

Interim Financial Report

For the three-month period ended 31 March 2019 (Q1-2019)

Report date:	15-May-2019
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 Q1-2019 financial results

Summary of interim Consolidated Financial Statements for the three-month period ended 31 March 2019 (unaudited)

Data in RON'000	Mar-19	Mar-18	YY%	% of Sales		Δ%
			2019/2018	Mar-19	Mar-18	
Restaurant sales	214,725	170,232	26.1%			
Restaurant expenses	191,931	144,119	33.2%	89.4%	84.7%	4.7%
Food and material	77,186	61,909	24.7%	35.9%	36.4%	-0.4%
Payroll and employee benefits	49,101	33,010	48.7%	22.9%	19.4%	3.5%
Rent	4,682	12,416	-62.3%	2.2%	7.3%	-5.1%
Royalties	12,632	9,918	27.4%	5.9%	5.8%	0.1%
Advertising	9,336	7,060	32.2%	4.3%	4.1%	0.2%
Other operating expenses, net	22,829	14,938	52.8%	10.6%	8.8%	1.9%
Depreciation and amortization	16,166	4,867	232.2%	7.5%	2.9%	4.7%
Restaurant operating profit	22,794	26,113	-12.7%	10.6%	15.3%	-4.7%
General and administration expenses, net	12,968	12,350	5.0%	6.0%	7.3%	-1.2%
Operating profit	9,826	13,764	-28.6%	4.6%	8.1%	-3.5%
Finance costs	7,447	487	1428.1%	3.5%	0.3%	3.2%
Finance income	18	183	-90.3%	0.0%	0.1%	-0.1%
Profit before tax	2,397	13,459	-82.2%	1.1%	7.9%	-6.8%
Income tax expense	1,122	910	23.2%	0.5%	0.5%	0.0%
Profit for the period	1,275	12,549	-89.8%	0.6%	7.4%	-6.8%
EBITDA	27,075	18,836	43.7%	12.6%	11.1%	1.5%

Breakdown of consolidated results by Group companies – Q1-2019

Data in RON'000	Mar-19	Mar-19	Mar-19	Mar-19	Mar-19	Mar-19	Mar-19	Mar-19
	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons.Adj	SFG Cons.
Restaurant sales	156,561	32,157	2,742	17,203	5,750	6,123	(5,812)	214,725
Restaurant expenses	135,151	31,075	2,186	17,953	5,580	0	(14)	191,931
Food and material	60,239	8,541	1,063	5,221	2,123	0	0	77,186
Payroll and employee benefits	31,146	10,202	407	5,727	1,620	0	0	49,101
Rent	4,292	204	20	95	71	0	0	4,682
Royalties	9,383	1,903	165	1,029	152	0	0	12,632
Advertising	5,982	2,124	75	973	197	0	(15)	9,336
Other operating expenses, net	14,740	4,350	219	2,857	663	0	0	22,829
Depreciation and amortization	9,370	3,752	237	2,052	755	0	0	16,166
Restaurant operating profit	21,410	1,082	556	(750)	170	6,123	(5,798)	22,794
General and administration expenses, net	7,336	2,355	72	1,337	814	6,852	(5,798)	12,968
Operating profit	14,074	(1,273)	484	(2,086)	(643)	(729)	(0)	9,826
Finance costs	4,938	1,410	98	902	531	678	(1,110)	7,447
Finance income	670	3	0	0	0	455	(1,110)	18
Profit before tax	9,807	(2,681)	386	(2,989)	(1,174)	(952)	(0)	2,397
Income tax expense	971	391	73	(512)	43	154	0	1,122
Profit for the period	8,835	(3,072)	312	(2,476)	(1,218)	(1,106)	(0)	1,275
EBITDA	23,999	2,528	730	(28)	149	(303)	(0)	27,075

Impact of the adoption of IFRS 16 - Leases

Starting 1 January 2019, Sphera applied IFRS 16 that sets out the principles for the recognition, measurement, presentation and disclosure of leases. Given the material impact of the adoption of IFRS 16 on the consolidated financial statements of Sphera, we are providing below a comparison of the financial results including the impact of IFRS 16 and the financial results excluding the impact of IFRS 16.

For more information on the adoption of IFRS 16 and the impact on the financial statements of Sphera, please refer to Note 2 from the Appendix 1, Interim Condensed Consolidated Financial Statements.

