# SPHERA FRANCHISE GROUP SA

## SEPARATE FINANCIAL STATEMENTS

Prepared in accordance with Order of the Ministry of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards

## 31 December 2018

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# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sphera Franchise Group S.A.

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Sphera Franchise Group S.A. (the Company) with official head office in Bucharest, 239 Calea Dorobanti Street, identified by sole fiscal registration number 37586457, which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 ("Regulation (EU) No. 537/2014") and Law 162/2017 („Law 162/2017").Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, including Regulation (EU) No. 537/2014 and Law 162/2017 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter:

**Recoverability of the carrying value of investments in subsidiaries and loans granted to those subsidiaries**

The carrying value of the investments in subsidiaries and of loans granted to subsidiaries amounted to RON 641 million as at 31 December 2018.
Under the International Financial Reporting Standards, an entity is required to assess whether triggers for potential impairment of its assets exist.
The assessment of whether there is an indication that an asset may be impaired and the determination of recoverable amounts of the Company investments in subsidiaries and of the loans granted to them relies on management's estimates of future cash flows and their judgment with respect to the subsidiaries' performance including future restaurants opening, growth rates, gross and net operating margins, working capital needs, capital expenditure and discount rates, as well as economic assumptions such as the evolution of salaries in the economy and inflation.
An impairment test was performed for American Restaurant System SA subsidiary where triggers for impairment were identified which resulted in an impairment adjustment of RON 19.8 million recorded as at 31 December 2018.

Due to the uncertainty of forecasting and discounting future cash flows, the level of management's judgement involved and the significance of the Company's investment in subsidiaries and loans granted as at 31 December 2018, this audit area is considered a key audit matter.

The Company disclosures about investments in subsidiaries and loans granted, the related impairment triggering events analysis as well as impairment test performed is presented in Notes 10, 13 and 19 to the financial statements.

**How our audit addressed the key audit matter**

Our work was focused on, but was not limited to, the following procedures:
- We assessed the methodology used by management to identify impairment indicators and to estimate the recoverable value of the investments in subsidiaries and of loans granted to them;
- We included our evaluation specialists in our team to assist us in evaluating the Company's key assumptions and estimates used to determine the discount rate, the future operating cash flows, the growth rates, operating margins, working capital needs and the capital expenditure;
- In this context, we evaluated whether or not certain assumptions on which the valuation was based, individually and taken as a whole, considered: i) the economic environment of the industry, and the economic circumstances of the Group to which the Company belongs; ii) existing market information; iii) the business plans of the Group to which the Company belongs, including management's expectations (including, without being limited to: comparing the restaurant openings considered with commitments to franchisor, assessing the investment per restaurant) ; iv) the risks associated with the cash flows, included the potential variability in the amount and timing of cash flows and the related effect on the discount rate; v) specific requirements of IFRS; vi) benchmarking against general performance of peer companies and against the Group's historical financial performance and trends.
- Testing the mathematical accuracy of the discounted cash flow computation;
- Assessment of the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year;
- Reviewed the management's sensitivity analysis over key assumptions in the future cash flow model in order to assess the potential impact of a range of possible outcomes.

We further assessed the adequacy of the disclosures notes presented in the financial statements about the Company investments in subsidiaries, loans granted to subsidiaries and impairment test performed.

**Other information**

The other information comprises the Administrators' Report, but does not include the financial statements and our auditors' report thereon. Management is responsible for the other information.

Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, on the other information obtained prior to the date of the auditor' s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Order of the Minister of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

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## Report on Other Legal and Regulatory Requirements

### Reporting on Information Other than the Financial Statements and Our Auditors' Report Thereon

In addition to our reporting responsibilities according to ISAs described in section "Other information", with respect to the Administrators' Report, we have read the Administrators' Report and report that:

a) in the Administrators' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying financial statements as at December 31, 2018;
b) the Administrators' Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 - 19;
c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the financial statements as at December 31, 2018, we have not identified information included in the Administrators' Report that contains a material misstatement of fact.

### Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

### Appointment and Approval of Auditor

We were appointed as auditors of the Company by Articles of Association on 4th May 2017 to audit the financial statements for the financial year end December 31, 2018. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 2 years, covering the financial periods end December 31, 2017 and December 31, 2018.

### Consistency with Additional Report to the Audit Committee

Our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 20 March 2019.

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**Provision of Non-audit Services**

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and we remain independent from the Company in conducting the audit.
In addition to statutory audit services and services disclosed in the financial statements, no other services were provided by us to the Company, and its controlled undertakings.

**On behalf of,**

**Ernst & Young Assurance Services SRL**
15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania
Registered in the electronic Public Register under No. 77

Ernst & Young Assurance Services S.R.L.
21. MAR. 2019
Signed for identification

Name of the Auditor/ Partner: Alina Dimitriu
Registered in the electronic Public Register under No. 1272
Bucharest, Romania

21 March 2019

*All amounts in RON thousand, unless specified otherwise*

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Revenues** | | | |
| Dividend revenues | 19 | 61,798 | - |
| Revenue from service contracts | 19 | 26,514 | 12,420 |
| **Total revenues** | | **88,312** | **12,420** |
| **Expenses** | | | |
| Payroll and employee benefits | | 21,598 | 21,101 |
| Impairment loss of investments in subsidiaries | 10 | 19,804 | - |
| Other expenses | 5 | 6,805 | 2,424 |
| **Total expenses** | | **48,207** | **23,525** |
| **Operating profit/(loss)** | | **40,105** | **(11,105)** |
| Finance costs | 6.1 | 1,268 | 141 |
| Finance income | 6.2 | 965 | 31 |
| **Profit/(Loss) before tax** | | **39,802** | **(11,215)** |
| Income tax expense/(credit) | 7 | 264 | (1,600) |
| **Profit/(Loss) for the period** | | **39,538** | **(9,615)** |
| **Total comprehensive income for the period, net of tax** | | **39,538** | **(9,615)** |

These separate financial statements from page 7 to page 46 were approved by the Board of Directors and were authorised for issue on 21 March 2019.

Mark Hilton

General Manager Sphera Franchise Group SA

Daniel Palita

Interim Chief Financial Officer

Ernst & Young Assurance Services S.R.L.
21 MAR. 2019
Signed for identification

*All amounts in RON thousand, unless specified otherwise*

| | Notes | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | **583,833** | 602,701 |
| Property, plant and equipment | 8 | 2,394 | 466 |
| Intangible assets | 9 | 172 | 12 |
| Investments in subsidiaries | 10 | 576,309 | 594,222 |
| Trade and other receivables | 13 | 3,622 | 6,401 |
| Deferred tax asset | 7 | 1,336 | 1,600 |
| **Current assets** | | **71,254** | **14,957** |
| Trade and other receivables (including short term loans) | 13 | 50,979 | 8,908 |
| Prepayments | | 336 | 302 |
| Cash and cash equivalents | 14 | 19,939 | 5,747 |
| **Total assets** | | **655,087** | **617,658** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Issued capital | 15 | 581,990 | 581,990 |
| Share premium | 15 | (580) | (580) |
| Retained earnings | | 29,923 | (9,615) |
| **Total equity** | | **611,333** | **571,795** |
| | | - | |
| **Non-current liabilities** | | **35,992** | **16,660** |
| Interest-bearing loans and borrowings | 11 | 35,992 | 16,660 |
| | | - | |
| **Current liabilities** | | **7,762** | **29,203** |
| Interest-bearing loans and borrowings | 11 | 2,618 | - |
| Trade and other payables | 17 | 5,144 | 29,203 |
| **Total liabilities** | | **43,754** | **45,863** |
| **Total equity and liabilities** | | **655,087** | **617,658** |

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21. MAR. 2019
Signed for identification

