

Interim Financial Report

For the nine-month period ended 30 September 2018 (Q3-2018)

Report date:	15-Nov-2018
Name of the issuing entity:	Sphera Franchise Group SA
Statutory seat:	Bucharest, Romania
Visiting address:	Bucharest, 239 Dorobanti Ave., 2 nd Floor, 1 st District, Romania
Phone no/Fax no:	0040 21 201 1757 / 0040 21 201 1759
Sole Registration Code:	RO 37586457
Order number with the Trade Registry:	J40/7126/2017
Subscribed and paid-in share capital:	RON 581,990,000
Number of shares in issue:	38,799,340
Number of listed shares:	9,831,753
Regulated market on which the issued securities are traded:	Bucharest Stock Exchange, Main Segment, Category Premium (Shares)
Symbol:	SFG

Note:

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

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

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Financial analysis of January – September 2018 results

1) Consolidated results

Summary of Interim Consolidated Statement of Comprehensive Income for the nine-month period ended 30 September 2018 (unaudited)

Data in RON'000	Sep-18	Sep-17	Y/Y%	% of Sales		
			2018/2017	Sep-18	Sep-17	Δ%
Restaurant sales	551,562	401,353	37.4%			
Restaurant expenses	476,993	332,737	43.4%	86.5%	82.9%	3.6%
Food and material	197,211	144,052	36.9%	35.8%	35.9%	-0.1%
Payroll and employee benefits	113,731	76,660	48.4%	20.6%	19.1%	1.5%
Rent	40,014	28,490	40.5%	7.3%	7.1%	0.2%
Royalties	32,497	22,958	41.5%	5.9%	5.7%	0.2%
Advertising	30,421	20,806	46.2%	5.5%	5.2%	0.3%
Other operating expenses, net	48,378	31,190	55.1%	8.8%	7.8%	1.0%
Depreciation and amortization	14,742	8,580	71.8%	2.7%	2.1%	0.5%
Restaurant operating profit	74,568	68,617	8.7%	13.5%	17.1%	-3.6%
General and administration expenses, net	37,661	24,491	53.8%	6.8%	6.1%	0.7%
Operating profit	36,907	44,126	-16.4%	6.7%	11.0%	-4.3%
Finance costs	2,071	1,152	79.7%	0.4%	0.3%	0.1%
Finance income	118	129	-7.8%	0.0%	0.0%	0.0%
Profit before tax	34,955	43,102	-18.9%	6.3%	10.7%	-4.4%
Income tax expense	2,549	2,130	19.7%	0.5%	0.5%	-0.1%
Profit for the period	32,406	40,972	-20.9%	5.9%	10.2%	-4.3%
EBITDA	52,394	53,994	-3.0%	9.5%	13.5%	-4.0%
Normalised EBITDA	53,340	53,994	-1.2%	9.7%	13.5%	-3.8%

Breakdown of consolidated results by Group companies

Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons.Adj	SFG Cons.
Restaurant sales	424,966	89,210	6,843	21,394	8,054	18,789	(17,693)	551,562
Dividend revenue						61,798	(61,798)	0
Restaurant expenses	354,726	86,016	5,868	22,510	7,990	0	(117)	476,993
Food and material	159,752	24,583	2,878	6,807	3,191	0	0	197,211
Payroll and employee benefits	77,684	26,262	1,074	6,658	2,053	0	0	113,731
Rent	29,301	7,710	558	1,808	639	0	(2)	40,014
Royalties	25,470	5,173	410	1,283	161	0	0	32,497
Advertising	20,824	7,146	223	1,483	805	0	(61)	30,421
Other operating expenses, net	32,085	11,539	503	3,472	833	0	(54)	48,378
Depreciation and amortization	9,611	3,602	222	1,000	307	0	0	14,742
Restaurant operating profit	70,240	3,194	974	(1,116)	64	18,789	(17,576)	74,568
General and administration expenses, net	22,366	7,700	201	2,839	1,942	20,190	(17,576)	37,661
Operating profit	47,874	(4,506)	773	(3,955)	(1,879)	(1,401)	0	36,907
Finance costs	1,062	629	85	702	341	862	(1,610)	2,071
Finance income	1,077	3	71	21	0	557	(1,610)	118
Profit before tax	47,888	(5,131)	759	(4,636)	(2,220)	(1,706)	0	34,955
Income tax expense	2,230	1,120	134	(1,038)	77	26	0	2,549
Profit for the period	45,659	(6,251)	625	(3,597)	(2,297)	(1,732)	0	32,406
EBITDA	57,749	(799)	1,036	(2,945)	(1,467)	(1,181)	0	52,394
Normalised EBITDA	58,696	(799)	1,036	(2,945)	(1,467)	(1,181)	0	53,340

Consolidated sales of Sphera reached RON 551.6 million in the first nine months of 2018, representing an increase of 37.4% compared to the previous year. The main drivers for this performance were the growth in the sales of USFN Romania (KFC restaurants) (+20.9% Y/Y), which had a contribution of 18.3pp in the consolidated sales growth rate, and the consolidation of ARS (Pizza Hut restaurants) sales starting with June 2017, which contributed 13.4pp in the consolidated sales growth rate. Our KFC operations in Italy contributed 3.3pp in the consolidated sales growth rate, while Taco Bell operations in Romania contributed another 2.0pp in the consolidated sales growth rate.

On a quarterly basis, consolidated sales increased by 26.6% Y/Y in Q3-2018 compared to an increase of 20.8% Y/Y in Q2-2018; the acceleration in sales growth from Q2 to Q3 was mainly due to the increased contribution coming from KFC Italy and Taco Bell operations and, to a lesser extent, to Pizza Hut operations.

Data in RON thousand	Sep-18	Sep-17	Change 2018/2017	Contribution to sales growth
Sales by companies (principal brand)				
USFN Romania (KFC)	424,966	351,528	20.9%	18.3%
USFN Moldova (KFC)	6,843	6,131	11.6%	0.2%
USFN Italy (KFC)	21,394	8,211	160.5%	3.3%
ARS (Pizza Hut) ¹⁾	89,210	35,577	150.8%	13.4%
CFF (Taco Bell)	8,054	0		2.0%
Other revenues ²⁾	1,095	(94)	-1263.4%	0.3%
Total sales	551,562	401,353	37.4%	37.4%

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

Data in RON thousand	Sep-18	Sep-17	Change 2018/2017	Contribution to sales growth
Sales by region				
Romania	523,325	387,011	35.2%	34.0%
Italy	21,394	8,211	160.5%	3.3%
Republic of Moldova	6,843	6,131	11.6%	0.2%
Total sales	551,562	401,353	37.4%	37.4%

Consolidated operational expenses reached RON 477 million in the first nine months of 2018, representing an increase of 43.4% compared to the previous year. As percentage of sales, operational expenses increased by 3.6pp year-on-year to 86.5% in the first nine months of 2018, driven mainly by a 1.5pp increase in the cost of labour, a 1.0pp increase in other operating expenses and 0.5pp increase in depreciation expense.