Data in RON'000	Including impact of IFRS 16	Excluding impact of IFRS 16	Impact of IFRS 16 adoption	% of Sales		
				Including impact of IFRS 16	Excluding impact of IFRS 16	Impact of IFRS 16 adoption
Restaurant sales	214,725	214,725	0			
Restaurant expenses	191,931	192,921	(990)	89.4%	89.8%	-0.5%
Food and material	77,186	77,186	0	35.9%	35.9%	
Payroll and employee benefits	49,101	49,101	0	22.9%	22.9%	
Rent	4,682	15,491	(10,810)	2.2%	7.2%	-5.0%
Royalties	12,632	12,632	0	5.9%	5.9%	
Advertising	9,336	9,336	0	4.3%	4.3%	
Other operating expenses, net	22,829	22,739	90	10.6%	10.6%	
Depreciation and amortization	16,166	6,437	9,729	7.5%	3.0%	4.5%
Restaurant operating profit	22,794	21,804	990	10.6%	10.2%	0.5%
General and administration expenses, net	12,968	13,087	(119)	6.0%	6.1%	-0.1%
Operating profit	9,826	8,717	1,110	4.6%	4.1%	0.5%
Finance costs	7,447	2,455	4,992	3.5%	1.1%	2.3%
Finance income	18	18	0	0.0%	0.0%	
Profit before tax	2,397	6,279	(3,882)	1.1%	2.9%	-1.8%
Income tax expense	1,122	1,149	(27)	0.5%	0.5%	0.0%
Profit for the period	1,275	5,131	(3,855)	0.6%	2.4%	-1.8%
EBITDA	27,075	15,540	11,535	12.6%	7.2%	5.4%

Consolidated sales of Sphera reached RON 214.7 million in Q1-2019, representing an increase of 26.1% compared to the previous year. The main drivers for this performance were the growth in the sales of USFN Romania (KFC restaurants) (+19.5% Y/Y), which had a contribution of 15.0pp in the sales growth rate, and USFN Italy (KFC restaurants in Italy), whose sales advanced 317% Y/Y and contributed 7.7pp to the sales growth rate. CFF (Taco Bell restaurants) sales grew 126% and had a contribution of 1.9pp to the sales growth rate, while ARS (Pizza Hut restaurants) sales advanced 7.3% Y/Y and had a contribution of 1.3pp to the sales growth rate.

In Q1-2019, like-for-like sales across Sphera brands increased 7.3% Y/Y, being supported by a 10.9% advance of KFC Romania, while Pizza Hut operations fell 2.0%, Taco Bell fell 28.6% and KFC Italy fell 13.6%. The strong like-for-like growth of KFC Romania continued to be supported by a very good performance of the stores outside Bucharest, as well as by incremental sales generated by our increasing delivery business, especially in Bucharest. Pizza Hut's negative performance was mainly driven by the underperformance of the delivery channel, which were partly offset by gains in the dine-in channel.

Data in RON thousand	Q1-2019	Q1-2018	Change 2019/2018	Contribution to sales growth
Sales by companies (principal brand)				
USFN Romania (KFC)	156,561	131,007	19.5%	15.0%
USFN Moldova (KFC)	2,742	2,188	25.3%	0.3%
USFN Italy (KFC)	17,203	4,123	317.3%	7.7%
ARS (Pizza Hut)	32,157	29,962	7.3%	1.3%
CFF (Taco Bell)	5,750	2,544	126.0%	1.9%
Other revenues ¹⁾	311	408	-23.8%	-0.1%
Total sales	214,725	170,232	26.1%	26.1%

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

Data in RON thousand	Q1-2019	Q1-2018	Change 2019/2018	Contribution to sales growth
Sales by region				
Romania	194,780	163,921	18.8%	18.1%
Italy	17,203	4,123	317.3%	7.7%
Republic of Moldova	2,742	2,188	25.3%	0.3%
Total sales	214,725	170,232	26.1%	26.1%

Consolidated operational expenses reached RON 191.9 million in Q1-2019, representing an increase of 33.2% compared to the previous year. As percentage of sales, operational expenses increased by 4.7pp year-on-year to 89.4% in Q1-2019, driven mainly by a 3.5pp increase in the cost of labour and a 1.9pp increase in other operating expenses, while being partly offset by a 0.4pp decrease in cost of food and materials. As a result of the adoption of IFRS 16, rent expenses decreased by 5.0pp to 2.2% of sales, while depreciation expenses increased by 4.5pp to 7.5% of sales.

Excluding the impact of IFRS 16, consolidated operational expenses reached RON 192.9 million in Q1-2019, representing an increase of 33.9% compared to the previous year. As percentage of sales, operational expenses increased by 5.2pp year-on-year to 89.8% in Q1-2019.

