAUDITED) – SELECTED INFORMATION**

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**7 EBITDA**

	<b>2017</b>	<b>2016</b>
<b>Operating profit</b>	<b>36,603</b>	<b>55,246</b>
<b>Adjustments to bridge operating profit to EBITDA:</b>		
Depreciation and amortization included in restaurant expenses	13,942	9,234
Depreciation and amortization included in general and administration expenses	879	590
	<b>51,424</b>	<b>65,070</b>
<b>EBITDA</b>		
Non-recurring expenses related to reorganization	11,757	-
	<b>63,181</b>	<b>65,070</b>
<b>Normalised EBITDA</b>		

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EBITDA is one of the key performance measures monitored by senior management. For the year ended 31 December 2017, EBITDA was normalized to exclude the non-recurring expenses related to the Group's reorganization process: management bonus (10,544), audit and advisory services (548), legal fees (498) and other fees (167); no such exclusions were necessary for the period ended 31 December 2016.

**8 SEGMENT INFORMATION**

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

- KFC restaurants
- Pizza Hut restaurants.
- Taco Bell restaurants

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

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

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.

**PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER  
2017 (UNAUDITED) – SELECTED INFORMATION**

<b>2017</b>	<b>KFC</b>	<b>Pizza Hut</b>	<b>Taco Bell</b>	<b>Other</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues from external customers	503,355	66,354	2,876	590	-	573,175
Inter-segment revenues	101	27	-	11,830	(11,958)	-
Operating expenses	451,797	68,580	4,628	23,525	(11,958)	536,572
<b>Segment operating profit</b>	<b>51,659</b>	<b>(2,199)</b>	<b>(1,752)</b>	<b>(11,105)</b>	-	<b>36,603</b>
Finance costs	-	-		2,156	-	2,156
Finance income	-	-		214	-	214
Income taxes	-	-		3,233	-	3,233
<b>Net profit/(loss)</b>	<b>51,659</b>	<b>(2,199)</b>	<b>(1,752)</b>	<b>(16,280)</b>	-	<b>31,428</b>

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

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

**Geographic information:**

	<b>Year ended</b>	
	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Revenue from external customers</b>		
Romania	552,306	410,043
Italy	12,377	-
Republic of Moldova	8,492	7,492
<b>Total restaurant revenue</b>	<b>573,175</b>	<b>417,535</b>

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

## **APPENDIX 2**

### **PRO FORMA PRELIMINARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 December 2017 (thousand RON)**

**PRELIMINARY PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 DECEMBER 2017 (thousand RON)**

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**PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 December 2017 (thousand RON)**

	<b>SFG (a)</b>	<b>ARS for the period 1 January – 31 May 2017 (b)</b>	<b>Intercompany elimination (c)</b>	<b>PPA effect (d)</b>	<b>Pro forma (e) = (a)+(b)+(c)+(d)</b>
Restaurant sales	573,175	45,630	-1	-	618,804
Restaurant expenses					
Food and material expenses	206,704	12,530	-2	-	219,232
Payroll and employee benefits	109,858	11,765	0	-	121,623
Rent	41,615	3,897	0	-	45,512
Royalties	33,885	2,682	0	-	36,567
Advertising	30,231	2,517	-21	-	32,727
Other operating expenses, net	44,412	4,286	22	-	48,720
Depreciation and amortization	13,942	1,467	0	241	15,650
<b>Restaurant operating profit</b>	<b>92,528</b>	<b>6,486</b>	<b>0</b>	<b>(241)</b>	<b>98,773</b>
General and administration expenses, net	55,925	4,372	-	-	60,297
<b>Operating profit</b>	<b>36,603</b>	<b>2,114</b>	<b>-</b>	<b>(241)</b>	<b>38,476</b>
Finance costs	2,156	198	-	-	2,354
Finance income	214	6	-	-	220
<b>Profit before tax</b>	<b>34,661</b>	<b>1,922</b>	<b>-</b>	<b>(241)</b>	<b>36,342</b>
Income tax expense/(credit)	3,233	553	-	-	3,786
<b>Profit for the period</b>	<b>31,428</b>	<b>1,369</b>	<b>-</b>	<b>(241)</b>	<b>32,556</b>
Attributable to:					
Equity holders of Sphera	31,304	1,369	-	(241)	32,432
Non-controlling interests	124	-	-	-	124