On a quarterly basis, the operating expenses as percentage of sales increased by only 1.1pp Y/Y to 86.1% in Q3-2018 compared a 5.3pp Y/Y increase to 88.6% in Q2-2018. The reduction of 2.5pp between Q2-2018 and Q3-2018 was the result of improving performance among almost all restaurant expense categories driven by seasonally higher sales: most of the margin improvement came from lower cost of labour (down 1.8pp) and other operating expenses (down 0.7pp), while cost of sales increased by 0.4pp (mainly due to the regular value campaigns promoted during the summer period). It is also worth mentioning that advertising expenses stood at 6.1% of Q3 sales compared with our annual budgeted level of 5.2%: this temporary overspend was mainly due to the preparation of the advertising campaign for the promotion of the new menu in our Pizza Hut Dine-in restaurants starting with September (advertising expenses were 10.5% for ARS in Q3-2018).

Data in RON thousand	Sep-18	Sep-17	Change 2018/2017	Percentage of sales	
				Sep-18	Sep-17
Restaurant expenses	476,993	332,737	43.4%	86.5%	82.9%
Food and material	197,211	144,052	36.9%	35.8%	35.9%
Payroll and employee benefits	113,731	76,660	48.4%	20.6%	19.1%
Rent	40,014	28,490	40.5%	7.3%	7.1%
Royalties	32,497	22,958	41.5%	5.9%	5.7%
Advertising	30,421	20,806	46.2%	5.5%	5.2%
Other operating expenses	48,378	31,190	55.1%	8.8%	7.8%
Depreciation	14,742	8,580	71.8%	2.7%	2.1%
Restaurant operating profit	74,568	68,616	8.7%	13.5%	17.1%

Restaurant operating profit reached RON 74.6 million in the first nine months of 2018 (13.5% of sales), up 8.7% compared with the previous year (17.1% of sales), of which RON 70.2 million was accounted for by USFN Romania operations (1.6% above previous year) and another RON 3.2 million by ARS Romania (7.6% above previous year).

On a quarterly basis, restaurant operating profit increased 17.3% Y/Y to RON 28.0m in Q3-2018, compared to a reduction of 17.6% Y/Y to RON 20.5m in Q2-2018, which was due both to the increased restaurant margin (13.9% in Q3 vs 11.4% in Q2) and the reduction of the margin loss compared to the previous year (loss of 1.1pp Y/Y in Q3 vs a loss of 5.3pp Y/Y in Q2).

General and administration expenses reached RON 37.7 million in the first nine months of 2018 (6.8% of sales), up 53.8% compared to previous year (6.1% of sales). Of the RON 13.1 million increase in this expense category, RON 7.7 million came from the consolidation of ARS, USFN Italy and CFF operations.

On a quarterly basis, general and administrative expenses stood at 6.2% of sales in Q3-2018, compared to 7.2% in Q2-2017.

Data in RON thousand	Sep-18	Sep-17	Change 2018/2017	Percentage of sales	
				Sep-18	Sep-17
General and administration expenses (net), of which:	37,661	24,491	53.8%	6.8%	6.1%
Payroll and employee benefits	21,496	9,379	129.2%		
Third-party services	5,200	7,631	-31.9%		
Depreciation and amortization	745	1,289	-42.2%		
Rent	2,566	1,875	36.9%		
Banking charges	2,004	1,125	78.1%		
Transport	1,985	994	99.7%		
Other expenses	3,664	2,198	66.7%		

Other expenses also include non-recurring expenses in amount of RON 0.95m, which refer to the compensations claimed in court and paid to a former employee who has suffered injuries in a work accident.

Normalized EBITDA reached RON 53.3 million in the first nine months of 2018, down 1.2% from in the previous year, EBITDA reached RON 52.4 million in the first nine months of 2018, down 3.0% from in the previous year, while operating profit reached RON 36.9 million, down 16.4% than in the previous year. The drop in the EBITDA margin (by 4.0pp to 9.5% in the first nine months of 2018) and operating profit margin (by 4.3pp to 6.7% in the first nine months of 2018) was mainly due to the decrease in the restaurant operating profit (down 3.6pp) and to a lesser extent by the increase in the general and administration expenses (by 0.7pp), as described before.

Net profit reached RON 32.4 million in the first nine months of 2018, being 20.9% lower than in the previous year. The reduction in the net profit margin, by 4.3pp to 5.9% of sales in the first nine months of 2018, was driven by the 4.3pp decrease in the operating profit margin.

On a quarterly basis, normalized EBITDA advanced 9.4% to RON 21.0m in Q3-2018 (10.4% of sales in Q3-2018 vs 12.1% in Q3-2017), compared to a fall of 33.4% to RON 12.5m in Q2-2018 (7.5% of sales in Q2-2018 vs 12.7% in Q2-2017). Operating profit advanced 2.4% to RON 15.6m in Q3-2018 (7.7% of sales in Q3-2018 vs 9.6% in Q3-2017), compared to a fall of 50.2% to RON 7.6m in Q2-2018 (4.2% of sales in

Q2-2018 vs 10.2% in Q2-2017). Net profit advanced 0.5% to RON 13.6m in Q3-2018 (6.8% of sales in Q3-2018 vs 8.5% in Q3-2017), compared to a fall of 55.0% to RON 6.2m in Q2-2018 (3.5% of sales in Q2-2018 vs 9.3% in Q2-2017).

Data in RON thousand	Sep-18	Sep-17	Change 2018/2017	Percentage of sales	
				Sep-18	Sep-17
Normalised EBITDA*	53,340	53,994	-1.2%	9.7%	13.5%
EBITDA	52,394	53,994	-3.0%	9.5%	13.5%
Operating profit	36,907	44,126	-16.4%	6.7%	11.0%
Profit before tax	34,955	43,102	-18.9%	6.3%	10.7%
Profit for the period	32,406	40,972	-20.9%	5.9%	10.2%

*) Excluding non-recurring costs for litigation worth RON 0.95m.

Main financial ratios as at 30 September 2018

(presented in accordance with the requirements of the Financial Supervisory Authority ("ASF") Regulation No. 5/2018)
(Financial data in RON thousand)

Current ratio

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{90,425}{103,407} = 0.87$$

Debt to Equity ratio

$$\frac{\text{Interest-bearing debt (long-term portion)}}{\text{Equity}} = \frac{57,615}{136,932} = 42\%$$

$$\frac{\text{Interest-bearing debt (long-term portion)}}{\text{Capital employed}} = \frac{57,615}{194,546} = 30\%$$

Trade receivables turnover (days)*

$$\frac{\text{Average receivables}}{\text{Sales}} = \frac{10,150}{551,562} = 5.0$$

Fixed asset turnover*

$$\frac{\text{Sales}}{\text{Net fixed assets}} = \frac{551,562}{204,640} = 3.6$$

Note: *) Annualized values, based on ASF methodology.