	Data in RON thousand			Change (%)		Percentage of sales		
	Q1-2019	Q1-2019	Q1-2018	2019 ⁽¹⁾ / 2018	2019 ⁽²⁾ / 2018	Q1-2019	Q1-2019	Q1-2018
	(1)	(2)				(1)	(2)	
Restaurant expenses	191,931	192,921	144,119	33.2%	33.9%	89.4%	89.8%	84.7%
Food and material	77,186	77,186	61,909	24.7%	24.7%	35.9%	35.9%	36.4%
Payroll and employee benefits	49,101	49,101	33,010	48.7%	48.7%	22.9%	22.9%	19.4%
Rent	4,682	15,491	12,416	-62.3%	24.8%	2.2%	7.2%	7.3%
Royalties	12,632	12,632	9,918	27.4%	27.4%	5.9%	5.9%	5.8%
Advertising	9,336	9,336	7,060	32.2%	32.2%	4.3%	4.3%	4.1%
Other operating expenses	22,829	22,739	14,938	52.8%	52.2%	10.6%	10.6%	8.8%
Depreciation	16,166	6,437	4,867	232.2%	32.3%	7.5%	3.0%	2.9%
Restaurant operating profit	22,794	21,804	26,113	-12.7%	-16.5%	10.6%	10.2%	15.3%

Note: (1) Including the impact of the adoption of IFRS 16; (2) Excluding the impact of the adoption of IFRS 16.

Restaurant operating profit reached RON 22.8 million in Q1-2019 (10.6% of sales), down 12.7% compared with the previous year (15.3% of sales), of which RON 21.4 million was accounted for by USFN Romania operations (3.4% below previous year) and another RON 1.1 million by ARS Romania (63% below previous year). Excluding the impact of IFRS 16 adoption, restaurant operating profit reached 21.8 million in Q1-2019 (10.2% of sales), down 16.5% compared with the previous year, of which RON 20.7 million was accounted for by USFN Romania operations (6.6% below previous year) and another RON 1.0 million by ARS Romania (66% below previous year).

General and administration (G&A) expenses reached RON 13.0 million in Q1-2019 (6.0% of sales), up 5.0% compared to previous year (7.3% of sales). Excluding the impact of IFRS 16 adoption, general and administration (G&A) expenses reached RON 13.1 million in Q1-2019 (6.1% of sales), up 6.0% compared to previous year.

	Data in RON thousand			Change (%)		Percentage of sales		
	Q1-2019	Q1-2019	Q1-2018	2019 ⁽¹⁾ / 2018	2019 ⁽²⁾ / 2018	Q1-2019	Q1-2019	Q1-2018
	(1)	(2)				(1)	(2)	
General and administration expenses (net), of which:	12,968	13,087	12,350	5.0%	6.0%	6.0%	6.1%	7.3%
Payroll and employee benefits	7,276	7,276	6,828	6.5%	6.5%			
Third-party services	2,016	2,016	2,405	-16.2%	-16.2%			
Depreciation and amortization	1,083	386	205	427.4%	88.3%			
Rent	99	915	762	-87.0%	20.0%			
Banking charges	819	819	635	29.0%	29.0%			
Transport	974	974	742	31.4%	31.4%			
Other expenses	700	700	772	-9.3%	-9.3%			

Note: (1) Including the impact of the adoption of IFRS 16; (2) Excluding the impact of the adoption of IFRS 16.

EBITDA rose 43.7% Y/Y to RON 27.1 million in Q1-2019, while operating profit decreased 12.7% Y/Y to RON 22.8 million. EBITDA margin improved 1.5pp to 12.6% in Q1-2019, mainly as a result of the impact of IFRS 16 on restaurant operating margin, as described before. Net profit reached RON 1.3 million in Q1-2019, being 89.8% lower than in the previous year. The net profit margin decreased 6.8pp to 0.6% of sales in Q1-2019.

Excluding the impact of IFRS 16, EBITDA fell 17.5% Y/Y to RON 15.5 million in Q1-2019, while operating profit decreased 36.7% Y/Y to RON 8.7 million. EBITDA margin contracted 3.8pp to 7.2% in Q1-2019, mainly as a result of lower restaurant operating margin, as described before. Net profit reached RON 5.1 million in Q1-2019, being 59.1% lower than in the previous year. The net profit margin decreased 5.0pp to 2.4% of sales in Q1-2019.

	Data in RON thousand			Change (%)		Percentage of sales		
	Q1-2019	Q1-2019	Q1-2018	2019 ⁽¹⁾ / 2018		Q1-2019	Q1-2019	Q1-2018
	(1)	(2)				(1)	(2)	
EBITDA	27,075	15,540	18,836	43.7%	-17.5%	12.6%	7.2%	11.1%
Operating profit	22,794	8,717	26,113	-12.7%	-36.7%	10.6%	4.1%	15.3%
Profit before tax	2,397	6,279	13,459	-82.2%	-53.3%	1.1%	2.9%	7.9%
Profit for the period	1,275	5,131	12,549	-89.8%	-59.1%	0.6%	2.4%	7.4%

Note: (1) Including the impact of the adoption of IFRS 16; (2) Excluding the impact of the adoption of IFRS 16.