**PRELIMINARY PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 DECEMBER 2017 (thousand RON)**

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	SFG (a)	ARS for the period 1 January – 31 May 2017 (b)	Intercompany elimination (c)	PPA effect (d)	Pro forma (e) = (a)+(b)+(c)+(d)
<b>Other comprehensive income</b>					
<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	(34)	-	-	-	(34)
<b>Total comprehensive income for the period, net of tax</b>	<b>31,394</b>	<b>1,369</b>	-	<b>(241)</b>	<b>32,522</b>
Attributable to:					
Equity holders of Sphera	31,267	1,369	-	(241)	32,395
Non-controlling interests	127				127

**PRELIMINARY PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 DECEMBER 2017 (thousand RON)**

**PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 December 2016 (thousand RON)**

	USFN Group (a)	ARS (b)	Reclassification discontinued operations (c)	Intercompany elimination (d)	PPA effect (e)	Pro forma (f) = (a)+(b)+(c)+(d)+(e)
Restaurant sales	417,535	96,940	77,650	(77,650)	-	514,475
Restaurant expenses						
Food and material expenses	157,302	26,107	75,272	(75,272)	-	183,409
Payroll and employee benefits	69,577	22,383	-	-	-	91,960
Rent	27,498	8,027	13	(13)	-	35,525
Royalties	24,654	5,702	-	-	-	30,356
Advertising	20,736	5,785	17	(17)	-	26,521
Other operating expenses, net	30,313	11,659	2,677	(2,677)	-	41,972
Depreciation and amortization	9,234	2,666	-	-	561	12,461
<b>Restaurant operating profit</b>	<b>78,221</b>	<b>14,611</b>	<b>(329)</b>	<b>329</b>	<b>(561)</b>	<b>92,271</b>
General and administration expenses, net	22,975	8,982	(9)	9	31	31,988
<b>Operating profit</b>	<b>55,246</b>	<b>5,629</b>	<b>(320)</b>	<b>320</b>	<b>(592)</b>	<b>60,283</b>
Finance costs	825	213	-	(109)	-	929
Finance income	95	127	-	(109)	-	113
<b>Profit before tax</b>	<b>54,516</b>	<b>5,543</b>	<b>(320)</b>	<b>320</b>	<b>(592)</b>	<b>59,467</b>
Income tax expense	5,783	361	(50)	50	-	6,144
<b>Profit for the year from continuing operations</b>	<b>48,733</b>	<b>5,182</b>	<b>(270)</b>	<b>270</b>	<b>(592)</b>	<b>53,323</b>
<b>Discontinued operations</b>						
Loss after tax from discontinued operations	-	(1,953)	270	-	-	(1,683)
<b>Profit for the year</b>	<b>48,733</b>	<b>3,229</b>	<b>-</b>	<b>270</b>	<b>(592)</b>	<b>51,640</b>
<b>Attributable to:</b>						
Equity holders of Sphera	48,693	3,229	-	270	(592)	51,600
Non-controlling interests	40	-	-	-	-	40

PRELIMINARY PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 DECEMBER 2017 (thousand RON)

USFN Group (a)	ARS (b)	Reclassification discontinued operations (c)	Intercompany elimination (d)	PPA effect (e)	Pro forma (f) = (a)+(b)+(c)+(d)+(e)
<b>Other comprehensive income</b>					
<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	83	-	-	-	83
<b>Total comprehensive income for the year, net of tax</b>	<b>48,816</b>	<b>3,229</b>	<b>-</b>	<b>270</b>	<b>(592)</b>
<b>Attributable to:</b>					
Equity holders of Sphera	48,774	3,229	-	270	(592)
Non-controlling interests	42	-	-	-	42

## **1 PURPOSE OF PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

This preliminary pro forma consolidated financial information was prepared to illustrate the consolidated operational performance of the Group for the year ended 31 December 2017 and 31 December 2016, respectively, as if the set-up of Sphera and the contribution of USFN shares and ARS shares to Sphera took place on 1 January 2017 and 1 January 2016, respectively.

USFN and ARS had identical shareholder structure and also their key management personnel was in majority the same since 2012. Therefore, although from an IFRS perspective the criteria are not met in order to qualify as “under common control” (since none of the shareholders had control or common control), the presentation of the pro forma information is reflective of the manner in which the two business segments (KFC for USFN and Pizza Hut for ARS) were managed together.

The pro forma consolidated statement of comprehensive income describes a hypothetical situation and has been prepared solely for illustrative purposes and do not purport to represent what the actual consolidated results of operations of the Group would have been had the control been gained on the date assumed, nor are they necessarily indicative of future consolidated operational results.

