

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 2017

CONTENTS

Independent auditors' report to the shareholders of Sphera Franchise Group SA	
Statement of comprehensive income	8
Statement of financial position	9
Statement of changes in equity	10
Statement of cash flows	11
Notes to the separate financial statements	12 - 40
Directors' report	1 - 10

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 RO 37586457, which comprise the statement of financial position as at December 31, 2017, 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, 2017, 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:

1. Recoverability of investments in subsidiaries

The determination of recoverable amounts of the Company investments in subsidiaries 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. 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 of RON 594 million as at 31 December 2017, this audit area is considered a key audit matter.

The Company disclosures of the accounting of investments in subsidiaries is presented in Note 10. Investment in subsidiaries, to the financial statements.

How our audit addressed the key audit matter

We have assessed the methodology used by management to identify impairment indicators and to estimate the recoverable value of the investments in subsidiaries.

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;
- Testing the mathematical accuracy of the computations in respect of the sensitivity in the available headroom of the Company's cash generating units.

Our audit procedures also included assessment of the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year. We further assessed the adequacy of the disclosures about the Company investments in subsidiaries in the notes to the financial statements.

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.

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.

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, 2017;
- 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, 2017, 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, 2017. 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 1 year, covering the financial period end December 31, 2017.

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 2018.

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.

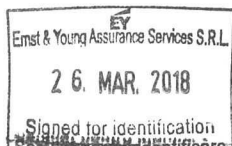
On behalf of,

Ernst & Young Assurance Services SRL

15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania

Registered with the Chamber of Financial Auditors in Romania

No. 77/15 August 2001



Name of the Auditor/ Associate Partner: Alina Dimitriu

Registered with the Chamber of Financial Auditors in Romania

No. 1272/17 December 2001

Bucharest, Romania

26 March 2018

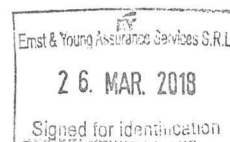
SPHERA FRANCHISE GROUP SA
STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

	Note	2017
Revenue		12,420
Payroll and employee benefits	19	21,101
Other expenses	5	2,424
Operating loss		(11,105)
Finance costs	6.1	141
Finance income	6.2	31
Loss before tax		(11,215)
Income tax credit	7	1,600
Loss for the period		(9,615)
Other comprehensive income		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>		-
Total comprehensive income for the period, net of tax		(9,615)

These separate financial statements from page 8 to page 40 were approved by the Board of Directors and were authorised for issue on 21 March 2018.


 Mark Hilton
 General Manager Sphera Franchise Group SA



SPHERA FRANCHISE GROUP SA
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

	Notes	31 December 2017
Assets		
Non-current assets		602,701
Property, plant and equipment	8	466
Intangible assets	9	12
Investments in subsidiaries	10	594,222
Trade and other receivables	13	6,401
Deferred tax asset	7	1,600
Current assets		14,957
Trade and other receivables	13	8,908
Prepayments		302
Cash and cash equivalents	14	5,747
Total assets		617,658
Equity and liabilities		
Equity		
Issued capital	15	581,990
Share premium	15	(580)
Retained earnings		(9,615)
Total equity		571,795
Non-current liabilities		16,660
Interest-bearing loans and borrowings	11	16,660
Current liabilities		29,203
Trade and other payables	17	29,203
Total liabilities		45,863
Total equity and liabilities		617,658

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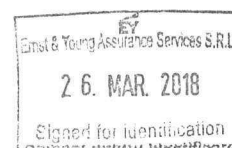
Ernst & Young Assurance Services S.R.L.
26. MAR. 2018
 Signed for identification
 [Signature]

SPHERA FRANCHISE GROUP SA
STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

	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 8 to page 40 were approved by the Board of Directors and were authorised for issue on 21 March 2018.