Main financial ratios as at 31 March 2019

(presented in accordance with the requirements of the National Securities Commission Regulation No. 1/2006)

(Financial data in RON thousand)

Current ratio

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{101,976}{156,932} = 0.65$$

Debt to Equity ratio

$$\frac{\text{Interest-bearing debt}}{\text{Equity}} = \frac{84,259}{133,233} = 63\%$$

$$\frac{\text{Interest-bearing debt}}{\text{Capital employed}} = \frac{84,259}{217,492} = 39\%$$

Trade receivables turnover (days)*

$$\frac{\text{Average receivables}}{\text{Sales}} = \frac{13,385}{214,725} = 5.6$$

Fixed asset turnover*

$$\frac{\text{Sales}}{\text{Net fixed assets}} = \frac{214,725}{410,738} = 0.52$$

Note: Annualized values, based on NCS methodology.

APPENDIX 1

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)**

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE THREE-
MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)

	Three-month period ended	
	31 March	31 March
	2019	2018
Restaurant sales	214,725	170,232
Restaurant expenses		
Food and material expenses	77,186	61,909
Payroll and employee benefits	49,101	33,010
Rent	4,682	12,416
Royalties	12,632	9,918
Advertising	9,336	7,060
Other operating expenses, net	22,829	14,938
Depreciation and amortization	16,166	4,867
Restaurant operating profit	22,794	26,113
General and administration expenses, net	12,968	12,350
Operating profit	9,826	13,764
Finance costs	7,447	487
Finance income	18	183
Profit before tax	2,397	13,459
Income tax expense	1,122	910
Profit for the period	1,275	12,549
Attributable to:		
Equity holders of the parent	1,213	12,515
Non-controlling interests	62	34
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	(96)	21
Total comprehensive income for the period, net of tax	1,179	12,570
Attributable to:		
Equity holders of the parent	1,110	12,534
Non-controlling interests	69	36

For the three-month period ended 31 March 2019, restaurant sales include revenues from services rendered by Sphera in amount of 293 (2018: 433).

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE THREE-
MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019
(UNAUDITED)

	31 March 2019	31 December 2018
Assets		
Non-current assets	422,172	229,173
Property, plant and equipment	347,339	158,122
Intangible assets	63,399	62,150
Deposits for rent guarantee	7,306	5,219
Deferred tax assets	4,128	3,682
Current assets	101,976	122,979
Inventories	9,755	10,564
Trade and other receivables	23,208	16,444
Prepayments	2,074	5,306
Cash and short-term deposits	66,939	90,665
Total assets	524,148	352,152
Equity and liabilities		
Equity		
Issued capital	581,990	581,990
Share premium	(520,578)	(520,578)
Retained earnings	71,641	67,248
Foreign currency translation reserve	(83)	20
Equity attributable to equity holders of the parent	132,970	128,680
Non-controlling interests	263	146
Total equity	133,233	128,826
Non-current liabilities	233,983	91,536
Interest-bearing loans and borrowings	84,259	86,787
Lease liabilities	149,724	-
Trade and other payables	-	4,749
Current liabilities	156,932	131,790
Trade and other payables	69,110	82,658
Interest-bearing loans and borrowings	39,922	37,669
Lease liabilities	36,437	-
Provisions	11,463	11,463
Total liabilities	390,915	223,326
Total equity and liabilities	524,148	352,152

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THREE-
MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)

	Three-month period ended	
	31 March	31 March
	2019	2018
Operating activities		
Profit before tax	2,397	13,459
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation of property, plant and equipment	16,455	4,552
Amortisation of intangible assets	794	520
Unrealised net foreign exchange differences	5,038	(215)
(Gain)/Loss on disposal of property, plant and equipment	(5)	55
Finance income	(18)	(13)
Finance costs (interest)	2,736	484
Working capital adjustments:		
Increase in trade and other receivables and prepayments	(8,635)	(1,727)
Increase in inventories	809	324
Increase in trade and other payables	(12,374)	(12,404)
Interest received	18	13
Interest paid	(2,741)	(486)
Income tax paid	(2,197)	(3,598)
Net cash flows from operating activities	2,276	964
Investing activities		
Proceeds from sale of property, plant and equipment	7	4
Purchase of intangible assets	(2,043)	(987)
Purchase of property, plant and equipment	(12,001)	(7,696)
Net cash flows used in investing activities	(14,036)	(8,680)
Financing activities		
Proceeds from borrowings	4,930	4,743
Repayment of borrowings	(6,922)	(5,009)
Payment of lease liabilities	(9,818)	(104)
Dividends paid to equity holders of the parent	-	-
Dividends paid to non-controlling interests	-	-
Net cash flows used in financing activities	(11,810)	(370)
Net increase in cash and cash equivalents	(23,571)	(8,085)
Net foreign exchange differences	(155)	19
Cash and cash equivalents at 1 January	90,665	52,655
Cash and cash equivalents at 31 March	66,939	44,588

**SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)**

All amounts in RON thousand, unless specified otherwise

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT
AND FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2019 (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 is listed on Bucharest Stock Exchange under the symbol "SFG".