2) Analysis of consolidated results for 9-month 2018 compared with pro forma results for 9-month 2017

Data in RON'000	Sep-18	Sep-17	Y/Y%	% of Sales		Δ%
			2018/2017	Sep-18	Sep-17	
Restaurant sales	551,562	446,982	23.4%			
Restaurant expenses	476,993	372,303	28.1%	86.5%	83.3%	3.2%
Food and material	197,211	156,580	25.9%	35.8%	35.0%	0.7%
Payroll and employee benefits	113,731	88,425	28.6%	20.6%	19.8%	0.8%
Rent	40,014	32,387	23.5%	7.3%	7.2%	0.0%
Royalties	32,497	25,640	26.7%	5.9%	5.7%	0.2%
Advertising	30,421	23,303	30.5%	5.5%	5.2%	0.3%
Other operating expenses, net	48,378	35,498	36.3%	8.8%	7.9%	0.8%
Depreciation and amortization	14,742	10,468	40.8%	2.7%	2.3%	0.3%
Restaurant operating profit	74,568	74,679	-0.1%	13.5%	16.7%	-3.2%
General and administration expenses, net	37,661	28,863	30.5%	6.8%	6.5%	0.4%
Operating profit	36,907	45,816	-19.4%	6.7%	10.3%	-3.6%
Finance costs	2,071	1,350	53.4%	0.4%	0.3%	0.1%
Finance income	118	135	-12.1%	0.0%	0.0%	0.0%
Profit before tax	34,955	44,601	-21.6%	6.3%	10.0%	-3.6%
Income tax expense	2,549	2,688	-5.2%	0.5%	0.6%	-0.1%
Profit for the period	32,406	41,913	-22.7%	5.9%	9.4%	-3.5%
EBITDA	52,394	57,633	-9.1%	9.5%	12.9%	-3.4%
Normalised EBITDA*	53,340	57,633	-7.4%	9.7%	12.9%	-3.2%

Sales of Sphera reached RON 551.6 million in the first nine months of 2018, up 23.4% compared to the pro forma sales of the previous year. The main driver for this performance were the growth in the sales of KFC Romania (up 20.9% Y/Y), which had a contribution of 16.4pp in the pro forma sales growth rate. ARS sales advanced 9.9% compared to the previous year and had a contribution of 1.8pp to the pro forma sales growth rate. At the same time, KFC Italy operations contributed 2.9pp, while Taco Bell operations contributed another 1.8pp in the pro forma sales growth rate.

On a quarterly basis, consolidated sales increased by 26.6% Y/Y in Q3-2018 compared to an increase of 20.8% Y/Y in Q2-2018; the acceleration in sales growth from Q2 to Q3 was mainly due to the increased contribution coming from KFC Italy and Taco Bell operations and, to a lesser extent, to Pizza Hut operations.

Data in RON thousand	Sep-18	Sep-17	Change 2018/2017	Contribution to sales growth
Sales by companies (principal brand)				
USFN Romania (KFC)	424,966	351,528	20.9%	16.4%
USFN Moldova (KFC)	6,843	6,131	11.6%	0.2%
USFN Italy (KFC)	21,394	8,211	160.5%	2.9%
ARS (Pizza Hut)	89,210	81,207	9.9%	1.8%
CFF (Taco Bell)	8,054	0		1.8%
Other revenues ¹⁾	1,095	(95)	-1251.2%	0.3%
Total sales	551,562	446,982	23.4%	23.4%

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

Data in RON thousand	Sep-18	Sep-17	Change 2018/2017	Contribution to sales growth
Sales by region				
Romania	523,325	432,640	21.0%	20.3%
Italy	21,394	8,211	160.5%	2.9%
Republic of Moldova	6,843	6,131	11.6%	0.2%
Total sales	551,562	446,982	23.4%	23.4%

In Romania, the like-for-like sales of KFC restaurants grew by 10.5% Y/Y in the first nine months of 2018, driven by the continued strong performance of the Drive-Thru format as well as by the better performance of the restaurants located outside Bucharest. At the same time, the like-for-like sales of Pizza Hut restaurants improved by 0.2% Y/Y in the first nine months of 2018, helped by growing sales of the Dine-In format.

In Q3-2018, the like-for-like sales of KFC restaurants grew by 11.4% Y/Y (8.5% Y/Y increase in Q2-2018), with improved performance for both Bucharest and province stores, while the like-for-like sales of Pizza Hut restaurants grew by 1.1% Y/Y (2.0% Y/Y fall in Q2-2018), driven by a much stronger performance of the Dine-In stores following the launch of the promotion campaign for the new menu at the beginning of September,

Pro forma operational expenses reached RON 477.0 million in the first nine months of 2018, representing an increase of 28.1% compared to the previous year. As percentage of sales, operational expenses increased by 3.2pp year-on-year to 86.5% in the first nine months of 2018, driven mainly by a 0.8pp increase in cost of labour, a 0.7pp increase in the cost of food and materials and 0.8pp increase in other operating expenses.

On a quarterly basis, the operating expenses as percentage of sales increased by only 1.1pp Y/Y to 86.1% in Q3-2018 compared a 5.3pp Y/Y increase to 88.6% in Q2-2018. The reduction of 2.5pp between Q2-2018 and Q3-2018 was the result of improving performance amid almost all restaurant expense categories driven by seasonally higher sales: most of the margin improvement came from lower cost of labour (down 1.8pp) and other operating expenses (down 0.7pp), while cost of sales increased by 0.4pp (mainly due to the regular value campaigns promoted during the summer period). It is also worth mentioning that advertising expenses stood at 6.1% of Q3 sales compared with our annual budgeted level of 5.2%: this temporary overspend was mainly due to the preparation of the advertising campaign for the promotion of the new menu in our Pizza Hut Dine-in restaurants starting with September (advertising expenses were 10.5% for ARS in Q3-2018).

Data in RON thousand	Sep-18	Sep-17	Change 2018/2017	Percentage of sales	
				Sep-18	Sep-17
Restaurant expenses	476,993	372,303	28.1%	86.5%	83.3%
Food and material	197,211	156,580	25.9%	35.8%	35.0%
Payroll and employee benefits	113,731	88,425	28.6%	20.6%	19.8%
Rent	40,014	32,387	23.5%	7.3%	7.2%
Royalties	32,497	25,640	26.7%	5.9%	5.7%
Advertising	30,421	23,303	30.5%	5.5%	5.2%
Other operating expenses	48,378	35,498	36.3%	8.8%	7.9%
Depreciation	14,742	10,468	40.8%	2.7%	2.3%
Restaurant operating profit	74,568	74,679	-0.1%	13.5%	16.7%

Restaurant operating profit reached RON 74.6 million in the first nine months of 2018 (13.5% of sales), down 0.1% compared with the previous year (16.7% of sales), of which RON 47.8 million was accounted for by USFN Romania operations (1.6% above previous year) and another RON 3.2 million by ARS Romania (62% below previous year).