*All amounts in RON thousand, unless specified otherwise*

| | Issued capital | Share premium | Retained earnings | Total equity |
|---|---|---|---|---|
| **As at 1 January 2018** | **581,990** | **(580)** | **(9,615)** | **571,795** |
| Profit for the period | - | - | 39,538 | 39,538 |
| Other comprehensive income | - | - | - | - |
| **Total comprehensive income** | **-** | **-** | **39,538** | **39,538** |
| **At 31 December 2018** | **581,990** | **(580)** | **29,923** | **611,333** |

| | Issued capital | Share premium | Retained earnings | Total equity |
|---|---|---|---|---|
| **As at 16 May 2017 (incorporation)** | **-** | **-** | **-** | **-** |
| Loss for the period | - | - | (9,615) | (9,615) |
| Other comprehensive income | - | - | - | - |
| **Total comprehensive income** | **-** | **-** | **(9,615)** | **(9,615)** |
| Capital contribution from shareholders - cash (Note 1, Note 15) | 1,500 | - | - | 1,500 |
| Capital contribution from shareholders – shares in subsidiaries (Note 1, Note 15) | 580,490 | - | - | 580,490 |
| Costs related to reorganization (Note 15) | - | (580) | - | (580) |
| **At 31 December 2017** | **581,990** | **(580)** | **(9,615)** | **571,795** |

These separate financial statements from page 7 to page 46 were approved by the Board of Directors and were authorised for issue on 21 March 2019.

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2 1. MAR. 2019
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*All amounts in RON thousand, unless specified otherwise*

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit/(Loss) before tax | | 39,802 | (11,215) |
| Adjustments to reconcile profit/(loss) before tax to net cash flows: | | | |
| Dividend revenue | 19 | (61,798) | - |
| Depreciation of property, plant and equipment and intangible assets | 8, 9 | 363 | 22 |
| Impairment loss of investments in subsidiaries | 10 | 19,804 | - |
| Net foreign exchange differences | | 26 | 50 |
| Finance income | 6.2 | (965) | (31) |
| Finance costs (interest) | 6.1 | 1,255 | 92 |
| **Working capital adjustments:** | | | |
| Decrease in trade and other receivables and prepayments | | (231) | (9,182) |
| Increase/(Decrease) in trade and other payables | | (10,300) | 15,480 |
| Dividends received | | 61,798 | - |
| Interest paid | | (504) | - |
| **Net cash flows from operating activities** | | **49,250** | **(4,784)** |
| **Investing activities** | | | |
| Purchase of property, plant and equipment and intangible assets | 8, 9 | (2,281) | (500) |
| Loans to related parties | 13 | (38,111) | (6,378) |
| Investments in subsidiaries | 10,14 | (15,523) | (100) |
| **Net cash flows used in investing activities** | | **(55,915)** | **(6,978)** |
| **Financing activities** | | | |
| Capital contribution from shareholders of Sphera on set up, net of transaction costs paid | 15 | - | 920 |
| Proceeds from borrowings | 11 | 24,705 | 16,590 |
| Repayment of borrowings | 11 | (3,763) | - |
| Payment of finance lease liabilities | 11 | (85) | - |
| **Net cash flows used in financing activities** | | **20,857** | **17,510** |
| **Net increase in cash and cash equivalents** | | **14,192** | **5,747** |
| **Cash and cash equivalents at 01 January 2018 /16 May 2017** | | **5,747** | - |
| **Cash and cash equivalents at 31 December** | | **19,939** | **5,747** |

These separate financial statements from page 7 to page 46 were approved by the Board of Directors and were authorised for issue on 21 March 2019.

Ernst & Young Assurance Services S.R.L.
21. MAR. 2019
Signed for identification

*All amounts in RON thousand, unless specified otherwise*

## 1. REPORTING ENTITY

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

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

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

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

The Group operates quick service and takeaway restaurant concepts (a chain of 88 restaurants) under the Kentucky Fried Chicken ("KFC"), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (23 restaurants as at 31 December 2018) as well as pizza delivery points (22 locations as at 31 December 2018) 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 as at 31 December 2018) and one restaurant under Paul brand, in Romania.

Sphera Franchise Group SA has become the parent company of US Food Network SA (USFN) and American Restaurant System SA (ARS) on 30 May 2017, following the contribution by shareholders of USFN and ARS of 99.9997% of the shares in the two companies in exchange for shares in Sphera. On 8 June 2017 and 14 June 2017, Sphera purchased the shares held by USFN in US Food Network SRL (Republic of Moldova) and respectively US Food Network SRL (Italy) and on 19 June 2017 it was incorporated California Fresh Flavors SRL.

The purpose of the Group reorganization that took place in 2017 and resulted in the establishment of Sphera as the legal parent company of US Food Network SA (USFN), American Restaurant System SA (ARS), US Food Network SRL (USFN Italy or Italian subsidiary), US Food Network SRL (USFN Moldova or Moldavian subsidiary) and California Fresh Flavors SRL (Taco Bell) was to ensure a better coordination of activities and enhance value creation, by taking advantage of the synergies at group level and by achieving economies of scale. In terms of activities, Sphera took over gradually until the end of September 2017 the activities of management and support from USFN and ARS. As at 31 December 2018, the Company has 154 employees (2017:124).

The separate financial statements for the year ended 31 December 2018 were authorized for issue in accordance with the resolution of the Board of Directors dated 21 March 2019.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Company in preparing its separate financial statements.

### 2.1 Statement of Compliance

The separate financial statements ("financial statements") of the Company have been prepared in accordance with the provisions of the Ministry of Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

The Company also prepares consolidated financial statements in accordance with the Ministry of Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

### 2.2 Basis of preparation

The separate financial statements have been prepared on a historical cost basis, using going concern principle. The separate 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.

#### 2.2.1 Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

#### 2.2.2 Fair value measurement

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
  Or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

### 2.2.3 Revenue

*Rendering of services*

The Company is engaged in providing management and other support function services to its operating subsidiaries (i.e. its customers).
Revenue from these contracts is recognised when control of services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

The Company recognises revenue from these services over time, as it progresses towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Company.

If the contracts include fees for various activities performed, revenue is recognised in the amount to which the Company has a right to invoice.

Revenues related to services rendered are recognised in the period in which the services were rendered based on statements of work performed, regardless of when paid or received, in accordance with the accrual basis.

The effect of initially applying IFRS 15 "Revenues from contracts with customers" starting 1 January 2018 on the Company's revenue is disclosed in Note 4.1.

*All amounts in RON thousand, unless specified otherwise*

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Dividend Income*

Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established which is generally when shareholders approve the dividend.

*Interest income*

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

### 2.2.4 Foreign currencies

The Company's separate financial statements are presented in Romanian New Lei ("RON"), which is the Company's functional currency.

***Transactions and balances***

Foreign currency transactions are recorded at the exchange rate ruling on transaction date. Monetary assets and liabilities expressed in foreign currency are translated into RON at the exchange rate on the reporting date, communicated by the National Bank of Romania:

The exchange rate RON – EUR as at 31 December 2018 and 31 December 2017 were:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| RON - EUR | 4.6639 | 4.6597 |
| RON - USD | 4.0736 | 3.8915 |

Differences arising on settlement or translation of monetary items are recognised in profit or loss.

### 2.2.5 Taxes

*Current income tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities, using tax rates enacted or substantively enacted at the reporting date. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and it establishes provisions where appropriate.

*Deferred tax*

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for: all deductible temporary differences and the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and any unused tax losses that can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, no deferred tax is recognized, and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

*Sales tax (VAT and similar taxes)*

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- Receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

### 2.2.6 Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Where appropriate, the cost of property, plant and equipment includes site preparation costs, installation costs and the cost of obtaining permits required to bring the asset ready for use.