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 Group operates quick service and takeaway restaurant concepts (a chain of 88 restaurants as at 31 March 2019) under the Kentucky Fried Chicken ("KFC"), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (23 restaurants) as well as pizza delivery points (22 locations) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (5 restaurants) and one restaurant under Paul brand, in Romania.

US Food Network SA (USFN), the subsidiary which operates the KFC franchise in Romania was incorporated in 1994 as a joint stock company and is registered at No. 28-30 Gheorghe Magheru Boulevard, Bucharest, Romania.

American Restaurant System SA (ARS) operating the Pizza Hut and Pizza Hut Delivery franchises was incorporated in 1994 as a joint stock company and is registered at No. 5-7 Calea Dorobantilor Street, Bucharest, Romania.

The Moldavian subsidiary, US Food Network SRL, 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, US Food Network Srl which operates the KFC franchise in Italy 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 the newest subsidiary of the Group, 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 three-month period ended 31 March 2019 have been prepared in accordance with IAS 34 Interim Financial Reporting.

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 2018.

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2019 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

The interim condensed consolidated financial statements for three-month period ended 31 March 2019 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 2018, except for the adoption of the new standards and amendments effective as of 1 January 2019; out of these new standards and amendments, IFRS 16 Leases had a material effect on the Group's financial statements.

The Group applied IFRS 16 starting on 1 January 2019 using the modified retrospective approach for transition, thus not restating comparative amounts for the comparative period presented. As a consequence, comparative data presented in these condensed consolidated interim financial statements are not fully comparable to the reporting period data. The Group recognized the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings at the date of initial application.

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 standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee recognises a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees also is also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Transition to IFRS 16 Leases

Taking into consideration the significant number and value of signed lease agreements as a lessee of restaurant premises, the Group had a material impact on its consolidated statement of financial position and on its consolidated statement of comprehensive income following the adoption of this new standard. The most significant impact was that the Group recognized new assets and liabilities for its operating leases under IAS 17, unless an exemption from IFRS 16 was applicable. The change in presentation of operating lease expenses resulted in a corresponding improvement in cash flows from operating activities and a decline in cash flows from financing activities.

The Group's rental agreements for restaurants include either:

- Fixed lease payments for rented space,
- Rent calculated as a percentage of restaurant's turnover (contingent lease payments), or
- Higher of above two, i.e. minimal base rent (fixed lease payments) and turnover rent.

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Under IFRS 16 only fixed lease payments are accounted through IFRS 16 lease model. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers those payments occurs. Therefore, turnover rent is accounted as operating expenses ("Rent"). For any new lease agreement, the Group recognizes a new asset and liability on its balance sheet. The Group is required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The amount of the remeasurement of the lease liability is recognized as an adjustment to the right-of-use asset i.e. with no impact on income statement.

Apart from the premises for restaurant operations, the Group has several lease contracts for office premises and vehicles that had a less significant impact on the consolidated financial statements.

The right-of-use assets for previous operating leases were measured at the date of initial application at the amount of the lease liability, adjusted by prepaid or accrued lease payments. Sphera Group applied the following practical expedients for transition:

- The Group elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group did not therefore apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The Group elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e. printing and photocopying machines) that are considered of low value.
- The lease term was considered to be the non-cancellable period in the contract, without taking into consideration the renewal option.
- The Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment). The lease payments were discounted using the incremental borrowing rate as at 1 January 2019. The Group estimated the incremental borrowing rates applicable for its leases portfolios considering the following inputs:
 - yield on most recent loans contracted by the Group entities, and
 - applicable risk-free yields for relevant maturities.To get the incremental borrowing rate for different portfolios, the Group assumed a constant risk spread over the risk-free yield curve for relevant maturities.
- The Group relies on its assessment of whether leases are onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review.
- The Group used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The first-time application of IFRS 16 resulted in recognizing 193,386 as right-of-use assets and 191,642 (equivalent of 41,090 EUR thousand) as lease liabilities for previous operating leases. For leases previously classified as finance leases the Group recognized the carrying amount of the lease asset and lease liability before transition as the carrying amount of the right-of-use asset and lease liability at the date of initial application.