On a quarterly basis, restaurant operating profit increased 17.3% Y/Y to RON 28.0m in Q3-2018, compared to a reduction of 17.6% Y/Y to RON 20.5m in Q2-2018, which was due both to the increased restaurant margin (13.9% in Q3 vs 11.4% in Q2) and the reduction of the margin loss compared to the previous year (loss of 1.1pp Y/Y in Q3 vs a loss of 5.3pp Y/Y in Q2).

General and administration expenses reached RON 37.7 million in the first nine months of 2018 (6.8% of sales), up 30.5% compared to previous year (6.5% of sales). Of the RON 8.8 million increase in this expense category, RON 4.0 million was accounted for by USFN Italy and Taco Bell operations.

On a quarterly basis, general and administrative expenses stood at 6.2% of sales in Q3-2018, compared to 7.2% in Q2-2017.

Data in RON thousand	Sep-18	Sep-17	Change 2018/2017	Percentage of sales	
				Sep-18	Sep-17
General and administration expenses (net), of which:	37,661	28,863	30.5%	6.8%	6.5%
Payroll and employee benefits	21,496	11,706	83.6%		
Third-party services	5,200	8,863	-41.3%		
Depreciation and amortization	745	1,349	-44.8%		
Rent	2,566	1,966	30.5%		
Banking charges	2,004	1,275	57.2%		
Transport	1,985	1,315	51.0%		
Other expenses	3,664	2,389	53.4%		

Other expenses also include non-recurring expenses in amount of RON 0.95m, which refer to the compensations claimed in court and paid to a former employee who has suffered injuries in a work accident.

Normalized EBITDA reached RON 53.3 million in the first nine months of 2018, down 7.4% than in the previous year, EBITDA reached RON 52.4 million in the first nine months of 2018, down 9.1% than in the previous year, while operating profit reached RON 36.9 million in the first nine months of 2018, down 19.4% lower than in the previous year. The drop in the EBITDA margin (by 3.4pp to 9.5% in the first nine months of 2018) and operating profit margin (by 3.6pp to 6.7% in the first nine months of 2018) was due to the decrease in the restaurant operating profit (down 3.2pp), as described above.

Net profit reached RON 32.4 million in the first nine months of 2018, being 22.7% lower than in the previous year. The reduction in the net profit margin, by 3.5pp to 5.9% of sales in the first nine months of 2018, was driven by the 3.6pp decrease in the operating profit margin.

On a quarterly basis, normalized EBITDA advanced 9.4% to RON 21.0m in Q3-2018 (10.4% of sales in Q3-2018 vs 12.1% in Q3-2017), compared to a fall of 33.4% to RON 12.5m in Q2-2018 (7.5% of sales in Q2-2018 vs 12.7% in Q2-2017). Operating profit advanced 2.4% to RON 15.6m in Q3-2018 (7.7% of sales in Q3-2018 vs 9.6% in Q3-2017), compared to a fall of 50.2% to RON 7.6m in Q2-2018 (4.2% of sales in Q2-2018 vs 10.2% in Q2-2017). Net profit advanced 0.5% to RON 13.6m in Q3-2018 (6.8% of sales in Q3-2018 vs 8.5% in Q3-2017), compared to a fall of 55.0% to RON 6.2m in Q2-2018 (3.5% of sales in Q2-2018 vs 9.3% in Q2-2017).

Data in RON thousand	Sep-18	Sep-17	Change 2018/2017	Percentage of sales	
				Sep-18	Sep-17
Normalised EBITDA*	53,340	57,633	-7.4%	9.7%	12.9%
EBITDA	52,394	57,633	-9.1%	9.5%	12.9%
Operating profit	36,907	45,816	-19.4%	6.7%	10.3%
Profit before tax	34,955	44,601	-21.6%	6.3%	10.0%
Profit for the period	32,406	41,913	-22.7%	5.9%	9.4%

*) Excluding non-recurring costs for litigation worth RON 0.95m.

APPENDIX 1

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018 (UNAUDITED) – SELECTED NOTES**

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-
MONTH PERIOD ENDED 30 SEPTEMBER 2018 (UNAUDITED) – SELECTED NOTES

All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018 (UNAUDITED)

	Nine-month period ended	
	30 September 2018	30 September 2017
	<u> </u>	<u> </u>
Restaurant sales	551,562	401,353
Restaurant expenses		
Food and material expenses	197,211	144,052
Payroll and employee benefits	113,731	76,660
Rent	40,014	28,490
Royalties	32,497	22,958
Advertising	30,421	20,807
Other operating expenses, net	48,378	31,190
Depreciation and amortization	14,742	8,580
Restaurant operating profit	<u>74,568</u>	<u>68,616</u>
General and administration expenses, net	37,661	24,491
Operating profit	<u>36,907</u>	<u>44,125</u>
Finance costs	2,071	1,152
Finance income	118	129
Profit before tax	<u>34,955</u>	<u>43,102</u>
Income tax expense	2,549	2,135
Profit for the period	<u>32,406</u>	<u>40,967</u>
Attributable to:		
Equity holders of the parent	32,281	40,818
Non-controlling interests	125	149
Other comprehensive income		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>		
Exchange differences on translation of foreign operations	75	(23)
Total comprehensive income for the period, net of tax	<u>32,481</u>	<u>40,944</u>
Attributable to:		
Equity holders of the parent	32,343	40,795
Non-controlling interests	138	149

For the nine-month period ended 30 September 2018, restaurant sales include revenues from services rendered by Sphera in amount of 1,160 (2017: 58).