SPHERA FRANCHISE GROUP SA
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

	<u>Note</u>	<u>2017</u>
Operating activities		
Loss before tax		(11,215)
Adjustments to reconcile loss before tax to net cash flows:		
Depreciation of property, plant and equipment and intangible assets	8, 9	22
Net foreign exchange differences		50
Finance income	6.2	(31)
Finance costs	6.1	92
Working capital adjustments:		
Decrease in trade and other receivables and prepayments		(9,182)
Increase in trade and other payables		15,480
Net cash flows from operating activities		<u>(4,784)</u>
Investing activities		
Purchase of property, plant and equipment and intangible assets	8, 9	(500)
Loans to related parties	13	(6,378)
Investments in subsidiaries	10	(100)
Net cash flows used in investing activities		<u>(6,978)</u>
Financing activities		
Capital contribution from shareholders of Sphera on set up, net of transaction costs paid	15	920
Proceeds from borrowings	11	16,590
Net cash flows used in financing activities		<u>17,510</u>
Net increase in cash and cash equivalents		<u>5,747</u>
Cash and cash equivalents at 16 May		<u>-</u>
Cash and cash equivalents at 31 December		<u>5,747</u>

These separate financial statements from page 8 to page 40 were approved by the Board of Directors and were authorised for issue on 21 March 2018.

Ernst & Young Assurance Services S.R.L.
26. MAR. 2018
 Signed for Identification

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

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 2017, the Company has the following investments in subsidiaries:

Company name	Country of incorporation	Field of activity	Share interest % 31 December 2017
US Food Network SA	Romania	Restaurants	99.9997%
American Restaurant System SA	Romania	Restaurants	99.9997%
California Fresh Flavours SRL	Romania	Restaurants	99.9900%
US Foods Network SRL	Moldova	Restaurants	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%

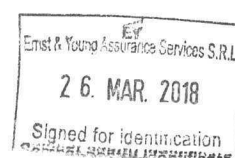
Sphera Franchise Group SA together with its subsidiaries are referred hereinafter as "SFG" or "the Group".

The Group operates quick service and takeaway restaurant concepts (a chain of 72 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 (22 restaurants as at 31 December 2017) as well as pizza delivery points (17 locations as at 31 December 2017) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (2 restaurants as at 31 December 2017) 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 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 Flavours 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, as well as 105 employees from USFN and ARS. As at 31 December 2017, the Company has 124 employees.

The separate financial statements for the period from 16 May to 31 December 2017 were authorized for issue in accordance with the resolution of the Board of Directors dated 21 March 2018.



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.

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 recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services

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.

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.

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

	<u>31 December 2017</u>
RON – EUR	4.6597
RON – USD	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.

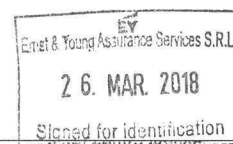
Deferred tax

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:

- 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:



2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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.

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.

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, including first renewal period)
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.

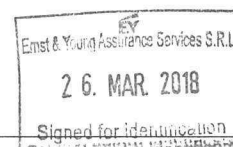
Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant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



2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale (AFS) financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

The Company's financial assets are represented by loans and receivables and cash and cash equivalents.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. 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 income in profit or loss.

For more information on receivables, refer to Note 13. Receivables due in less than 12 months are not discounted.

De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised 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 Group 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 it, the asset is recognised to the extent of its continuing involvement in it. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) Impairment of financial assets

Disclosures relating to impairment of financial assets are summarised in the following notes:

- | | |
|---|---------|
| • Financial instruments risk management | Note 12 |
| • Trade receivables | Note 13 |

The Company assesses, at each reporting date, whether there is any objective evidence that a financial asset or a Company of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the Company of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a Company of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Company of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the losses arising from impairment are recognised in profit or loss in "Finance costs" for loans and in "Other operating expenses" for receivables. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If a write-off is later recovered, the recovery is credited to profit or loss in "Finance costs" for loans and in "Other operating expenses, net" for trade receivables.

iii) 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 amortised cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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.

iv) 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.

2.2.14 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

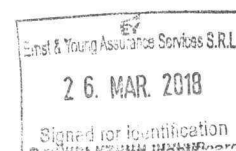
A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the 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 to 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.



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 2017:

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

The Company assesses the recoverability of investments in 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. Please refer to Note 10 for additional information.

4. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2017 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 9 Financial Instruments: Classification and Measurement

The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. 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. Management has assessed that the application of this standard will not have any significant impact on the financial position or performance of the Company.

IFRS 15 Revenue from Contracts with Customers

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will 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 will 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).

4. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2017 AND NOT EARLY ADOPTED (continued)

Extensive disclosures will be 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. Management has assessed that the application of this standard will not have any significant impact on the financial position or performance of the Company.

IFRS 15: Revenue from Contracts with Customers (Clarifications)

The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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. Management has assessed that the application of this standard (including the clarifications) will not have any significant impact on the financial position or performance of the Company.

IFRS 16: Leases

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. Management has assessed that the application of this standard will not have any significant impact on the financial position or performance of the Company.

IFRS 17: Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet endorsed by the EU. The Company has no activities in scope of this Standard.

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. The amendments have not yet been endorsed by the EU. Management has assessed that the application of the amendments will not have any impact on the financial position or performance of the Company.

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4. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2017 AND NOT EARLY ADOPTED (continued)

IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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. These Amendments have not yet been endorsed by the EU. Management has assessed that the application of these amendments will not have any impact on the financial position or performance of the Company.

IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. The Company has no activities in scope of this Standard.

IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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. Management has assessed that the application of these amendments will 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 are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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. These Amendments have not yet been endorsed by the EU. The Company does not hold investment property.

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 such prepayment features.

4. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2017 AND NOT EARLY ADOPTED (continued)

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 have 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.

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. Management has assessed that the application of these amendments will not have any impact on the financial position or performance of the Company.

The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The amendments below are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These improvements are not applicable to the Company.

- **IFRS 1 First-time Adoption of International Financial Reporting Standards:** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

- **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.

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. The Company does not currently have transactions in scope of these improvements.

- **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.

- **IAS 23 Borrowing Costs:** The amendments clarify 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.

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017
All amounts in RON thousand, unless specified otherwise

5. OTHER EXPENSES

	2017
Third-party services	1,076
Advertising	210
Other taxes	195
Rent	91
Banking charges	10
Travel expenses	346
Office supplies	213
Depreciation	22
Insurance	73
Miscellaneous expenses	188
Total	2,424

6. FINANCE COSTS AND INCOME

6.1 Finance costs

	2017
Interest on related parties loans	92
Foreign exchange loss	49
Total finance costs	141

6.2 Finance income

	2017
Interest income from loans to related parties	31
Total finance income	31

7. INCOME TAX

The major components of income tax for the year ended 31 December 2017 are:

	2017
Current income tax:	
Current income tax charge	-
Deferred tax:	
Fiscal losses carried forward	1,600
Income tax credit reported in the statement of comprehensive income	1,600

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SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

7. INCOME TAX (continued)

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

	2017
Accounting loss before income tax	11,215
At statutory income tax rate of 16%	1,794
Non-deductible expenses for tax purposes	(194)
At the effective income tax rate	1,600

Deferred tax

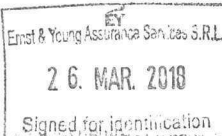
Deferred tax reconciliation with corresponding items in the statement of financial position and statement of comprehensive income is as follows:

	Statement of financial position 31 December 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	

8. PROPERTY, PLANT AND EQUIPMENT

	Freehold buildings and leasehold improvements	Plant and machinery	Other equipment	Total
Cost				
At 1 January 2017	-	-	-	-
Additions	33	83	372	488
At 31 December 2017	33	83	372	488
Depreciation				
At 1 January 2017	-	-	-	-
Depreciation charge for the period	2	1	19	22
At 31 December 2017	2	1	19	22
Net Book Value				
At 1 January 2017	-	-	-	-
At 31 December 2017	31	82	353	466

The additions during the year ended 31 December 2017 consisted mainly in office leasehold improvements, as well as office computers and other office equipment.


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SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

9. INTANGIBLE ASSETS

	Software licenses	Total
Cost		
At 1 January 2017	-	-
Additions	13	13
At 31 December 2017	13	13
Amortisation		
At 1 January 2017	-	-
Amortisation	1	1
At 31 December 2017	1	1
Net book value		
At 1 January 2017	-	-
At 31 December 2017	12	12

Additions during the year ended 31 December 2017 consisted mainly in software licenses acquired for office computers.