In addition, the statements are based on available information and various assumptions that management believes to be reasonable. The actual results may differ from those reflected in the pro forma consolidated financial information for a number of reasons, including, but not limited to, differences between the assumptions used to prepare the pro forma consolidated financial information and actual amounts.

The preliminary pro forma consolidated financial information only consists of the preliminary pro forma consolidated statement of comprehensive income for the financial year ended 31 December 2017 and selected information.

The preliminary statement of comprehensive income is based on the preliminary statement of comprehensive income for the year ended 31 December 2017 included in the SFG preliminary consolidated financial statements (unaudited) and ARS statement of comprehensive income for the period 1 January – 31 May 2017 (unaudited), with pro forma adjustments as described below. The SFG preliminary consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU).

## **2 BASIS OF PREPARATION OF THE PRELIMINARY PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

### **2.1 ARS statement of comprehensive income for the period 1 January - 31 May 2017**

On 30 May 2017, Sphera acquired 99.9997% of the shares in ARS, in exchange for Sphera shares. The consolidated statement of comprehensive income of SFG includes the results of ARS from the date of acquisition, i.e. from 31 May 2017 to 31 December 2017. As such, the pre-acquisition statement of comprehensive income of ARS for the period 1 January 2017 to 31 May 2017 has been added, as if the acquisition took place on 1 January 2017.

### **2.2 Pro forma adjustments: elimination of intercompany transactions**

In the process of preparation of the pro forma consolidated statement of comprehensive income, pre-acquisition amounts for the period 1 January 2017 to 31 May 2017 from the statement of comprehensive income of ARS were added to the amounts from the SFG IFRS consolidated statement of comprehensive income for the year ended 31 December 2017, thus the transactions carried out during the first five months of 2017 between the two entities had to be eliminated.

No synergies or integration costs following the acquisition of USFN Group and ARS by Sphera have been taken into consideration in the preparation of the preliminary pro forma consolidated financial information.

### **2.3 Purchase price allocation adjustments**

Adjustments have been made to account for the effect of the purchase price allocation performed as of the date of acquisition of Sphera and ARS by USFN (30 May 2017). Specifically, there are fair value adjustments recorded for the property, plant and equipment of ARS. The adjustment recorded in the pro forma has been computed by applying the fair value adjustments to the property, plant and equipment of ARS (as determined on 31 May 2017) to their net book values on 1 January 2017 or from the date of acquisition in 2017, and by re-computing the depreciation expense for the period 1 January – 31 May 2017 based on the amounts thus adjusted.

**PRELIMINARY PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR  
THE PERIOD FROM 1 JANUARY 2017 TO 31 DECEMBER 2017 (thousand RON)**

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**2.4 Preparation of the selected information**

With respect Note 3 EBITDA, the information presented in this note is based on amounts derived directly from the similar notes from the unaudited IFRS preliminary consolidated financial statements of SFG for the year ended 31 December 2017 and, respectively, the unaudited preliminary financial statements of ARS for the year ended 31 December 2017, from which is derived the statement of comprehensive income of ARS for the period 1 January – 31 May 2017, adjusted for the applicable pro forma adjustments. described above.

**PRELIMINARY PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR  
THE PERIOD FROM 1 JANUARY 2017 TO 31 DECEMBER 2017 (thousand RON)**

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**3 EBITDA**

	ARS for the period 1 January	Intercomp any elimination 1 January	PPA effect 1 January	Pro forma 2017	Pro forma 2016
SFG 2017	— 31 May 2017	— 31 May 2017	— 31 May 2017	— 31 May 2017	— 31 May 2016
<b>Operating profit</b>	<b>36,603</b>	<b>2,114</b>	<b>-</b>	<b>(241)</b>	<b>38,476</b>
<b>Adjustments to bridge operating profit to EBITDA:</b>					
Depreciation and amortization included in restaurant expenses	13,942	1,467	-	241	15,650
Depreciation and amortization included in general and administration expenses	879	60	-	-	939
<b>EBITDA</b>	<b>51,424</b>	<b>3,641</b>	<b>-</b>	<b>-</b>	<b>55,065</b>
Non-recurring expenses related to reorganization	11,757	-	-	-	11,757
<b>Normalised EBITDA</b>	<b>63,181</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>66,822</b>
					<b>73,502</b>

EBITDA is one of the key performance measures monitored by senior management. For the year ended 31 December 2017, EBITDA was normalized to exclude the non-recurring expenses related to the Group's reorganization process: management bonus (10,544), audit and advisory services (548), legal fees (498) and other fees (167). No such exclusions were necessary for the year ended 31 December 2016.