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As at 1 January 2019, the change in the accounting policy affected the following items in the consolidated statement of financial position:

	1 January 2019
Property, plant and equipment (Right-of-use assets)	193,386
Property, plant and equipment (carrying value of the leased vehicles - finance leases under IAS 17)	(689)
Prepayments	(3,018)
Total assets	189,679
Retained earnings	3,227
Lease liabilities - non-current	153,706
Lease liabilities - current	37,649
Trade and other payables	(4,903)
Total equity and liabilities	189,679

Reconciliation of future operating lease commitments as at 31 December 2018 to lease liability as at 1 January 2019:

	1 January 2019
Future minimum lease payments under non-cancellable operating leases as at 31 December 2018	224,865
less minimum lease payments for short-term leases and low value assets	(147)
Gross lease liability for previously unrecognized operating lease commitments as at 1 January 2019	224,718
less discounting effect as at 1 January 2019	(33,077)
Lease liability for previously unrecognized operating lease commitments as at 1 January 2019	191,642
Finance lease liability recognized as at 31 December 2018	733
Lease liability recognized as at 1 January 2019	192,375

As at 31 December 2018, the finance lease liabilities amounting of 733 were presented within Interest-bearing loans and borrowings (short term debt of 301 and long-term debt of 432) in the Statement of financial position. Due to the significant value of the lease liabilities resulting from the implementation of IFRS 16, the lease liabilities were separately presented in the Interim consolidated statement of financial position as at 31 March 2019, with no restatement of comparative data.

Right-of-use assets are presented within Property, plant and equipment in the Interim consolidated statement of financial position.

As at and for the three-month period ended 31 March 2019, an overview on the leasing is as follows:

	31 March 2019
Right of use assets	
Right-of-use assets – <i>Freehold buildings and leasehold improvements</i>	179,729
Right-of-use assets - <i>Plant and machinery</i>	4,472
Total right of use assets (net book value)	184,201
	Three-month period ended 31 March 2019
Depreciation expense	
Depreciation of right-of-use assets included in Restaurant expenses	9,729
Depreciation of right-of-use assets non-operating, recognized in General and administration expenses	696
Total depreciation expense	10,425

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Lease liabilities	31 March 2019
Non-current lease liabilities	149,724
Current lease liabilities	36,437
Total lease liabilities	186,161
	Three-month period ended 31 March 2019
Finance costs	
Interest expense	1,622
Foreign exchange loss	3,370
Total finance costs	4,992

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. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency (namely Moldavian Leu "MDL" for the Moldavian subsidiary and the Euro "EUR" for the Italian subsidiary).

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

The exchange rate RON – EUR as at 31 March 2019 and 31 December 2018 were:

	31 March 2019	31 December 2018
RON – EUR	4.7628	4.6639
RON – USD	4.2434	4.0736
RON – MDL	0.2451	0.2389

Transactions and balances

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

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

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

Group companies

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

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3 GROUP INFORMATION

Investments in controlled companies

Details of the Group consolidated subsidiaries at 31 March 2019 and 31 December 2018 are as follows:

Company name	Country of incorporation	Field of activity	Control 31 March 2019	Control 31 December 2018
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 31 March 2019 is below 1 thousand RON therefore there are no other presentations thereof.

4 OTHER OPERATING EXPENSES, NET

	Three-month period ended	
	31 March 2019	31 March 2018
Third-party services	7,721	4,750
Utilities	5,859	4,281
Maintenance and repairs	3,195	1,785
Cleaning supplies	1,854	1,084
Small-wares	941	1,106
Transport	1,482	828
Telephone and postage	234	148
Insurance	194	126
Net (gain)/loss on disposal of property, plant and equipment	(5)	55
Miscellaneous expenses and income, net	1,355	775
Total	22,829	14,938

5 GENERAL AND ADMINISTRATION EXPENSES, NET

	Three-month period ended	
	31 March 2019	31 March 2018
Payroll and employee benefits	7,276	6,828
Third-party services	2,017	2,405
Depreciation and amortization	1,083	205
Rent	99	738
Banking charges	819	635
Transport	974	742
Maintenance and repairs	57	127
Small-wares	134	153
Insurance	121	121
Advertising	74	108
Telephone and postage	94	114
Miscellaneous expenses and income, net	219	174
Total	12,968	12,350

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6 DEPRECIATION AND AMORTIZATION

	Three-month period ended	Three-month period ended
	31 March	31 March
	2019	2018
Depreciation and amortization of right-of-use assets, recognized in "Restaurant expenses"	9,729	-
Depreciation and amortization of property, plant and equipment and intangible assets owned, recognized in "Restaurant expenses"	6,437	4,867
Depreciation and amortization of non-operating right-of-use assets recognized in "General and administration expenses, net"	696	-
Depreciation and amortization of non-operating property, plant and equipment and intangible assets recognized in "General and administration expenses, net"	387	205
Total depreciation and amortization	17,249	5,072

7 FINANCE COSTS AND INCOME

7.1 Finance costs

	Three-month period ended	Three-month period ended
	31 March	31 March
	2019	2018
Interest on loans and borrowings	1,114	473
Finance charges payable under finance leases	1,622	11
Foreign exchange loss, net	4,712	3
Total finance costs	7,447	487