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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.
The cost of property, plant and equipment also includes the cost of replacing parts of the property, plant and equipment.

All repair and maintenance costs are recognised in the profit or loss as incurred. The cost of improvements to leasehold assets is recognised as leasehold improvements and then depreciated as outlined below.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Leasehold improvements | over the lease contract duration (usually 10 years) |
| Computers and IT equipment | 3 to 5 years |
| Vehicles | 5 years |
| Other property, plant and equipment | 2 to 10 years |

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

The useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

### 2.2.7 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is, or contains a lease, if fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

*Company as a lessee*

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in profit or loss on a straight-line basis over the lease term. For leases with fixed escalating payments and/or fit-out works incentives received, the Company records rent expense on a straight-line basis over the lease term.

*Company as a lessor*

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

The Company will initially apply IFRS 16 Leases on 1 January 2019 using the modified retrospective approach for transition (see Note 4.2).

### 2.2.8 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortised on a straight-line basis over the useful economic lives from 3 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

### 2.2.9 Impairment of non-financial assets

At each reporting date, management assesses whether there is any indication of impairment for property, plant and equipment or intangible assets. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in the statement of comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 2.2.10 Investments in subsidiaries

The investments in subsidiaries are accounted for at cost less impairment losses. At each reporting date, management assesses whether there is any indication of impairment investments in subsidiaries. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in profit or loss. An impairment loss recognised in prior years is reversed if there has been a change in the estimates used to determine the investment's recoverable amount. An impairment loss is reversed only to the extent that the investment's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2.11 Financial instruments

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

**i) Financial assets**

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

In the Company's Financial Statements, the investment in subsidiaries continue to be measured at cost in accordance to IAS 27 "Separate financial statements".

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:
• Financial assets at amortised cost (debt instruments)
• Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
• Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
• Financial assets at fair value through profit or loss

*Financial assets at amortised cost (debt instruments)*

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:
• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company's financial assets are represented by loans, trade and other receivables and cash and cash equivalents.
For more information on receivables, refer to Note 13. Receivables due in less than 12 months are not discounted.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's consolidated statement of financial position) when:
• The rights to receive cash flows from the asset have expired, or
• The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

*Impairment of financial assets*

The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision methodology that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Disclosures relating to impairment of financial assets are summarised in the following notes:
- Financial instruments risk management — Note 12
- Trade receivables — Note 13

**ii) Financial liabilities**

*Initial recognition and measurement*

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

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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

*Subsequent measurement*

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

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

*De-recognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

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

### iii) Offsetting of financial instruments

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

### 2.2.12 Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand.

### 2.2.13 Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year. Prepayments to acquire current assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Prepayments to acquire property, plant and equipment are classified as construction in progress. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognized in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2.14 Equity

*Share capital*

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

*Dividends*

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

### 2.2.15 Provisions

*General*

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

*Onerous contracts*

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract.

### 2.2.16 Employee benefits

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

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

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

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## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

**Judgements**

In the process of applying the Group's accounting policies, management has made no judgement with significant effect on the amounts recognised in the financial statements during 2018.

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

*Recoverability of investments in subsidiaries and loans to subsidiaries*

The Company assesses the recoverability of investments in subsidiaries and loans to subsidiaries at least at each financial year-end. The determination of recoverable amounts of the Company's investments in subsidiaries relies on management's estimates of future cash flows, for which some of the main assumptions were future restaurants opening, growth rates, gross and net operating margins, working capital needs, capital expenditure and discount rates, as well as economic assumptions such as the evolution of salaries in the economy and inflation.

The key assumptions used to determine the recoverable amount for the investment in subsidiaries and loans to subsidiaries, including a sensitivity analysis, are disclosed and further explained in Note 10.

## 4. CHANGES IN ACCOUNTING POLICIES

### 4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2018

The accounting policies adopted are consistent with those of the previous financial reporting period except for the following amended IFRSs which have been adopted by the Company as of 1 January 2018. These new standards and amendments do not have a material effect on the Company's financial statements. The Company has not early adopted any other standards, interpretations or amendments that have been issued but were not yet effective.

**IFRS 15 Revenue from Contracts with Customers and Clarifications**

IFRS 15 establishes a five-step model to apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures are required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.

## 4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2018 (continued)

### IFRS 15: Revenue from Contracts with Customers (Clarifications)

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach.
The Company has adopted IFRS 15 using the "modified retrospective" method, with the cumulative effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018) in equity. The Company did not apply any practical expedients upon transition.
Consequently, the information reported for 2017, including related disclosures, has not been restated, being presented, as previously reported, under legacy IFRS revenue standards and interpretations.
The application of this standard (including Clarifications) starting 1 January 2018 does not have any significant impact on the financial performance (revenues from contracts with customers) nor on the financial position of the Company.

### IFRS 9 Financial Instruments: Classification and Measurement

The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

The assessment of the Company's business model was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The application of this standard does not have any significant impact on the financial position or performance of the Company, more specifically:

- The measurement of financial assets and liabilities (including impairment of financial assets) do not change significantly
- The Company's operating, investing and financing cash flows and the basic and diluted EPS are not impacted
- The Company currently has no hedging instruments.

(a) Classification and measurement

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Company. The following are the changes in the classification of the Company's financial assets:

• Trade receivables and loans are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as Debt instruments and continue to be measured at amortised cost (ie, there is no modification in the measurement of the trade receivables apart from the requirement to calculate expected credit losses discussed below).

The Company has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Company's financial liabilities.

(b) Impairment

The adoption of IFRS 9 has changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

## 4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2018 (continued)

IFRS 9 requires the Company to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Upon the adoption of IFRS 9, the Group did not recognise additional impairment on the Company's trade receivables and loans as the impact was not significant.

**IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**
The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Management has assessed that the application of these amendments does not have any impact on the financial position or performance of the Company.

**IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration**
The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. The application of these amendments does not have any impact on the financial position or performance of the Company, as it already followed an approach aligned with these requirements.

**IAS 40: Transfers to Investment Property (Amendments)**
The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Company does not currently hold investment property.

**The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle,** which is a collection of amendments to IFRSs. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These improvements are not applicable to the Company.

**IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

## 4.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2018 AND NOT EARLY ADOPTED

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

## 4.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2018 AND NOT EARLY ADOPTED (continued)

recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers, office equipment) 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 will recognise 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 will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be 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 remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Company calculated an impact on the increase of the property plant and equipment (rights of use assets) and the increase of the lease liabilities as of 1 January 2019 amounting to 6,434.

**Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. These amendments do not have any impact on the Company's consolidated financial statements.

**IFRS 9: Prepayment features with negative compensation (Amendment)**
The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These Amendments have not yet been endorsed by the EU. The Company does not have financial assets with prepayment features.

**IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long-term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These /Amendments have not yet been endorsed by the EU. The Company does not hold investments in associates or joint ventures.

**IFRIC Interpretation 23: Uncertainty over Income Tax Treatments**
The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. Management has assessed that the application of this interpretation will not have any impact on the financial position or performance of the Company.

## 4.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2018 AND NOT EARLY ADOPTED (continued)

**IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**
The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. The Company has no plans in scope of these amendments.

**Conceptual Framework in IFRS standards**
The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

**IFRS 3: Business Combinations (Amendments)**
The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. Management has assessed the application of these amendments will have no impact on the financial position or performance of the Company.

**IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**
The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU. Management has assessed the application of these amendments will have no impact on the financial position or performance of the Company.

**The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. Management has assessed that the application of these improvements will have no impact on the financial position or performance of the Company.

***- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:*** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

***- IAS 12 Income Taxes:*** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

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## 4.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2018 AND NOT EARLY ADOPTED (continued)

- ***IAS 23 Borrowing Costs:*** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

## 5. OTHER EXPENSES

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

## 6. FINANCE COSTS AND INCOME

### 6.1 Finance costs

| | 2018 | 2017 |
|---|---|---|
| Interest on debts and borrowings | 506 | 0 |
| Interest on related parties loans (Note 19) | 749 | 92 |
| Foreign exchange loss | 13 | 49 |
| **Total finance costs** | **1,268** | **141** |

### 6.2 Finance income

| | 2018 | 2017 |
|---|---|---|
| Interest income from loans to related parties (Note 19) | 965 | 31 |
| **Total finance income** | **965** | **31** |

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## 7. INCOME TAX

The major components of income tax for the years ended 31 December 2018 and 31 December 2017 are:

| | 2018 | 2017 |
|---|---|---|
| **Deferred tax:** | | |
| Relating to fiscal losses carried forward | 264 | (1,600) |
| **Income tax credit reported in the statement of comprehensive income** | **264** | **(1,600)** |

A reconciliation between tax credit and the product of accounting result multiplied by Romania's domestic tax rate for the years ended 31 December 2018 and 31 December 2017 is as follows:

| | 2018 | 2017 |
|---|---|---|
| **Accounting profit/(loss) before income tax** | **39,802** | **(11,215)** |
| At statutory income tax rate of 16% | 6,368 | (1,794) |
| Other income exempted from tax | (9,831) | - |
| Tax exemption for legal reserves | (318) | - |
| Impairment cost of investment | 3,169 | - |
| Other non-deductible expenses | 876 | 194 |
| **At the effective income tax rate** | **264** | **(1,600)** |

### Deferred tax

Deferred tax reconciliation with corresponding items in the statement of financial position and statement of comprehensive income is as follows:

| | Statement of financial position 31 December 2018 | Statement of comprehensive income 2018 |
|---|---|---|
| Fiscal losses carried forward | 1,336 | 264 |
| **Deferred tax credit** | | **264** |
| **Net deferred tax assets** | **1,336** | |

| | Statement of financial position 31 December 2017 | Statement of comprehensive income 2017 |
|---|---|---|
| Fiscal losses carried forward | 1,600 | (1,600) |
| **Deferred tax credit** | | **(1,600)** |
| **Net deferred tax assets** | **1,600** | |

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## 8. PROPERTY, PLANT AND EQUIPMENT

| | Freehold buildings and leasehold improvements | Plant and machinery | Other equipment | Construction in progress | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At 16 May 2017** | - | - | - | - | - |
| Additions | 32 | 83 | 372 | - | 487 |
| **At 31 December 2017** | **32** | **83** | **372** | - | **487** |
| Additions | 1,776 | 171 | 320 | 1,794 | 4,061 |
| Transfers | | | | 1,794 | 1,794 |
| **At 31 December 2018** | **1,808** | **254** | **692** | | **2,754** |
| **Depreciation** | | | | | |
| **At 16 May 2017** | - | - | - | - | - |
| Depreciation charge for the period | 1 | 1 | 19 | | **21** |
| **At 31 December 2017** | **1** | **1** | **19** | - | **21** |
| Depreciation charge for the period | 80 | 72 | **187** | - | **339** |
| **At 31 December 2018** | **81** | **73** | **206** | - | **360** |
| **Net Book Value** | | | | | |
| **At 16 May 2017** | - | - | - | - | - |
| **At 31 December 2017** | **31** | **82** | **353** | - | **466** |
| **At 31 December 2018** | **1,727** | **181** | **486** | - | **2,394** |

The additions during the year ended 31 December 2018 consisted mainly in office leasehold improvements, as well as vehicles, office computers and other office equipment.

The Company has a finance lease contract for motor vehicles. The carrying value of the leased assets as of 31 December 2018 was of 105 (31 December 2017: 0). The assets acquired under finance lease are pledged in favour of the leasing company.

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## 9. INTANGIBLE ASSETS

| | Software licenses | Total |
|---|---|---|
| **Cost** | | |
| **At 16 May 2017** | - | - |
| Additions | 13 | 13 |
| **At 31 December 2017** | 13 | 13 |
| Additions | 185 | 185 |
| **At 31 December 2018** | **198** | **198** |
| | | |
| **Amortisation** | | |
| **At 16 May 2017** | - | - |
| Amortisation | 1 | 1 |
| **At 31 December 2017** | 1 | 1 |
| Amortisation | 25 | 25 |
| **At 31 December 2018** | 26 | 26 |
| | | |
| **Net book value** | | |
| **At 16 May 2017** | - | - |
| **At 31 December 2017** | 12 | 12 |
| **At 31 December 2018** | 172 | 172 |

## 10. INVESTMENTS IN SUBSIDIARIES

Details of the investments in subsidiaries at 31 December 2018 are as follows:

| Company name | Country of incorporation | Field of activity | Share interest percent | Investment at cost | Impairment loss | Carrying value |
|---|---|---|---|---|---|---|
| US Food Network SA | Romania | Restaurants | 99.9997% | 519,704 | - | 519,704 |
| American Restaurant System SA | Romania | Restaurants | 99.9997% | 60,786 | 19,804 | 40,982 |
| California Fresh Flavors SRL | Romania | Restaurants | 99.9900% | 100 | - | 100 |
| US Food Network SRL | Moldova | Restaurants | 80.0000% | 1,735 | - | 1,735 |
| US Food Network SRL | Italy | Restaurants | 100.0000% | 13,788 | - | 13,788 |
| **Total** | | | | **596,113** | **19,804** | **576,309** |

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

*All amounts in RON thousand, unless specified otherwise*

## 10. INVESTMENTS IN SUBSIDIARIES (continued)

Details of the investments in subsidiaries at 31 December 2017 are as follows:

| Company name | Country of incorporation | Field of activity | Share interest percent | Investment at cost |
|---|---|---|---|---|
| US Food Network SA | Romania | Restaurants | 99.9997% | 519,704 |
| American Restaurant System SA | Romania | Restaurants | 99.9997% | 60,786 |
| California Fresh Flavors SRL | Romania | Restaurants | 99.9900% | 100 |
| US Food Network SRL | Moldova | Restaurants | 80.0000% | 1,735 |
| US Food Network SRL | Italy | Restaurants | 100.0000% | 11,897 |
| **Total** | | | | **594,222** |

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

- USFN and USFN Moldova's activities in 2018 have continued in line or at better performance than anticipated through the cash flow projections based on which their fair value (cost in the above table) was determined in May 2017, therefore no impairment indicator was identified;
- USFN Italy, that started activity during 2017, has performed in 2018 as anticipated through the cash flow projections based on which its fair value (cost in the above table) was determined in May 2017, therefore no impairment indicator was identified;
- Taco Bell, that started activity during 2017, has performed in 2018 in accordance with management's expectation, therefore no impairment indicator was identified

- Pizza Hut's performance in 2018 was below the cash flow projections based on which their fair value (cost in the above table) was determined in May 2017. Management estimated the recoverable amount of the investment at 63,483 based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2019-2023). The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor. (This fair value measurement is on level 3 of the fair value hierarchy).

The cashflow projections are based on financial budgets approved by senior management covering the above referred period.

The key assumptions used in the calculation of the recoverable amounts are sales growth rates, EBITDA margins, discount rates and terminal value growth rates. Capital expenditure/restaurant is also a key assumption. The values assigned to these key assumptions reflect past experience and a number of actions that the management intends to pursue, such as a temporary slowdown of the new store development plan and a tighter control of certain expenses (restaurant payroll, marketing, general & administrative expenses).