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All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2018
(UNAUDITED)

	30 September 2018	31 December 2017
Assets		
Non-current assets	212,218	176,123
Property, plant and equipment	136,134	105,220
Intangible assets	68,506	67,471
Deposits for rent guarantee	4,434	1,288
Deferred tax assets	3,144	2,144
Current assets	90,425	73,291
Inventories	8,781	8,509
Trade and other receivables	11,816	8,454
Prepayments	4,227	3,673
Cash and short-term deposits	65,601	52,655
Assets held for sale	-	195
Total assets	302,643	249,609
Equity and liabilities		
Equity		
Issued capital	581,990	581,990
Share premium	(520,578)	(520,578)
Retained earnings	75,471	43,191
Foreign currency translation reserve	(16)	(78)
Equity attributable to equity holders of the parent	136,867	104,525
Non-controlling interests	65	19
Total equity	136,932	104,544
Non-current liabilities	62,305	42,191
Interest-bearing loans and borrowings	57,615	39,520
Trade and other payables	4,690	2,671
Current liabilities	103,406	102,874
Trade and other payables	68,588	77,682
Interest-bearing loans and borrowings	34,818	25,192
Total liabilities	165,711	145,064
Total equity and liabilities	302,643	249,609

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INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018 (UNAUDITED) - SELECTED NOTES

All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018 (UNAUDITED)

	Issued capital	Share premium	Other capital reserves	Retained earnings	Foreign currency translation reserve	Total equity	Non-controlling interest	Total equity
As at 1 January 2018	581,990	(520,578)	-	43,190	(78)	104,525	19	104,544
Profit for the period				32,281		32,281	125	32,406
Other comprehensive income								
Translation differences	-	-	-	-	62	62	13	75
Total comprehensive income	-	-	-	32,281	62	32,343	138	32,481
Cash dividends	-	-	-	-	-	-	(93)	(93)
At 30 September 2018	581,990	(520,578)	-	75,471	(16)	136,867	65	136,932

	Issued capital	Share premium	Other capital reserves	Retained earnings	Foreign currency translation reserve	Total equity	Non-controlling interest	Total equity
As at 1 January 2017	190		19	58,124	(41)	58,292	(39)	58,253
Profit for the period	-	-	-	40,818	-	40,818	149	40,967
Other comprehensive income								
Translation differences	-	-	-	-	(23)	(23)	-	(23)
Total comprehensive income	-	-	-	40,818	(23)	40,795	149	40,944
Capital contribution from shareholders	1,500	-	-	-	-	1,500	-	1,500
Group reorganization	580,300	(519,495)	(19)	-	-	60,786	-	60,786
Costs related to organization and anticipated listing	-	(1,083)	-	-	-	(1,083)	-	(1,083)
Cash dividends	-	-	-	(46,237)	-	(46,237)	(69)	(46,307)
At 30 September 2017	581,990	(520,578)	-	52,705	(64)	114,053	41	114,094

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MONTH PERIOD ENDED 30 SEPTEMBER 2018 (UNAUDITED) – SELECTED NOTES

All amounts in RON thousand, unless specified otherwise

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018 (UNAUDITED)

	30	30
	September	September
	2018	2017
Operating activities		
Profit before tax	34,955	43,102
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation of property, plant and equipment	13,905	9,091
Amortisation of intangible assets	1,582	778
Net foreign exchange differences	233	(98)
(Gain)/loss on disposal of property, plant and equipment	(206)	15
Finance income	(48)	(129)
Finance costs	1,908	800
Working capital adjustments:		
(Increase)/Decrease in trade and other receivables and prepayments	(7,062)	3,398
Increase in inventories	(272)	(2,999)
(Increase)/Decrease in trade and other payables	(5,120)	2,496
Interest received	48	129
Interest paid	(1,929)	(818)
Income tax paid	(5,976)	(3,667)
Net cash flows from operating activities	32,017	52,098
Investing activities		
Proceeds from sale of property, plant and equipment	207	42
Purchase of intangible assets	(2,618)	(2,438)
Purchase of property, plant and equipment	(44,017)	(33,042)
Acquisition of subsidiary, net of cash	-	2,161
Net cash flows used in investing activities	(46,428)	(33,277)
Financing activities		
Capital contribution from shareholders of Sphera on set up, net of transaction costs paid	-	1,151
Proceeds from borrowings	43,389	26,813
Repayment of borrowings	(15,612)	(9,644)
Payment of finance lease liabilities	(388)	(175)
Dividends paid to equity holders of the parent	-	(46,237)
Dividends paid to non-controlling interests	(93)	(70)
Net cash flows used in financing activities	27,295	(28,162)
Net decrease in cash and cash equivalents	12,885	(9,341)
Net foreign exchange differences	62	60
Cash and cash equivalents at 1 January	52,655	48,968
Cash and cash equivalents at 30 September	65,601	39,687

**SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-
MONTH PERIOD ENDED 30 SEPTEMBER 2018 (UNAUDITED) - SELECTED NOTES**

All amounts in RON thousand, unless specified otherwise

**SELECTED NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS
AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018 (UNAUDITED)**

1 CORPORATE INFORMATION

These interim condensed consolidated financial statements are prepared by Sphera Franchise Group SA and comprise its activities and those of its subsidiaries, together referred hereinafter as “SFG” or “the Group”.

Sphera Franchise Group SA (“the legal Parent”, or “Sphera”) was incorporated on 16 May 2017 as a joint stock company and is registered at No. 239 Calea Dorobanti, Bucharest, Romania.

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

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

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

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

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

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

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

2 BASIS OF PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed unaudited financial statements of the Group as of and for the nine-month period ended 30 September 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting.

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017.

The interim condensed consolidated financial statements for nine-month period ended 30 September 2018 included in this report are unaudited.

General accounting policies

The accounting policies and valuation methods adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of the new standards and amendments effective as of 1 January 2018; these new standards and amendments do not have a material effect on the Group's financial statements. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

The Group is currently assessing the impact of the application of IFRS 16 Leases on its consolidated financial statements. The most significant impact identified is that the Group will recognize new assets and liabilities for its operating leases, unless an exemption from IFRS 16 is applicable. The final impact will depend on various factors, such as the lease portfolio in place, interest rates and inflation rates prevailing at the transition date. Analysis of the impact will continue in the fourth quarter of 2018.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group will initially apply IFRS 16 on 1 January 2019 using the modified retrospective approach for transition.

Foreign currencies

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

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

The exchange rate RON – EUR as at 30 September 2018 and 31 December 2017 were:

	<u>30 September 2018</u>	<u>31 December 2017</u>
RON – EUR	4.6637	4.6597
RON – USD	4.0210	3.8915
RON – MDL	0.2360	0.2283

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

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Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is classified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into RON at the rate of exchange prevailing at the reporting date and their revenues and expenses are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in the profit or loss.

3 GROUP INFORMATION

3.1 Investments in controlled companies

Details of the Group consolidated subsidiaries at 30 September 2018 and 31 December 2017 are as follows:

Company name	Country of incorporation	Field of activity	Control 30 September 2018	Control 31 December 2017
US Food Network SA	Romania	Restaurants	99.9997%	99.9997%
American Restaurant System SA	Romania	Restaurants	99.9997%	99.9997%
California Fresh Flavours SRL	Romania	Restaurants	99.9900%	99.9900%
US Foods Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%	100.0000%

The value of non-controlling interests in USFN and ARS as of 30 September 2018 is below 1 thousand RON therefore there are no other presentations thereof.

3.2 Business combinations

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

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

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

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

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

In April 2018, the Group acquired a new store in Turin, Italy, for a total consideration of 3,727.