10. INVESTMENTS IN SUBSIDIARIES

Details of the investment 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 Flavours SRL	Romania	Restaurants	99.9900%	100
US Foods 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 2017 the Company assessed whether there are indicators of impairment for its subsidiaries, as follows :

- USFN and USFN Moldova's activities in 2017 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 2017 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 2017 in accordance with management's expectation, therefore no impairment indicator was identified

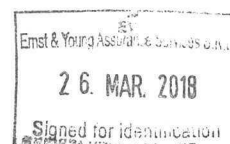
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SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

10. INVESTMENTS IN SUBSIDIARIES (continued)

- Pizza Hut's performance in 2017 was slightly below the cash flow projections based on which their fair value (cost in the above table) was determined in May 2017; additionally, an impairment test had to be performed for the preparation of the consolidated financial statements of the Group, due to the fact that goodwill is allocated to the Pizza Hut segment. The impairment test that was prepared determined the recoverable amount of the investment at 70,422 based on fair value less costs of disposal determined using forecasted free cash-flows in RON for a discrete period of 5 years (2018-2022). 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). As a result of the analysis, as compared to the investment carrying value of 60,786, there is headroom of 9,636 and management did not identify an impairment for this investment.



SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017
All amounts in RON thousand, unless specified otherwise

11. INTEREST-BEARING LOANS AND BORROWINGS

	Interest rate, %	Maturity	31 December 2017
Non-current interest-bearing loans and borrowings (Note 19)			
Loan from related parties	4% fixed interest rate	Within 5 years from contract signing date	16,660
Total non-current interest-bearing loans and borrowings			16,660
Total interest-bearing loans and borrowings			16,660

The Company has received a multicurrency credit facility from its subsidiary US FOOD NETWORK SA, the maximum limit being 7 million EUR. The loan agreement contains no covenants or other special terms.

Information related to cash flows from financing

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

	16 May 2017	Non-cash changes		Cash changes		31 December 2017
		Interest accrual (Note 6.1)	Foreign exchange gains/losses	Loans drawn	Loans repaid	Interest paid
Loan from related parties	-	-	70	16,590	-	16,660
Interest accrual	-	92	-	-	-	92

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12. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Company's principal financial liabilities comprise a loan from its 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 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 rates on the Company's debt finance 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 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.

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.

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

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 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 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 (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 2017 based on contractual undiscounted payments.

31 December 2017	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings	-	-	-	16,660	-	16,660
Trade and other payables	15,283	89	13,831	-	-	29,203
Total:	15,283	89	13,831	16,660	-	45,863

At 31 December 2017, the Company had available 15,802 of undrawn committed borrowing facility from US Food Network SA, thus being able to respond to any unforeseen higher cash outflow needs.


26. MAR. 2018
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SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

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 2017
Interest-bearing loans and borrowings	16,660
Financial trade and other payables	29,203
Less: cash and short-term deposits	5,747
Net debt	40,116
Equity	571,795
Capital and net debt	611,911
Gearing ratio:	7%

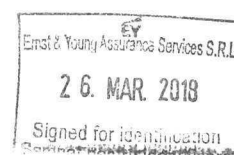
Fair values

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).



SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

13. TRADE AND OTHER RECEIVABLES

	31 December 2017
Trade receivables from related parties	8,877
Loans to related parties	6,398
Interest accrual from loans to related parties	31
Total	15,306
Less non-current portion:	
Loans to related parties	6,398
Trade and other receivables, current	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 2017, the ageing analysis of trade receivables from related parties, net of allowances, is, as follows:

	Total	Neither past due nor impaired	< 30 days	Past due but not impaired 30-60 days	61-90 days	91-120 days	> 120 days
31 December 2017	8,877	5,084	3,793	-	-	-	-

14. CASH

	31 December 2017
Cash at banks and on hand	5,747
Total	5,747

15. ISSUED CAPITAL

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

The shareholders of Sphera at 31 December 2017 are Tatika Investments Ltd. (27.33%), 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 M.B.L Computers SRL.