Discount rate (post tax) used is 11%. The discount rate reflects the current market assessment of the risks specific to ARS and was estimated based on the weighted average cost of capital for the industry. This rate was further adjusted to reflect the market assessment of any risk specific to ARS for which further estimates of cash-flows have not been adjusted. The WACC was determined by taking into account the debt equity structure of the peers.

The company considers the sales growth rates used in the impairment test to be conservative, based on the recent evolution of Pizza Hut restaurants and the measures it has undertaken to support sales, including the level of selling prices and changes to its sales channels.

Budget EBITDA margins are based mainly on gradually improving restaurant margins through the reduction of cost of sales, labor and other operating expenses.

As a result of the analysis, as compared to the investment carrying value of 60,787 and also considering the loan granted to ARS of 22,500, there was a decrease of the investment's recoverable amount of

*All amounts in RON thousand, unless specified otherwise*

## 10. INVESTMENTS IN SUBSIDIARIES (continued)

19,804 for which the Company recognized an impairment loss in the financial statements as at and for the year ended 31 December 2018. This impairment loss may be reversed in the future financial years, subject to improving performance of the subsidiary.

With regard to the assessment of impairment, management believes that the model is most sensitive to:
- cost of capital (WACC)
- terminal growth assumptions
- EBITDA margin

EBITDA margin reflects management's estimates regarding the operational profitability of ARS, in line with historical levels and market evolution (and is not disclosed due to the strategic nature of this information). If EBITDA margin would decrease by 0.50% the recoverable amount of the investment would be 54,576 and the impairment loss would be 28,710, while if the EBITDA margin would increase by 0.50% the recoverable amount of the investment would be 72,391 and the impairment loss would be 10,895.

| Key drivers | Key drivers (%) | Fair value less cost to sell | Impairment |
|---|---|---|---|
| | **11.00%** | **63,482** | **-19,804** |
| **Cost of capital** | +0.50% | 59,010 | **-24,276** |
| | -0.50% | 68,572 | **-14,714** |
| | **3.00%** | **63,482** | **-19,804** |
| **Perpetuity growth factor** | -0.50% | 38,238 | **-45,048** |
| | +0.50% | 67,238 | **-16,048** |

*All amounts in RON thousand, unless specified otherwise*

## 11. INTEREST-BEARING LOANS AND BORROWINGS

| | Interest rate, % | Maturity | 31 December 2018 | 31 December 2017 |
|---|---|---|---|---|
| **Current interest-bearing loans and borrowings** | | | | |
| Obligations under finance leases | | | 53 | - |
| Bank loan | EURIBOR 3M + relevant spread | 6 years from each withdrawal | 2,565 | - |
| **Total current interest-bearing loans and borrowings** | | | **2,618** | **-** |
| **Non-current interest-bearing loans and borrowings (Note 19)** | | | | |
| Obligations under finance leases | | | 62 | |
| Bank loan | EURIBOR 3M + relevant spread | 6 years from each withdrawal | 16,091 | - |
| Loan from related parties (including accrued interest) | 4% fixed interest rate | Within 5 years from contract signing date | 19,839 | 16,660 |
| **Total non-current interest-bearing loans and borrowings** | | | **35,992** | **16,660** |
| **Total interest-bearing loans and borrowings** | | | **38,610** | **16,660** |

The Company has received a multicurrency credit facility from its subsidiary US FOOD NETWORK SA, the maximum limit being 20 million EUR. The loan agreement contains no covenants or other special terms.

Starting 2018, the Company is part of a credit facility from Alpha Bank Romania signed jointly by the Company and its Romanian subsidiaries. The Company may draw from two sub-limits, one for financing of working capital and one for financing of Italian subsidiary. The loan is secured with pledge on current accounts opened with the bank, promissory notes issued, pledge on receivables from and shares owned by the Group in its Moldova and Italia subsidiary as well as on future dividends from these subsidiaries.
The Group's borrowing arrangement with the Bank contains several covenants, mainly of quantitative nature, out of which the most important relates to the ratio bank net debt/EBITDA at a consolidated level which should not exceed at any point in time 2.5. There are also covenants defined for each borrower, at company level, which are analysed by the Bank each time a borrower submits a request for disbursement.

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## 11. INTEREST-BEARING LOANS AND BORROWINGS (continued)

Breaches in meeting the financial covenant at Group consolidated level would permit the bank to call the loan amount needed to meet the financial covenant. There have been no breaches of the consolidated financial covenant for the years ended 31 December 2018 and 31 December 2017.

Breaches in meeting standalone financial covenants allow the bank only to cease any loan disbursement to the affected company. There have been no breaches of the standalone financial covenant of the Company for the year ended 31 December 2018.

### Information related to cash flows from financing

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

| | 31 December 2017 | Non-cash changes | | Cash changes | | | 31 December 2018 |
|---|---|---|---|---|---|---|---|
| | | Interest accrual | Foreign exchange gains/losses | Drawings | Repayments | Interest paid | |
| **Interest-bearing loans and borrowings** | **16,660** | **1,347** | **52** | **24,905** | **(3,848)** | **(506)** | **38,610** |
| Bank loans | - | 501 | 42 | 22,377 | (3,763) | (501) | 18,656 |
| Financial leases | - | 5 | - | 200 | (85) | (5) | 115 |
| Loans from related parties | 16,660 | 841 | 10 | 2,328 | - | - | 19,839 |

## 12. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Company's principal financial liabilities comprise a bank loan, a loan from a subsidiary and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations.

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

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

### Interest rate risk

Sphera's income and operating cash flows are substantially independent of changes in market interest rates. Trade and other receivables and payables are non-interest bearing financial assets and liabilities. The borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term and short-term credit facilities. Interest rate on the Company's debt finance from bank is variable. Interest rates on the Company's debt finance from Group companies are fixed, as disclosed in Note 11. Changes in interest rate do not impact loans and borrowings to third parties either since future cash flows are not affected by such changes in interest rates. In connection to loans granted or obtained from related parties, management policy is to resort mainly to fixed rate financing. However, at the time of rising or granting new loans or borrowings management shall use its judgment to decide whether it believes that fixed or variable rate would be more favourable to the Company over the expected period until maturity.

### Interest rate sensitivity

With all other variables held constant, the Company's profit before tax and equity are not affected through the impact on change in market interest rates, due to the fact that both loans to and from related parties have a fixed interest rate.

| | Increase in basis points | Effect on loss before tax |
|---|---|---|
| **31 December 2018** | 1% | (187) |
| EUR | | |
| **31 December 2017** | 1% | - |
| EUR | | |

The Company does not hedge its interest rate risk.

### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's financing activities, as the financing contracted by the Company is Euro based. The vast majority of revenues and expenses, trade and other receivables and payables is in RON. Part of the loans granted to related parties are denominated in EUR. Natural hedging occurs from the Company's financing activities, as the Company grants loans to its subsidiaries in the same currencies in which the funds are obtained from the bank.

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



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## 12. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

### Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the EUR exchange rate. The Company's exposure to foreign currency changes for all other currencies is not material. With all other variables held constant the Company's loss before tax and equity are affected as follows:

| | Increase in EUR rate | Effect on loss before tax |
|---|---|---|
| 31 December 2018 | 1% | (192) |
| 31 December 2017 | 1% | (58) |

An equal decrease of the EUR rate would have the same effect but of opposite impact.

### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The carrying amount of trade and other receivables, plus balances with banks, plus the loans and receivables from related parties (Note 13), represent the maximum amount exposed to credit risk.

The Company collaborates with highly reliable financial institutions. The majority of cash is transacted through and placed with Alpha Bank Romania, member of Alpha Bank Company from Greece and Banca Romana de Dezvoltare (BRD), a member of Societe Generale Company from France. The long-term credit rating of Alpha Bank Greece is Caa3 as provided by Moody's rating agency, no credit rating being available for its Romanian subsidiary. The long-term credit rating of BRD is Baa3 provided by Moody's.