The fair value of the identifiable assets and liabilities of the acquired store as at the date of acquisition in amount of 3,716 (of which intangible assets of 87, property and equipment of 3,542 and inventories of 87) was determined by an independent appraiser. The difference between the consideration paid by the Group and the fair value of the identifiable assets of the acquired store was charged to profit and loss (11).

4 EMPLOYEE BENEFITS

During 2018, the Group hired 114 restaurant staff for the Italian operations. In accordance with the Italian labour regulations, Italian companies have to pay to their employees a leaving-service indemnity ("TFR"). As at 30 September 2018, the accrual for termination benefits included in "Trade and other short-term payables" amounts to 333. The accrual was calculated as a career-average lump sum, in accordance with the Italian statutory regulations.

As at 30 September 2018 the Group is in progress of performing an actuarial computation of such termination benefits, in accordance with the provisions of IAS 19 "Employee benefits". The effect of the above process will be reflected in the 2018 year-end financial statements.

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All amounts in RON thousand, unless specified otherwise

5 OTHER OPERATING EXPENSES, NET

	Nine-month period ended	
	30 September 2018	30 September 2017
Third-party services	15,708	9,778
Utilities	13,858	8,357
Maintenance and repairs	5,915	4,184
Cleaning supplies	3,805	2,268
Small-wares	2,840	2,285
Transport	2,833	1,844
Telephone and postage	584	283
Insurance	465	275
Net (gain)/loss on disposal of property, plant and equipment	(206)	15
Miscellaneous expenses and income, net	2,576	1,901
Total	48,378	31,190

6 GENERAL AND ADMINISTRATION EXPENSES, NET

	Nine-month period ended	
	30 September 2018	30 September 2017
Payroll and employee benefits	21,496	9,379
Third-party services	5,200	7,631
Depreciation and amortization	745	1,289
Rent	2,566	1,875
Banking charges	2,004	1,125
Transport	1,985	994
Maintenance and repairs	470	647
Small-wares	536	524
Insurance	402	108
Impairment of non-current assets	-	148
Advertising	227	291
Telephone and postage	301	209
Expenses for litigations	947	-
Miscellaneous expenses and income, net	781	271
Total	37,661	24,491

Expenses for litigations refer to the compensations claimed in court and paid to a former employee who has suffered injuries in a work accident.

7 ISSUED CAPITAL

	30 September 2018	31 December 2017
Authorised shares		
Ordinary shares of 15 RON each	38,799,340	38,799,340
Share capital (RON thousand)	581,990	581,990

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The shareholders of Sphera Franchise Group SA at 30 September 2018 and 31 December 2017, respectively are: Tatika Investments Ltd. (27.33%), M.B.L. Computers SRL (20%), Wellkept Group SA (16.34%), Anasa Properties SRL (10.99%) and free float (25.34%).

The following changes took place in 2017 as a result of the Group reorganization:

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

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

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

8 EBITDA

	Nine-month period ended	
	30 September	30 September
	2018	2017
Operating profit	36,907	44,125
Adjustments to bridge operating profit to EBITDA:		
Depreciation and amortization included in restaurant expenses	14,742	8,580
Depreciation and amortization included in general and administration expenses	745	1,289
EBITDA	52,394	53,994
Non-recurring expenses	947	-
Adjusted EBITDA	53,340	53,994

EBITDA is one of the key performance measures monitored by senior management. For the nine-month period ended 30 September 2018, EBITDA was normalised to exclude the non-recurring expenses for litigations in amount of RON 947.

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9 RELATED PARTY DISCLOSURES

During the nine-month period ended 30 September 2018 and 30 September 2017 respectively, the Group has carried out transactions with the following related parties:

Related party	Nature of the relationship	Country of incorporation	Nature of transactions
Cinnamon Bake&Roll SRL	Entity with several common members of key management personnel	Romania	Sale of goods and services, loans provided
American Restaurant System SA	Entity with several common members of key management personnel	Romania	Sale of services, acquisition of goods
Moulin D'Or SRL	Entity with several common members of key management personnel	Romania	Sale of goods and services
Midi Development SRL	Entity with several common members of key management personnel	Romania	Services
Grand Plaza Hotel SA	Entity affiliated to a shareholder of the parent	Romania	Rent and utilities store PH Dorobanti
Arggo Software Development and Consulting SRL	Entity affiliated to a shareholder of the parent	Romania	Implementation services
Anasa Properties SRL	Shareholder	Romania	Rent and utilities administrative area
Wellkept Group SA	Shareholder	Romania	Rent training center
Lucian Vlad	Beneficial owner of Anasa Properties SRL and Lunic Franchising and Consulting Ltd.	Romania	Rent store KFC Mosilor and administrative area
Radu Dimofte	Beneficial owner of Wellkept Group SA	Romania	Rent store KFC Mosilor
M. Nasta Ltd.	Entity owned by a BoD member	England	Consultancy services

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

	Transactions during the nine-month period ended 30 September 2018		Balances as at 30 September 2018	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL	25	5	1,078	1
Moulin D'Or SRL	1,161	31	567	-
Lucian Vlad	-	278	-	-
Radu Dimofte	-	115	-	-
Wellkept Group SA	-	331	-	3
Anasa Properties SRL	3	21	3	-
Midi Development SRL	12	3	6	-
Grand Plaza Hotel SA	-	753	-	12
Arggo Software Development and Consulting SRL	-	223	-	30
	1,201	1,760	1,654	46
	Transactions during the nine-month period ended 30 September 2017		Balances as at 31 December 2017	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL	8	-	738	-
American Restaurant System SA	1	57	-	-
Moulin D'Or SRL	13	3	413	1
Lucian Vlad	-	272	-	-
Radu Dimofte	-	113	-	-
Wellkept Group SA	-	30	-	-
Anasa Properties SRL	2	175	-	-
Midi Development SRL	5	7	-	25
Grand Plaza Hotel SA	-	364	-	12
Arggo Software Development and Consulting SRL	-	212	-	12
M. Nasta Ltd.	-	26	-	-
	29	1,259	1,151	50

Up to 30 May 2017, until the Group obtained control over it, American Restaurant System SA was a related party of the Group. As a result, transactions for the 5 months of 2017, until the acquisition date, were disclosed in the above table.

The Group has granted a loan to Cinnamon Bake&Roll SRL during the period 2003-2018. The loan balance as at 30 September 2018 was of 714 (31 December 2017: 485) and the interest accrual as at 30 September 2018 was of 42 (31 December 2017: 20).

Intangibles in progress include an amount of 860 (31 December 2017: 830) representing the capital expenditure related to the new ERP system implementation services provided by Arggo Software and Development SRL.