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.

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

16. DISTRIBUTIONS MADE AND PROPOSED

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

17. TRADE AND OTHER PAYABLES

	31 December 2017
Trade payables	3,056
Other payables to related parties	13,822
Salary liability	4,360
Social contribution liability	4,439
Other employee related liabilities	1,345
VAT payable	2,172
Other payables	9
Total	29,203

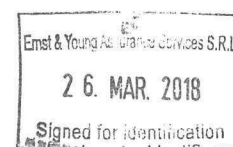
Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 30-day terms
- For terms and conditions relating to related parties, refer to Note 19.
- Other payables to related parties include the amounts due for purchases of shares in the Italian and Moldavian subsidiaries from US Food Romania.

18. EBITDA

	Note	2017
Operating profit		(11,105)
Adjustments to bridge operating profit to EBITDA:		
Depreciation and amortization	5	22
EBITDA		(11,083)
Non-recurring expenses		11,077
Normalised EBITDA		(6)

EBITDA is one of the key performance measures monitored by senior management. For the year ended 31 December 2017, EBITDA was normalized to exclude the non-recurring expenses: management bonus on the listing of Sphera's shares (10,544), legal fees (219), audit and advisory services (146) and other fees (168).



All amounts in RON thousand, unless specified otherwise

26. MAR. 2018

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

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:

	<u>Interest expense</u>	<u>Interest payable 31 December 2017</u>	<u>Loan payable 31 December 2017</u>
Related party			
US Food Network SA	92	92	16,660
Total	92	92	16,660
	<u>Interest income</u>	<u>Interest receivable 31 December 2017</u>	<u>Loan receivable 31 December 2017</u>
California Fresh Flavors SRL	31	31	6,398
	<u>31</u>	<u>31</u>	<u>6,398</u>

The intercompany loans granted by the Company to California Fresh Flavours are payable within five years from the contract date.

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 M.B.L. Computers SRL.

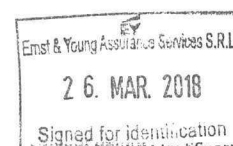
Compensation of key management personnel of the Company:

	<u>2017</u>
Short-term employee benefits	13,501
Total compensation paid to key management personnel	<u>13,501</u>

The amounts disclosed in the table are the amounts recognised as an expense during each reporting period. Out of the total payroll and employee benefits expense of 21,101 the amounts related to the contributions to the State pension plan amount to 4,394, of which 2,884 in respect of key management personnel.

20. COMMITMENTS AND CONTINGENCIES

As at 31 December 2017, the Company has no significant commitments and contingencies.



SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

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 2017 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 2017 of US Food Network SA and American Restaurant System SA in accordance cu MOF 1802/2014 was of 260 (excluding VAT).

Other assurance services amounted 920 (excluding VAT) and other non-assurance services (permitted services) amounted 289 (excluding VAT). Out of total assurance services, the fees connected to the listing process amounting to 560 (excluding VAT) have been recharged to the selling shareholders.

22. EVENTS AFTER THE REPORTING PERIOD

On 6 February 2018, Mr. Elyakim Davidai resigned from its independent director mandate within the Board of Directors of the Company, for personal reasons. Starting 9 February 2018, the Group has appointed Mr. Stere-Constantin Farmache as "ad-interim" independent member of the Board of Directors. The nomination is valid for a 3-month period, or until the date the Company's Ordinary General Shareholders Meeting shall appoint the new member of the Board of Directors, whichever occurs first.

On 21 February 2018 the Board of Directors has approved the contracting of a credit facility granted by Alpha Bank within the existing credit facility of the Group, to which Sphera Franchise Group SA becomes a borrower, co-debtors and real guarantor alongside its subsidiaries. The addendum will increase the Group's credit limit to EUR 36,186 thousand up from EUR 20,630 thousand, out of which the Company will use a sub-limit of EUR 4,000 thousand for financing the development costs of the Italian subsidiary and a sub-limit of EUR 1,000 thousand as revolving working capital facility.