### Liquidity risk

The Company has adopted a prudent financial liquidity management approach, assuming that sufficient cash and cash equivalents are maintained and that further financing is available from guaranteed funds from credit lines. The tables below summarize the maturity profile of the Company's financial liabilities, including principal amounts and interests according to contractual terms, at 31 December 2018 based on contractual undiscounted payments.

| 31 December 2018 | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| Interest-bearing loans and borrowings | - | 177 | 3,077 | 39,022 | 1,175 | **43,451** |
| Trade and other payables | - | 322 | - | - | - | **322** |
| **Total:** | **-** | **499** | **3,077** | **39,022** | **1,175** | **43,773** |

At 31 December 2018, the Company had available 73,439 of undrawn borrowing facility from US Food Network SA (2017:15,802) and 4,664 from the bank loan facility with Alpha Bank, thus being able to respond to any unforeseen higher cash outflow needs.

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## 12. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

### Capital management

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

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

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

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

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

### Fair values

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

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

Financial instruments which are not carried at fair value on the statement of financial position also include trade and other receivables, cash and cash equivalents, and trade and other payables.

The carrying amounts of these financial instruments are considered to approximate their fair values (level 3 measurement).

*All amounts in RON thousand, unless specified otherwise*

## 13. TRADE AND OTHER RECEIVABLES

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade receivables from related parties | 8,925 | 8,877 |
| Loans to related parties | 44,555 | 6,401 |
| Interest accrual from loans to related parties | 950 | 31 |
| Other receivables | 171 | - |
| **Total** | **54,601** | **15,309** |
| **Less non-current portion:** | | |
| Loans to related parties | 3,399 | 6,401 |
| Interest accrual from loans to related parties | 184 | - |
| Other receivables | 39 | - |
| **Total** | **3,622** | **6,401** |
| **Trade and other receivables, current** | **50,979** | **8,908** |

Terms and conditions relating to related party transactions are described in Note 19.

Trade receivables are non-interest bearing and are generally on terms of 15 – 30 days.

As at 31 December 2018 and 31 December 2017, the ageing analysis of trade receivables from related parties, net of allowances, is, as follows:

| | Trade receivables | | | | | |
|---|---|---|---|---|---|---|
| | | | Days past due | | | |
| **31 December 2018** | **Total** | Current | < 30 days | 30-60 days | 61-90 days | >91 days |
| Expected credit loss rate | | 0% | 0% | 0% | 0% | 0% |
| Estimated total gross carrying amount at default | **8,925** | 2,570 | 2,368 | 1,000 | 901 | 2,086 |
| Expected credit loss | - | - | - | - | - | - |

| | Trade receivables | | | | | |
|---|---|---|---|---|---|---|
| | | | Days past due | | | |
| **31 December 2017** | **Total** | Current | < 30 days | 30-60 days | 61-90 days | >91 days |
| Expected credit loss rate | | 0% | 0% | 0% | 0% | 0% |
| Estimated total gross carrying amount at default | **8,877** | 5,084 | 3,793 | - | - | - |
| Expected credit loss | - | - | - | - | - | - |

From the balance of 2,086 older than 91 days, an amount of 1,973 was collected during 2019, by the date of the financial statements.

For the receivables above, as well as for the loans attributed to related parties, the Group's considers the probability of losses being remote.

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## 14. CASH

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Cash at banks and on hand | 19,939 | 5,747 |
| **Total** | **19,939** | **5,747** |

As part of the financing agreement with Alpha Bank the Company has pledged the cash available in the accounts opened with the bank. The balance of the pledged bank accounts as at 31 December 2018 is of 19,478 (31 December 2017: nil).

## 15. ISSUED CAPITAL

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

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

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

For the period ended 31 December 2017, the attributable costs representing one-off fees paid by the Company for the consultancy services for the Group's reorganization process (580) have been charged directly to equity as a reduction of the share premium.

## 16. PROFIT DISTRIBUTION

For the year ended 31 December 2018, the Board of Directors has proposed to the shareholders' approval, the following distribution of the net profit:

- 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.

Proposed dividends on ordinary shares, subject to approval at the annual general meeting, are not recognised as a liability as at 31 December (Note 22).

For the year ended 31 December 2017, the Company recorded a net loss, therefore there were no profits to be distributed.

*All amounts in RON thousand, unless specified otherwise*

## 17. TRADE AND OTHER PAYABLES

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade payables | 322 | 3,056 |
| Other payables to related parties | 2 | 13,822 |
| Salary liability | 3,712 | 4,360 |
| Social contribution liability | 572 | 4,439 |
| Other employee related liabilities | 112 | 1,345 |
| VAT payable | 306 | 2,172 |
| Other payables | 118 | 9 |
| **Total** | **5,144** | **29,203** |

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 15-day terms
- For terms and conditions relating to related parties, refer to Note 19.
- As at 31 December 2017, other payables to related parties include the amounts due for purchases of shares in the Italian and Moldavian subsidiaries from US Food Romania. These amounts were settled in 2018.

## 18. EBITDA

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Operating profit/(loss)** | | **40,105** | **(11,105)** |
| **Adjustments to bridge operating profit/(loss) to EBITDA:** | | | |
| Depreciation and amortization | 5 | 363 | 21 |
| **EBITDA** | | **40,468** | **(11,083)** |
| Non-recurring expenses | | 19,804 | 11,077 |
| **Normalised EBITDA** | | **60,272** | **(6)** |

EBITDA is one of the key performance measures monitored by senior management. For the year ended 31 December 2018, EBITDA was normalized to exclude the non-recurring expenses related to impairment for of the investment in ARS. For the year ended 31 December 2017, the non-recurring expenses were related to the process of listing of Sphera's shares.

## 19. RELATED PARTY DISCLOSURES

During the year ended 31 December 2018, the Company has carried out transactions with the following related parties:

| Related party | Nature of the relationship | Country of incorporation | Nature of transactions |
|---|---|---|---|
| US Food Network SA | Subsidiary | Romania | Dividends received, loan obtained, sale of services, acquisition of goods and services, acquisition of investment in subsidiaries (2017) |
| American Restaurant System SA | Subsidiary | Romania | Sale of services, loan provided, acquisition of goods and services |
| California Fresh Flavors SRL | Subsidiary | Romania | Loan provided, sale of services |
| US Food Network SRL | Subsidiary | Republic of Moldova | Dividends received |
| US Food Network SRL | Subsidiary | Italy | Sale of services |
| Cinnamon Bake&Roll SRL | Entity with several common members of key management personnel | Romania | Acquisition of goods |
| Midi Development SRL | Entity with several common members of key management personnel | Romania | Services |
| Moulin D'Or SRL | Entity with several common members of key management personnel | Romania | Sale of services, acquisition of goods |
| Lunic Franchising and Consulting Ltd. | Shareholder (until 9 November 2017) | Cyprus | Recharge costs related to listing on BSE (2017) |
| Computerland Romania SRL, (formerly named M.B.L. Computers SRL) | Shareholder | Romania | Recharge costs related to listing on BSE (2017) |



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*All amounts in RON thousand, unless specified otherwise*