7.2 Finance income

	Three-month period ended	Three-month period ended
	31 March	31 March
	2019	2018
Interest income	18	13
Foreign exchange income	-	170
Total finance income	18	183

8 ISSUED CAPITAL

	31 March	31 December
	2019	2018
Authorised shares		
Ordinary shares of 15 RON each	38,799,340	38,799,340
Share capital (RON thousand)	581,990	581,990

The shareholders of Sphera Franchise Group SA at 31 March 2019 and 31 December 2018, respectively are: Tatika Investments Ltd. (27.33%), Computerland Romania SRL (formerly named M.B.L. Computers SRL) (20%), Wellkept Group SA (16.34%), Anasa Properties SRL (10.99%) and free float (25.34%).

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At the Annual General Shareholders Meeting held on 25 April 2019, the shareholders of Sphera Franchise Group SA approved the following distribution of the net profit of Sphera Franchise Group SA, as presented in its separate financial statements as at and for the year ended 31 December 2018:

- Setting up the legal reserves in accordance with the statutory regulations in amount of 1,990;
- Covering accumulated losses from 2017 in amount of 10,196 (out of which current loss of the period ended 31 December 2017 of 9,615 and negative share premium of 580);
- Distribution of dividends to the Company's shareholders in total gross amount of 13,673, representing an amount of 0.3524 RON/ordinary share;
- Profit not distributed of 13,679.

9 PROVISIONS

In 2018 and 2019, USFN SA has been subject to a tax audit in relation with income tax (period 2012-2016) and VAT (period 2013-2017). As at 31 December 2018, based on the draft report issued by the tax authorities on 27 February 2019, the Group recognized in the consolidated financial statements a provision for tax in amount of 11,463, representing the income tax (4,541) and VAT adjustments (3,220) for the period under review and related interest and late payment charges (3,703). The issues raised in this draft report are subject of further discussion and documentation, but due to the unpredictability of the outcome, the Group's management has decided to recognise a provision for these tax adjustments in the consolidated financial statements as at and for the year ended 31 December 2018. The recorded amount represents the best estimate based on the available information at the date of the consolidated financial statements.

The final report has been issued on 12 April 2019 and is not substantially different compared with the draft version. As a result, the value of the provision has not been adjusted as of 31 March 2019. Administrative and legal proceedings aiming at the reduction of the financial impact provisioned in the financial results of the year 2018 have been initiated and are currently in progress.

10 EBITDA

	Three-month period ended	
	31 March	31 March
	2019	2018
Operating profit	9,826	13,764
Adjustments to bridge operating profit to EBITDA:		
Depreciation and amortization included in restaurant expenses	16,166	4,867
Depreciation and amortization included in general and administration expenses	1,083	205
EBITDA	27,075	18,836

The application of IFRS 16 resulted in a positive impact on EBITDA: the fixed lease payments of an operating lease under IAS 17 were previously presented within operating expenses (Rent), while under the right-of-use model adopted from 1 January 2019, the Group recognised depreciation of right-of-use assets and interest expense on lease liabilities (Note 2).

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11 RELATED PARTY DISCLOSURES

During the three-month period ended 31 March 2019 and 31 March 2018 respectively, the Group has carried out transactions with the following related parties:

Related party	Nature of the relationship	Country of incorporation	Nature of transactions
Moulin D'Or SRL	Entity with common members of key management personnel	Romania	Sale of goods and services
Midi Development SRL	Entity with 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
Cinnamon Bake&Roll SRL	Entity with common members of key management personnel	Romania	Sale of goods and services, loans provided
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
Elicom SRL	Entity affiliated to a shareholder of the parent	Romania	Call-centre services
Elicom Connect SRL	Entity affiliated to a shareholder of the parent	Romania	Marketing services

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

	Transactions during the three-month period ended 31 March 2019		Balances as at 31 March 2019	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL	1	2	974	2
Moulin D'Or SRL	298	25	753	2
Lucian Vlad	-	94	-	-
Radu Dimofte	-	39	-	-
Wellkept Group SA	-	116	-	2
Midi Development SRL	4	-	-	-
Grand Plaza Hotel SA	-	278	-	16
Arggo Software Development and Consulting SRL	-	60	-	13
Elicom SRL	-	287	-	165
Elicom Connect SRL	-	2	-	1
	303	903	1,727	201

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	Transactions during the three-month period ended 31 March 2018		Balances as at 31 December 2018	
	Sales to related parties	Purchases from related parties	Amounts owed by related par- ties	Amounts owed to related par- ties
Cinnamon Bake&Roll SRL	3	-	1,271	2
Moulin D'Or SRL	391	18	854	5
Lucian Vlad	-	75	-	-
Radu Dimofte	-	51	-	-
Wellkept Group SA	-	-	-	-
Anasa Properties SRL	1	3	-	-
Midi Development SRL	2	2	4	26
Grand Plaza Hotel SA	-	247	-	97
Arggo Software Development and Consulting SRL	-	27	-	30
Elicom SRL	-	165	-	169
Elicom Connect SRL	-	3	-	1
	397	591	2,129	330

The Group has granted a loan to Cinnamon Bake&Roll SRL during the period 2003-2018. The loan balance as at 31 March 2019 was of 929 (31 December 2018: 924) and the interest accrual as at 31 March 2019 was of 44 (31 December 2018: 42).