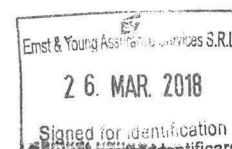
On 21 March 2018 the Board of Directors has approved, subject to shareholders' approval, the following:

- Covering accumulated losses from 2017, as reflected in the annual financial statements of the Company as at 31 December 2017 in a total amount of 10,196, by decreasing the subscribed and paid up share capital of the Company from 581,990 to 571,795 by reducing the nominal value of the Company's shares from 15 RON to 14.7372 RON.
- Decrease of the subscribed and paid up share capital of the Company from 571,795 to 525,731 by reducing the nominal value of the Company's shares from 14.7372 RON to 13.5500 RON, followed by the restitution to shareholders of a part of their contribution, pro-rata with their holding in the paid up share capital of the Company and calculated equally for each share. Thus, Company's shareholders as per shareholders registry at the record data for the decrease will receive 1.1872 RON/share.
- Relevant data for share capital decrease are:
 - o 9 November 2018 as record date for the share capital decrease, for the identification of the shareholders to whom the effects of the share capital increase shall apply;
 - o 9 November 2018 as ex date; and
 - o 29 November 2018 as payment date for the amount representing part of the contributions to the share capital which will be restituted to the Company's shareholders;
- The implementation of a long-term incentive plan for Board members, key management personnel and other eligible employees. Under this plan the beneficiaries will receive share options (with zero exercise price) if they will meet certain key performance indicators, that are yet to be established. Accordingly, the long-term incentive plan may have a certain dilutive effect on earnings per share starting 2018;

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22. EVENTS AFTER THE REPORTING PERIOD (continued)

- The provision of a non-refundable amount of 405,956.63 EUR to its subsidiary US Food Network S.r.L (Italy) to cover the statutory accounting loss of the financial year ended 31 December 2017;
- Statutory financial statements and Administrator's Report of its subsidiary US Food Network SRL (Republic of Moldova) for the financial year ended 31 December 2017 and distribution of entire profit for the financial year 2017 as dividends to associates.



SPHERA FRANCHISE GROUP SA

DIRECTORS' REPORT

31 December 2017

SPHERA FRANCHISE GROUP SA
DIRECTORS' REPORT
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

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 2017, the Company has the following investments in subsidiaries:

Company name	Country of incorporation	Field of activity	Share interest % 31 December 2017
US Food Network SA	Romania	Restaurants	99.9997%
American Restaurant System SA	Romania	Restaurants	99.9997%
California Fresh Flavours SRL	Romania	Restaurants	99.9900%
US Foods Network SRL	Moldova	Restaurants	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%

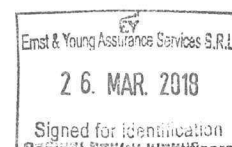
Sphera Franchise Group SA together with its subsidiaries are referred hereinafter as "SFG" or "the Group".

The Group operates quick service and takeaway restaurant concepts (a chain of 72 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 (22 restaurants as at 31 December 2017) as well as pizza delivery points (17 locations as at 31 December 2017) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (2 restaurants as at 31 December 2017) 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 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 Flavours 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, as well as 105 employees from USFN and ARS. As at 31 December 2017, the Company has 124 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.



SPHERA FRANCHISE GROUP SA
DIRECTORS' REPORT
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

2. CORPORATE GOVERNANCE

Before the admission of the shares to trading on the spot regulated market operated by Bucharest Stock Exchange, the Company was required to comply with corporate governance regime established mainly by the Companies Law. Starting 9 November 2017, the Company is required to comply with a more extensive framework of corporate governance rules, among which is the BSE Corporate Governance Code (applicable to all listed issuers as of 4 January 2016).

The Company and its board members comply with the corporate governance regime, more details regarding the corporate governance are presented on the Company's website www.spheragroup.com, in the published Prospectus and in the Group's Annual Report.

2.1 SHAREHOLDERS AND ISSUED CAPITAL

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

The shareholders of Sphera at 31 December 2017 are Tatika Investments Ltd. (27.33%), 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, Premium Category following to a secondary public offer initiated by the selling shareholders Lunic Franchising and Consulting Ltd. and M.B.L Computers SRL.