## 19. RELATED PARTY DISCLOSURES (continued)

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

| 31 December 2018 | Dividends revenues | Revenues from service contracts to related parties | Purchases from related parties | Amounts owed by related parties | Amounts owed to related parties |
|---|---|---|---|---|---|
| **Related party** | | | | | - |
| US Food Network SA | 61,446 | 16,798 | 83 | 3,883 | 1 |
| US Food Network SRL (Republic of Moldova) | 352 | - | - | - | - |
| American Restaurant System SA | | 5,995 | 207 | 3,266 | - |
| California Fresh Flavors SRL | | 1,578 | - | 887 | 1 |
| US Food Network SRL (Italy) | | 634 | - | 35 | - |
| Moulin D'Or SRL | | 1,487 | 29 | 849 | - |
| Midi Development SRL | | 15 | 68 | 5 | - |
| Wellkept Group SA | | - | 280 | - | - |
| Grand Plaza Hotel SA | | - | 11 | - | - |
| Arggo Software Development and Consulting SRL | | - | 74 | - | - |
| Loans to related parties (please see below) | - | - | - | 45,505 | - |
| | **61,798** | **26,507** | **752** | **54,430** | **2** |

| 31 December 2017 | Sales to related parties | Purchases from related parties | Amounts owed by related parties | Amounts owed to related parties |
|---|---|---|---|---|
| **Related party** | | | | |
| US Food Network SA | 8,557 | 14,000 | 5,922 | 13,747 |
| American Restaurant System SA | 2,492 | 94 | 2,122 | 75 |
| California Fresh Flavors SRL | 517 | - | 6,748 | - |
| US Food Network SRL (Italy) | 264 | - | 87 | - |
| Moulin D'Or SRL | 586 | 1 | 404 | - |
| Midi Development SRL | 2 | 67 | 23 | - |
| | **12,418** | **14,162** | **15,306** | **13,822** |

### 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 trade 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 year ended 31 December 2018, the Company 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.

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## 19. RELATED PARTY DISCLOSURES (continued)

The balances with related parties comprise also loans receivables and payables, included in the Statement of financial position under "Trade and other receivables" (Note 13) and "Interest-bearing loans and borrowings" respectively (Note 11).

Interest income and interest expense and related accrued balances as well as the balances of the intercompany loan receivables and payables are presented below:

| | Interest expense 2018 | Interest payable 31 December 2018 | Loan payable 31 December 2018 |
|---|---|---|---|
| **Related party** | | | |
| US Food Network SA | 749 | 843 | 18,996 |
| **Total** | **749** | **843** | **18,996** |

| | Interest income 2018 | Interest receivable 31 December 2018 | Loan receivable 31 December 2018 |
|---|---|---|---|
| California Fresh Flavors SRL | 202 | 185 | 3,399 |
| US Food Network SRL (Italy) | 466 | 467 | 18,656 |
| American Restaurant System SA | 297 | 298 | 22,500 |
| | **965** | **950** | **44,555** |

| | Interest expense 2017 | Interest payable 31 December 2017 | Loan payable 31 December 2017 |
|---|---|---|---|
| **Related party** | | | |
| US Food Network SA | 92 | 92 | 16,660 |
| **Total** | **92** | **92** | **16,660** |

| | Interest income 2017 | Interest receivable 31 December 2017 | Loan receivable 31 December 2017 |
|---|---|---|---|
| California Fresh Flavors SRL | 31 | 31 | 6,398 |
| | **31** | **31** | **6,398** |

The intercompany loans granted by the Company to California Fresh Flavors and US Food Network Srl (Italy) are payable within five years from the contract date and the loan granted to American Restaurant System SA is payable within one-year period.

In 2017, the costs of 3,917 (net of VAT) incurred by the Company with the listing process were reinvoiced to the selling shareholders, Lunic Franchising and Consulting Ltd. and Computerland Romania SRL, (formerly M.B.L. Computers SRL).

**Compensation of key management personnel of the Company:**

| | 2018 | 2017 |
|---|---|---|
| Short-term employee benefits | 8,610 | 13,501 |
| **Total compensation paid to key management personnel** | **8,610** | **13,501** |



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## 19. RELATED PARTY DISCLOSURES (continued)

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

There were no contributions paid to the State pension plan in 2018 for the key management personnel (2017: 2,884) following the changes imposed by the Romanian legislation since 1 January 2018 which transferred the obligation to pay the social contributions from the employer to the employee's duty.

## 20. COMMITMENTS AND CONTINGENCIES

### Operating lease commitments — Company as lessee

The Company has entered into operating lease agreements for the headquarters premises and other administrative areas and several vehicles and equipment. The contract period of the operating lease agreements for vehicles and office equipment does not exceed five years term. Future minimum rentals payable under non-cancellable operating leases are as follows:

| | 31 December 2018 |
|---|---|
| Within one year | 1,105 |
| After one year but not more than five years | 4,234 |
| More than five years | 2,047 |
| **Total:** | **7,386** |

As at 31 December 2017, the Company had no significant commitments related to operating lease.

### Finance leases

The Company has finance leases for vehicles. The Company's obligations under finance leases are secured by the lessor's title to the leased assets. Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments are, as follows:

| | 31 December 2018 | |
|---|---|---|
| | Minimum payments | Present value of payments |
| Within one year | 56 | 52 |
| After one year but not more than five years | 63 | 62 |
| More than five years | - | - |
| **Total minimum lease payments** | **119** | **114** |
| Less amounts representing finance charges | 5 | - |
| **Present value of minimum lease payments** | **114** | **114** |

### Borrowing facilities granted to third parties

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

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## 20. COMMITMENTS AND CONTINGENCIES (continued)

### Contingencies

*Taxation*

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

The Romanian tax legislation was subject to significant changes and contradictory interpretations, which may apply retroactively. Moreover, in practice, the tax authorities can take a strong approach and assess additional tax liabilities and related late payment penalties based on their individual interpretations of the tax legislation. As a result, penalties and delay payment interest could result in a significant amount payable to the state.

Contingent liabilities may arise in relation to additional tax assessments that may be imposed by the tax authorities as a result of reviews performed. Corporate tax returns can be subject to review by tax authorities within a 5-year period in Romania.
Recently, there has been an increase in audits carried out by the tax authorities.

*Transfer pricing*

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

The Company has prepared transfer pricing files.

## 21. AUDITOR'S FEES

The auditor of the Company is Ernst & Young Assurance Services SRL.

The fee for the statutory audit of the consolidated and standalone financial statements as of 31 December 2018 of Sphera Franchise Group SA prepared in accordance with MOF 2844/2016 and of the statutory audit of the financial statements as of 31 December 2018 of US Food Network SA and American Restaurant System SA in accordance cu MOF 1802/2014 and of the statutory audit of US Food Network Srl Italy was of 424 (excluding VAT).

Other non-assurance services amounted 46 (excluding VAT) in connection with the procedures performed by the audit company for the Group's half-yearly related parties' reports, prepared in accordance with the stock exchange regulations.

## 22. EVENTS AFTER THE REPORTING PERIOD

On 25 February 2019 the Board of Directors has approved the provision of a non-refundable amount of EUR 1,323,181 to US Food Network S.r.L (Italy) to cover the statutory accounting loss of the financial year ended 31 December 2018.

On 21 March 2019, the Board of Directors has proposed to the shareholders' approval the following distribution of the net profit:

- 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.

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# SPHERA FRANCHISE GROUP SA

## DIRECTORS' REPORT
Prepared in accordance with Ministry of Public Finance Order no. 2844/2016

**Year ended 31 December 2018**

*All amounts in RON thousand, unless specified otherwise*

## 1. PRESENTATION OF THE COMPANY

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

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

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

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

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

Sphera Franchise Group SA has become the parent company of US Food Network SA (USFN) and American Restaurant System SA (ARS) on 30 May 2017, following the contribution by shareholders of USFN and ARS of 99.9997% of the shares in the two companies in exchange for shares in Sphera. On 8 June 2017 and 14 June 2017, Sphera purchased the shares held by USFN in US Food Network SRL (Republic of Moldova) and respectively US Food Network SRL (Italy) and on 19 June 2017 it was incorporated California Fresh Flavours SRL.