Intangibles in progress include an amount of 860 (31 December 2018: 956) representing the capital expenditure related to the new ERP system implementation services provided by Arggo Software and Development SRL.

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 three months periods ended 31 March 2019 and for similar period of the year 2018, 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:

	Three months ended	
	31 March 2019	31 March 2018
Short-term employee benefits	1,455	1,787
Total compensation paid to key management personnel	1,455	1,787

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

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12 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

The Group has also two more immaterial operating segment, being one Paul restaurant which is managed by USFN and which was aggregated into the KFC segment and the management and other support services provided by Sphera to other related parties.

The Group's service revenues in amount of 293 (2018: 433) resulting from the contracts signed with other related parties are presented in the "Other" category. The parent-company's revenues from services rendered to its subsidiaries are presented in the "Inter-segment revenues" line and eliminated during consolidation.

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

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.

Three-month period ended						
31 March 2019	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	176,506	32,157	5,750	311	-	214,725
Inter-segment revenues				5,812	(5,812)	
Dividend revenues	-	-	-	-	-	-
Operating expenses	164,034	33,431	6,393	6,852	(5,812)	204,898
Segment operating profit	12,472	(1,274)	(643)	(729)	-	9,826
Finance costs	5,477	1,410	531	678	(649)	7,447
Finance income	209	3	-	455	(649)	18
Income taxes	532	391	43	154	-	1,122
Net profit/(loss)	6,672	(3,073)	(1,217)	(1,106)	-	1,275
Total assets	373,158	70,393	22,779	84,319	(26,503)	524,148
Total liabilities	306,920	79,937	28,653	50,402	(74,997)	390,915

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Three-month period ended 31 March 2018	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	137,318	29,962	2,544	408	-	170,232
Inter-segment revenues	-	-	-	5,541	(5,541)	-
Operating expenses	122,927	29,769	3,056	6,257	(5,541)	156,468
Segment operating profit	14,391	193	(512)	(308)	-	13,764
Finance costs	-	-	-	487	-	487
Finance income	-	-	-	183	-	183
Income taxes	-	-	-	910	-	910
Net profit/(loss)	14,391	193	(512)	(1,523)	-	12,549
Total assets 31 March 2018	174,746	37,972	6,350	30,871	(3,243)	246,696
Total liabilities 31 March 2018	89,401	37,898	8,667	(3,140)	(3,243)	129,583
Total assets 31 December 2018	234,865	48,846	14,904	78,777	(25,241)	352,152
Total liabilities 31 December 2018	177,614	55,760	19,934	43,754	(73,736)	223,326

Geographic information:

	Three-month period ended	
	31 March 2019	31 March 2018
Revenue from external customers		
Romania	194,780	163,921
Italy	17,203	4,123
Republic of Moldova	2,742	2,188
Total restaurant revenue	214,725	170,232

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

13 EVENTS AFTER THE REPORTING PERIOD

After 31 March 2019, the Group opened two new Taco Bell restaurants in Sibiu and Timisoara, one new KFC restaurant in Sibiu and one new KFC restaurant in Bologna (Italy).

On 25 April 2019, the Ordinary General Shareholders Meeting approved the distribution of dividends for the financial year 2018 in the gross amount of 13,673 representing a gross dividend per share of 0.3524 RON (Note 8), the income and expenses budget and the business plan for 2019 and elected the Board of Directors for the 2019- 2023 mandate.

The Extraordinary General Shareholders Meeting held on 25 April 2019 granted mandate to the Board of Directors of the Group to negotiate and to enter into a banking facility agreement, not exceeding a banking indebtedness of 70 million EUR.

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Starting with 1 May 2019, Mr. Georgios Argentopoulos took over the role of Chief Executive Officer of Sphera Franchise Group SA.

On 9 May 2019 Mr. Valentin-Ionut Budes started his mandate as Chief Financial Officer of Sphera Franchise Group SA.

Declaration of the management

We confirm to the best of our knowledge that the unaudited interim condensed consolidated financial statements for the three-month period ended 31 March 2019 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 three months of the 2019 financial year and their impact on the interim condensed consolidated financial statements.

Bucharest, 15 May 2019

Chief Executive Officer & Chairman of the Board of Directors

George Argentopoulos

Chief Financial Officer

Valentin Budes