Information regarding shareholders' rights is public and can be found in the published Prospectus of the Company.

2.2 COMPANY MANAGEMENT

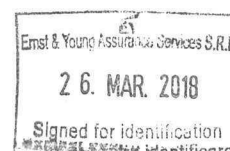
Company is managed by the Board of Directors. Its members are appointed for a mandate of 2 years.

The structure of the Board of Directors as of 31 December is the following:

Name	Date of appointment	Title	Role
Cristian Osiac	16 May 2017	Chairman of the BoD	Executive member
Stylianios Bairaktaris	16 May 2017	Member of the BoD	Executive member
Mark Nicholas Hilton	16 May 2017	Member of the BoD	Executive member
Silviu Gabriel Cârmăciu	16 May 2017	Member of the BoD	Non-executive member
Ion Marius Nasta	16 May 2017	Member of the BoD	Non-executive member
Elyakim Davidai	5 October 2017	Vice-Chairman of the BoD	Independent member
Konstantinos Mitzalis	5 October 2017	Member of the BoD	Independent member

On 6 February 2018, Mr. Elyakim Davidai resigned from its independent director mandate within the Board of Directors of the Company, for personal reasons.

Starting 9 February 2018, the Group has appointed Mr. Stere-Constantin Farmache as "ad-interim" independent member of the Board of Directors. The nomination is valid for a 3-month period, or until the date the Company's Ordinary General Shareholders Meeting shall appoint the new member of the Board Of Directors, whichever occurs first.



SPHERA FRANCHISE GROUP SA
DIRECTORS' REPORT
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

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
Stylianos Bairaktaris	Chief Financial Officer (CFO)	6 October 2017
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

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 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.

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.

SPHERA FRANCHISE GROUP SA
DIRECTORS' REPORT
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

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 measurable 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 period from 16 May to 31 December 2017 are presented below:

	2017
Revenue	12,420
Payroll and employee benefits	21,101
Other expenses	2,424
Operating loss	(11,105)
Financial result	(110)
Profit before tax	(11,215)
Income tax credit	1,600
Net loss for the period	(9,615)
EBITDA	(11,083)
Normalized EBITDA	(6)

Revenue 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.

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SPHERA FRANCHISE GROUP SA
DIRECTORS' REPORT
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

The structure of other expenses is presented below:

	2017
Third-party services	1,076
Advertising	210
Other taxes	195
Rent	91
Banking charges	10
Travel expenses	346
Office supplies	213
Depreciation	22
Insurance	73
Miscellaneous expenses	188
Total	2,424

EBITDA is one of the key performance measures monitored by senior management. For the year ended 31 December 2017, EBITDA was normalized to exclude the non-recurring expenses: management bonus on the listing of Sphera's shares (10,544), legal fees (219), audit and advisory services (146) and other fees (168).

	2017
Operating loss	(11,105)
Depreciation and amortization	22
EBITDA	(11,083)
Non-recurring expenses	11,077
Normalised EBITDA	(6)

Net loss of the period amounted to RON 9,615. This was due to the non-recurring expenses incurred in relation to reorganization of the group and public listing (enumerated above).

In what regards the financial position, the main elements of the balance sheet as of 31 December 2017 are detailed below:

	31 December 2017
Assets	
Non-current assets	602,701
Current assets	14,957
Total assets	617,658
 Equity and liabilities	
Total equity	571,795
 Non-current liabilities	16,660
Current liabilities	29,203
Total liabilities	45,863
Total equity and liabilities	617,658

Besides cash, current assets refer mainly to amounts invoiced to related parties for management and support services provided during the period. Current and non-current liabilities are also in relation to one of its subsidiaries, US Food Network SA.

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SPHERA FRANCHISE GROUP SA
DIRECTORS' REPORT
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

Non-current assets comprise mainly investments in subsidiaries (594,222). List of entities owned by the Company is presented in section 1. Other non-current assets refer to receivables from third parties, property, plant and equipment and deferred tax asset recognized for the fiscal loss carried forward.

4. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Company's principal financial liabilities comprise a loan from its 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 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 rates on the Company's debt finance 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

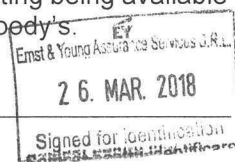
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's financing activities, as the financing contracted by the Company is Euro based. The vast majority of revenues and expenses, trade and other receivables and payables is in RON.

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.



SPHERA FRANCHISE GROUP SA
DIRECTORS' REPORT
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

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 2017, the Company had available 15,802 of undrawn committed borrowing facility from US Food Network SA, 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.

	31 December 2017
Interest-bearing loans and borrowings	16,660
Financial trade and other payables	29,203
Less: cash and short-term deposits	5,747
Net debt	40,116
Equity	571,795
Capital and net debt	611,911
Gearing ratio:	7%

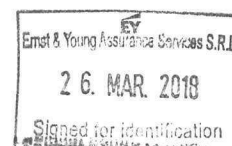
Fair values

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

As at 31 December 2017, the Company has no significant commitments and contingencies.


6. EVENTS AFTER THE REPORTING PERIOD

On 6 February 2018, Mr. Elyakim Davidai resigned from its independent director mandate within the Board of Directors of the Company, for personal reasons. Starting 9 February 2018, the Group has appointed Mr. Stere-Constantin Farmache as "ad-interim" independent member of the Board of Directors. The nomination is valid for a 3-month period, or until the date the Company's Ordinary General Shareholders Meeting shall appoint the new member of the Board of Directors, whichever occurs first.

On 21 February 2018 the Board of Directors has approved the contracting of a credit facility granted by Alpha Bank within the existing credit facility of the Group, to which Sphera Franchise Group SA becomes a borrower, co-debtors and real guarantor alongside its subsidiaries. The addendum will increase the Group's credit limit to EUR 36,186 thousand up from EUR 20,630 thousand, out of which the Company will use a sub-limit of EUR 4,000 thousand for financing the development costs of the Italian subsidiary and a sub-limit of EUR 1,000 thousand as revolving working capital facility.

On 21 March 2018 the Board of Directors has approved, subject to shareholders' approval, the following:

- Covering accumulated losses from 2017, as reflected in the annual financial statements of the Company as at 31 December 2017 in a total amount of 10,196, by decreasing the subscribed and paid up share capital of the Company from 581,990 to 571,795 by reducing the nominal value of the Company's shares from 15 RON to 14.7372 RON.
- Decrease of the subscribed and paid up share capital of the Company from 571,795 to 525,731 by reducing the nominal value of the Company's shares from 14.7372 RON to 13.5500 RON, followed by the restitution to shareholders of a part of their contribution, pro-rata with their holding in the paid up share capital of the Company and calculated equally for each share. Thus, Company's shareholders as per shareholders registry at the record data for the decrease will receive 1.1872 RON/share.
- Relevant data for share capital decrease are:
 - o 9 November 2018 as record date for the share capital decrease, for the identification of the shareholders to whom the effects of the share capital increase shall apply;
 - o 9 November 2018 as ex date; and
 - o 29 November 2018 as payment date for the amount representing part of the contributions to the share capital which will be restituted to the Company's shareholders;
- The implementation of a long-term incentive plan for Board members, key management personnel and other eligible employees. Under this plan the beneficiaries will receive share options (with zero exercise price) if they will meet certain key performance indicators, that are yet to be established. Accordingly, the long-term incentive plan may have a certain dilutive effect on earnings per share starting 2018;



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Carmen-Bianca Dumitrescu

SPHERA FRANCHISE GROUP SA
DIRECTORS' REPORT
FOR THE PERIOD FROM 16 MAY TO 31 DECEMBER 2017

All amounts in RON thousand, unless specified otherwise

- The provision of a non-refundable amount of 405,956.63 EUR to its subsidiary US Food Network S.r.L (Italy) to cover the statutory accounting loss of the financial year ended 31 December 2017;
- Statutory financial statements and Administrator's Report of its subsidiary US Food Network SRL (Republic of Moldova) for the financial year ended 31 December 2017 and distribution of entire profit for the financial year 2017 as dividends to associates.

On behalf of Board of Directors,



Cristian Osiac

Chairman of the Board