The purpose of the Group reorganization that resulted in the establishment of Sphera as the legal parent company of US Food Network SA (USFN), American Restaurant System SA (ARS), US Food Network SRL (USFN Italy or Italian subsidiary), US Food Network SRL (USFN Moldova or Moldavian subsidiary) and California Fresh Flavors SRL (Taco Bell) was to ensure a better coordination of activities and enhance value creation, by taking advantage of the synergies at group level and by achieving economies of scale. In terms of activities, Sphera took over gradually until the end of September 2017 the activities of management and support from USFN and ARS. As at 31 December 2018, the Company has 154 employees.

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

## 2. CORPORATE GOVERNACE

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

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

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## 2.1 SHAREHOLDERS AND ISSUED CAPITAL

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

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

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

## 2.2 COMPANY MANAGEMENT

Company is managed by the Board of Directors. Its members are appointed for a mandate of 2 years.

The structure of the Board of Directors (BoD) as of 31 December 2018 is the following:

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

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

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

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

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*All amounts in RON thousand, unless specified otherwise*

The BoD delegates the management of the Company to managers who fulfil their functions based on mandate contracts. The list of persons holding management positions is presented below:

| Name | Title | Date of Appointment |
|---|---|---|
| Mark Nicholas Hilton | Chief Executive Officer (CEO) | 16 May 2017 |
| Daniel Palita | Interim Chief Financial Officer (CFO) | 4 October 2018 |
| Cristian Osiac | Chief Development Officer (CDO) | 15 June 2017 |
| Călin Viorel Ionescu | Chief Operating Officer (COO) | 29 August 2017 |
| Oana Monica Eftimie | Chief Marketing Officer (CMO) | 29 August 2017 |

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

**Consultative committees**

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

## 2.3 INTERNAL CONTROL

The Company has implemented an internal control system, which includes activities implemented in order to prevent or detect undesirable events and risks such as fraud, errors, damages, noncompliance, unauthorized transactions and misstatements in financial reporting.

The existence of a control environment forms the basis for an effective internal control system. It consists of the definition and adherence to group-wide values and principles (e.g. business ethics) and of organizational measures (e.g. clear assignment of responsibility and authority, commitment to competence, signature rules and segregation of duties).

Sphera's internal control system covers all areas of the Company' operations with the following goals:

- Compliance with laws and internal regulations
- Reliability of financial reporting (accuracy, completeness and correct disclosure)
- Prevention and detection of fraud and error
- Effective and efficient business operations.

## 2.4 NON-FINANCIAL TOPICS AND DIVERSITY POLICY

**Corporate Social Responsibility**
Sphera Group has been actively involved in social-related activities for the last ten years and, on the back of the sustained growth and profitability there is a firm commitment to further consolidate as a socially responsible Company. One of our CSR strategic pillars is children's education, which is complemented through several different initiatives as presented on the Company's website www.spheragroup.com.

**Environmental protection**
The Company's philosophy is to minimise the impact on the environment and leave the smallest footprint possible. There is a strong commitment to create a sustainable business, starting from the way of source the food products to the design, packaging of the final products and how the restaurants are built.

The Company is committed to safety and quality and, in the meantime, to the preservation and protection of the nature and its resources by using only what is necessary, reduce waste and focus each day to enhance the livelihoods of the Company's employees and surrounding communities.

*All amounts in RON thousand, unless specified otherwise*

**Training and career development for own employees**
There is a firm commitment to offer employees the chance for a continuous learning opportunity and personal development that will allow them to continue their career development.

All our new employees go through a thorough training process for familiarizing with overall standards, understand the business and operations as well as the job-specific procedures.

There is an actively sought to create training programs that address not only the job skill set necessary to perform day-to-day tasks within restaurants, but also extended skills such as active responsibility, accountability, time keeping, customer service, communication skills and team work. The training programs across the various brands and geographies that the Group operates come to ensure an effective and decentralized control structure and create an organizational culture that drives workforce engagement.

**Diversity policy**
Company has developed an internal culture which promotes equal opportunities and diversity in all its processes and functions. Although formal policies are not yet in function, management is guided by the following principles:

- Equal opportunities and fair treatment, meaning no unjust discrimination must exist in recruitment, retention and development of all employees;
- Diversity strategy, built upon inclusion and diversity in what regards open communication, multiples languages spoken, multicultural experience, adherence to equal opportunities principles etc.;
- Equal opportunities, meaning that employees seek and are provided with adequate support for their development, employees with disabilities are provided with necessary accommodation.

**Performance evaluation**
Compensation of employees is linked with performance. The performance of each employee is evaluated based on measurables indicators. In addition, managers are appraised based on some indicators measuring their abilities to observe principles concerning equal opportunities and adequate management of employees' particular needs and behaviours. Allocation of tasks and projects are done objectively without any bias. Human resources processes support these goals.

## 3. FINANCIAL RESULTS

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

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

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

*All amounts in RON thousand, unless specified otherwise*

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

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

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

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

The structure of Other expenses is presented below:

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

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

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

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

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

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

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

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

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

Starting 2018, the Company is part of a credit facility from Alpha Bank Romania signed jointly by the Company and its Romanian subsidiaries. The Company may draw from two sub-limits, one for financing of working capital and one for financing of Italian subsidiary. The loan is secured with pledge on current accounts opened with the bank, promissory notes issued, pledge on receivables from and shares owned by the Group in its Moldova and Italia subsidiary.

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2 1. MAR. 2019
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*All amounts in RON thousand, unless specified otherwise*

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

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

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

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

## 4. FINANCIAL INSTRUMENTS RISK MANAGEMENT

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

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

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

**Interest rate risk**

Sphera's income and operating cash flows are substantially independent of changes in market interest rates. Trade and other receivables and payables are non-interest bearing financial assets and liabilities. The borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term and short-term credit facilities. Interest rate on the Company's debt finance from bank is variable. Interest rates on the Company's debt finance from Group companies are fixed. Changes in interest rate do not impact loans and borrowings to third parties either since future cash flows are not affected by such changes in interest rates. In connection to loans granted or obtained from related parties, management policy is to resort mainly to fixed rate financing. However, at the time of rising or granting new loans or borrowings management shall use its judgment to decide whether it believes that fixed or variable rate would be more favourable to the Company over the expected period until maturity.

**Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's financing activities, as the financing contracted by the Company is Euro based. The vast majority of revenues and expenses, trade and other receivables and payables is in RON. Part of the loans granted to related parties are denominated in EUR. Natural hedging occurs from the Company's financing activities, as the Company grants loans to its subsidiaries in the same currencies in which the funds are obtained from the bank.

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

**Credit risk**

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

The Company collaborates with highly reliable financial institutions. The majority of cash is transacted through and placed with Alpha Bank Romania, member of Alpha Bank Company from Greece and Banca Romana de Dezvoltare (BRD), a member of Societe Generale Company from France. The long-term credit rating of Alpha Bank Greece is Caa3 as provided by Moody's rating agency, no credit rating being available for its Romanian subsidiary. The long-term credit rating of BRD is Baa3 provided by Moody's.

**Liquidity risk**

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

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

**Capital management**

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

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

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

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

*All amounts in RON thousand, unless specified otherwise*

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

**Fair values**

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

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

Financial instruments which are not carried at fair value on the statement of financial position also include trade and other receivables, cash and cash equivalents and trade and other payables.

The carrying amounts of these financial instruments are considered to approximate their fair values (level 3 measurement).

## 5. COMMITMENTS AND CONTINGENCIES

**Operating lease commitments - Company as lessee**

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

**Finance leases**

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

**Borrowing facilities granted to third parties**

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

**Contingencies**

*Taxation*

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

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

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

*Transfer pricing*

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

On behalf of Board of Directors,

Cristian Osiac

Chairman of the Board

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21. MAR. 2019
for identification