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Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the period end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the nine months periods ended 30 September 2018 and for similar period of the year 2017, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group:

	Nine months ended	
	30 September	30 September
	2018	2017
Short-term employee benefits	7,439	2,188
Fees paid to management entity	-	3,021
Total compensation paid to key management personnel	7,439	5,209

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

10 SEGMENT INFORMATION

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

- KFC restaurants
- Pizza Hut restaurants
- Taco Bell restaurants

For the nine-month period ended 30 September 2018 the Group also had one more immaterial operating segment, being one Paul restaurant which is managed by USFN, and which was aggregated into the KFC segment.

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

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-
MONTH PERIOD ENDED 30 SEPTEMBER 2018 (UNAUDITED) - SELECTED NOTES

All amounts in RON thousand, unless specified otherwise

Nine-month period ended						
30 September 2018	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	453,135	89,210	8,054	1,163	-	551,562
Inter-segment revenues	68	-	-	17,625	(17,693)	-
Dividend revenues	-	-	-	61,798	(61,798)	-
Operating expenses	408,510	93,715	9,932	20,190	(17,693)	514,655
Segment operating profit	44,693	(4,505)	(1,878)	60,396	(61,798)	36,907
Finance costs	1,374	629	341	862	(1,135)	2,071
Finance income	693	3	-	557	(1,135)	118
Income taxes	1,325	1,120	77	26	-	2,549
Net profit/(loss)	42,687	(6,250)	(2,297)	60,066	(61,798)	32,406
Total assets	196,383	46,271	10,842	84,637	(35,491)	302,643
Total liabilities	142,056	52,192	14,843	48,889	(92,270)	165,711

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

For the nine-month period ended 30 September 2017 the reportable segments were KFC (USFN also manages one pizza delivery point but its revenues, expenses, assets and liabilities were not significant enough to become a separate reporting segment) and Pizza Hut.

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

Nine-month period ended					
30 September 2017	KFC	Pizza Hut	Other	Eliminations	Consolidated
Revenues from external customers	365,776	35,577	-	-	401,353
Inter-segment revenues	435	-	-	(435)	-
Operating expenses	321,053	36,610	-	(435)	357,228
Segment operating profit	45,158	(1,033)	-	-	44,125
Finance costs	-	-	1,152	-	1,152
Finance income	-	-	129	-	129
Income taxes	-	-	2,135	-	2,135
Net profit/(loss)	45,158	(1,033)	(3,158)	-	40,967
Total assets	124,842	90,916	-	(3,515)	212,243
Total liabilities	69,480	32,184	-	(3,515)	98,149

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-
MONTH PERIOD ENDED 30 SEPTEMBER 2018 (UNAUDITED) - SELECTED NOTES

All amounts in RON thousand, unless specified otherwise

Geographic information:

Revenue from external customers	Nine-month period ended	
	30 September 2018	30 September 2017
Romania	523,325	387,010
Italy	21,394	8,213
Republic of Moldova	6,843	6,130
Total restaurant revenue	551,562	401,353

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

APPENDIX 2

**INTERIM PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD
FROM 1 JANUARY 2017 TO 30 SEPTEMBER 2017**

SPHERA FRANCHISE GROUP SA
INTERIM PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 SEPTEMBER 2017 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 SEPTEMBER 2017

	SFG	ARS for the period 1 January – 31 May 2017	Intercompany elimination	PPA effect	Pro forma (e) = (a)+(b)+(c)+(d)
	(a)	(b)	(c)	(d)	
Restaurant sales	401,353	45,630	(1)	-	446,982
Restaurant expenses					
Food and material expenses	144,052	12,530	(2)	-	156,580
Payroll and employee benefits	76,660	11,765	-	-	88,425
Rent	28,490	3,897	-	-	32,387
Royalties	22,958	2,682	-	-	25,640
Advertising	20,807	2,517	(21)	-	23,303
Other operating expenses, net	31,190	4,286	22	-	35,498
Depreciation and amortization	8,580	1,467	-	421	10,468
Restaurant operating profit	68,616	6,486	-	(421)	74,681
General and administration expenses, net	24,491	4,372	-	-	28,863
Operating profit	44,125	2,114	-	(421)	45,818
Finance costs	1,152	198	-	-	1,350
Finance income	129	6	-	-	135
Profit before tax	43,102	1,922	-	(421)	44,603
Income tax expense/(credit)	2,135	553	-	-	2,688
Profit for the period	40,967	1,369	-	(421)	41,915
Attributable to:					
Equity holders of Sphera	40,818	1,369	-	(421)	41,766
Non-controlling interests	149	-	-	-	149

SPHERA FRANCHISE GROUP SA
INTERIM PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 SEPTEMBER 2017 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

	SFG	ARS for the period	Intercompany	PPA effect	Pro forma
	(a)	1 January – 31 May 2017 (b)	elimination (c)	(c)	(f) = (a)+(b)+(c)
Other comprehensive income					
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>					
Exchange differences on translation of foreign operations	(23)	-	-	-	(23)
Total comprehensive income for the period, net of tax	40,944	1,369	-	(421)	41,892
Attributable to:					
Equity holders of Sphera	40,795	1,369	-	(421)	41,743
Non-controlling interests	149	-	-	-	149

SPHERA FRANCHISE GROUP SA
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD FROM 1
JANUARY 2017 TO 30 SEPTEMBER 2017

All amounts in RON thousand, unless specified otherwise

1 PURPOSE OF PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

This interim condensed pro forma consolidated financial information was prepared to illustrate the consolidated operational performance of the Group for the nine-month period ended 30 September 2017 as if the set-up of Sphera and the contribution of USFN shares and ARS shares to Sphera took place on 1 January 2017.

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

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

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

The interim pro forma consolidated financial information only consists of the interim pro forma consolidated statement of comprehensive income for the nine-month period ended 30 September 2017 and selected information.

The interim statement of comprehensive income is based on the interim statement of comprehensive income for the nine-month period ended 30 September 2017 included in the SFG interim condensed consolidated financial statements (unaudited) and ARS statement of comprehensive income for the period 1 January – 31 May 2017 (unaudited), with pro forma adjustments as described below. The SFG interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) (IAS 34 Interim Financial Reporting).

2 BASIS OF PREPARATION OF THE INTERIM CONDENSED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

2.1 ARS statement of comprehensive income for the period 1 January – 31 May 2017

On 30 May 2017, Sphera acquired 99.9997% of the shares in ARS, in exchange for Sphera shares. The consolidated statement of comprehensive income of SFG does not include the results of ARS, as the date of acquisition was 30 May 2017. As such, the pre-acquisition statement of comprehensive income of ARS for the period 1 January 2017 to 31 May 2017 has been added, as if the acquisition took place on 1 January 2017.

2.2 Pro forma adjustments: elimination of intercompany transactions

In the process of preparation of the interim pro forma consolidated statement of comprehensive income, pre-acquisition amounts for the period 1 January 2017 to 31 May 2017 from the statement of comprehensive income of ARS were added to the amounts from the SFG IFRS consolidated statement of comprehensive income for the nine-month period ended 30 September 2017, thus the transactions carried out during the first five months of 2017 between the two entities had to be eliminated.

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

SPHERA FRANCHISE GROUP SA
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD FROM 1
JANUARY 2017 TO 30 SEPTEMBER 2017

All amounts in RON thousand, unless specified otherwise

2.3 Purchase price allocation adjustments

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

2.4 Preparation of the selected information

With respect Note 5 EBITDA, the information presented in this note is based on amounts derived directly from the similar notes from the unaudited IFRS interim condensed consolidated financial statements of SFG for the nine-month period ended 30 September 2017 and, respectively, the unaudited interim condensed financial statements of ARS for the five months period ended 31 May 2017, from which is derived the statement of comprehensive income of ARS for the period 1 January – 31 May 2017, adjusted for the applicable pro forma adjustments, described above.

3 OTHER OPERATING EXPENSES, NET

	SFG	ARS for the period 1 January – 31 May 2017	Intercompany elimination	PPA ef- fect	Pro forma
Third-party services	9,778	1,253	(2)	-	11,029
Utilities	8,357	1,839	-	-	10,196
Maintenance and repairs	4,184	323	(1)	-	4,506
Cleaning supplies	2,268	267	-	-	2,535
Small-wares	2,285	332	(32)	-	2,585
Transport	1,844	203	-	-	2,047
Telephone and postage	283	33	-	-	316
Insurance	275	106	-	-	381
Net (gain)/loss on disposal of property, plant and equipment	15	(8)	-	-	7
Change in allowance for current assets	-	(63)	-	-	(63)
Miscellaneous expenses and income, net	1,901	1	57	-	1,959
Total	31,190	4,286	22	-	35,498

4 GENERAL AND ADMINISTRATIVE EXPENSES, NET

	SFG	ARS for the period 1 January – 31 May 2017	Intercompany elimination	PPA ef- fect	Pro forma
Payroll and employee benefits	9,379	2,327	-	-	11,706
Third-party services	7,631	1,232	-	-	8,863
Rent	1,875	91	-	-	1,966
Depreciation and amortisation	1,289	60	-	-	1,349
Transport	994	321	-	-	1,315
Banking charges	1,125	150	-	-	1,275
Maintenance and repairs	647	37	-	-	684
Small-wares	524	20	-	-	544
Telephone and postage	291	48	-	-	339
Insurance	209	17	-	-	226
Impairment of non-current assets	108	-	-	-	108
Advertising	148	-	-	-	148
Miscellaneous expenses and income, net	271	69	-	-	340
Total	24,491	4,372	-	-	28,863

SPHERA FRANCHISE GROUP SA
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD FROM 1
JANUARY 2017 TO 30 SEPTEMBER 2017

All amounts in RON thousand, unless specified otherwise

5 EBITDA

	SFG	ARS for the period 1 January – 31 May 2017	Intercom- pany elimination	PPA effect	Pro forma
Operating profit	44,125	2,114	-	(421)	45,818
Adjustments to bridge operating profit to EBITDA:					
Depreciation and amortization in- cluded in restaurant expenses	8,580	1,467	-	421	10,468
Depreciation and amortization in- cluded in general and administration expenses	1,289	60	-	-	1,349
EBITDA	53,994	3,641	-	-	57,635

EBITDA is one of the key performance measures monitored by senior management. EBITDA would be normalized to exclude any significant one-off items (either revenues or expenses) but no such exclusions were necessary for the nine months period ended 30 September 2017.

6 SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the restaurants' brands, which are the operating and reportable segments of the Group, as follows:

- KFC restaurants
- Pizza Hut restaurants.

For the nine month period ended 30 September 2017 the Group also had one more immaterial operating segment, being one Paul restaurant which is managed by USFN, and which was aggregated into the KFC segment.

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

The Board of Directors monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment operating profit and is measured consistently with "Restaurant operating profit" in the statement of comprehensive income in the unaudited IFRS consolidated financial statements of the Group and, respectively, the unaudited financial statements of ARS for the nine months ended 30 September 2017, from which is derived the statement of comprehensive income of ARS for the period 1 January 2017 – 31 May 2017.

SPHERA FRANCHISE GROUP SA

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD FROM 1 JANUARY 2017 TO 30 SEPTEMBER 2017

All amounts in RON thousand, unless specified otherwise

Nine months ended 30 September 2017	SFG	SFG	ARS for the pe- riod	Total	SFG	ARS for the pe- riod	Total	Intercompany elimination	PPA ef- fect	Pro forma
	KFC	Pizza Hut	1 January – 31 May 2017	Pizza Hut	Other	1 January – 31 May 2017	Other		Pizza Hut	
Restaurant sales (Reve- nues from external custom- ers)	365,776	35,577	45,630	81,207	-	-	-	-	-	446,982
Inter-segment revenues	435	-	-	-	-	-	-	(435)	-	-
Restaurant expenses (Operating expenses)	321,053	36,610	43,516	80,126	-	-	-	(435)	421	401,164
Restaurant profit (Segment operating profit)	45,158	(1,033)	2,114	1,081	-	-	-	-	(421)	45,818
Finance costs	-	-	-	-	1,152	198	1,350	-	-	1,350
Finance income	-	-	-	-	129	6	135	-	-	135
Income taxes	-	-	-	-	2,135	553	2,688	-	-	2,688
Net profit	45,158	(1,033)	2,114	1,081	(3,158)	(745)	(3,903)	-	(421)	41,915

SPHERA FRANCHISE GROUP SA
NOTES TO PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE PERIOD FROM 1
JANUARY 2017 TO 30 SEPTEMBER 2017

All amounts in RON thousand, unless specified otherwise

Geographic information:

Revenue from external customers	SFG	ARS for the period 1 January – 31 May 2017	Pro forma
Romania	387,010	45,630	432,640
Italy	8,213	-	8,213
Republic of Moldova	6,130	-	6,130
Total restaurant revenue	401,353	45,630	446,983

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

Mark Hilton

General Manager

Cristian Osiac

Chairman of the Board of Directors



Declaration of the management

We confirm to the best of our knowledge that the unaudited interim condensed consolidated financial statements for the nine-month period ended September 30, 2018 give a true and fair view of Sphera Franchise Group's assets, liabilities, financial position and profit and loss, as required by the applicable accounting standards, and that the Directors' Report gives a true and fair view of important events that have occurred during the first nine months of the 2018 financial year and their impact on the interim condensed consolidated financial statements.

Bucharest, November 14, 2018

Mark HILTON

Chief Executive Officer

Cristian OSIAC

Chairman of the Board of Directors