

CURRENT REPORT

Pursuant to Law no. 24/2007 on issuers of financial instruments and market operations and pursuant to the Financial Supervisory Authority Regulation no.5/2018 on issuers and operations with securities, as subsequently amended and supplemented, and pursuant to the provisions of article 99 of the Bucharest Stock Exchange Code, Title II, Issuers and Financial Instruments

Report date:	01-Apr-2020
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 581,990,100
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, Premium (Shares)
Category	
Symbol:	SFG

Significant events to report

- 1) Audited stand-alone and consolidated financial statements for the year 2019**
- 2) Setting of the date for the Shareholder Meeting for the approval of the financial results for the year 2019**

The audited stand-alone and consolidated financial statements of Sphera Franchise Group SA have been prepared in accordance with the International Financial Reporting Standards (IFRS) for the year ended at December 31st, 2019i, as approved by the company's Board of Directors on March 31st, 2020, and will be subject to shareholders' approval in the upcoming Ordinary General Shareholders' Meeting.

Given the current crisis generated by the the novel coronavirus (SARS-Cov-2) epidemics, Sphera Franchise Group SA informs the shareholders and the investors that the shareholders' general meeting will be held on May 26th, 2020 (1st call) and May 27th, 2020 (2nd call).

Contact details:

Investors relations:

E-mail: investor.relations@spheragroup.com

SPHERA FRANCHISE GROUP SA

CONSOLIDATED FINANCIAL STATEMENTS

Prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

31 December 2019

SPHERA FRANCHISE GROUP SA
CONSOLIDATED FINANCIAL STATEMENTS
Prepared in accordance with International Financial Reporting Standards as adopted by the
European Union
31 December 2019

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sphera Franchise Group S.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sphera Franchise Group S.A. (the Company) and its subsidiaries (together referred to as "the Group") with official head office in Bucharest, 239 Calea Dorobanti Street, identified by sole fiscal registration number 37586457, which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

Basis for opinion

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

Emphasis of matter relating to Corona virus developments

The developments surrounding the Corona (Covid-19) virus have a profound impact on people's health and on our society as a whole, as well as on the operational and financial performance of organizations and the assessment of the ability to continue as a Going Concern. The situation changes on a daily basis giving rise to inherent uncertainty. The impact of these developments on the Group is disclosed in Note 29 to the consolidated financial statements. Our opinion is not qualified in respect of matter.

Key audit matters

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

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

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

Key audit matter

1. Goodwill impairment testing

On 30 May 2017, Sphera Franchise Group SA acquired 99.9997% of the shares in US Food Network SA (referred hereinafter as USFN) and American Restaurant System SA (referred hereinafter as ARS), in exchange for the Company’s shares. Following the purchase price allocation (in which identifiable assets and liabilities of ARS were recognized at fair value), RON 51 million resulted as goodwill recorded in the consolidated financial position of the Group.

The Group is required to test the goodwill for impairment at least annually. The impairment assessment made by the Group is considered to be a key audit matter as it incorporates significant judgements made by management in respect of certain factors such as future cash flows, future restaurants opening, growth rates, gross and net operating margins, working capital needs, capital expenditure and discount rates, as well as economic assumptions such as the evolution of salaries in the economy and inflation.

The impairment assessment performed on the goodwill resulted in RON 2.4 million additional impairment adjustment which was recorded as at 31 December 2019

The Group disclosures about the impairment test are included in Note 2.4.9 Impairment of non-financial assets, including goodwill and Note 12. Intangible assets.

How our audit addressed the key audit matter

Our audit procedures with respect to the impairment analysis performed as of 31 December 2019 included, but were not limited to, the following procedures:

- Analysed the methodology used by management in performing the impairment test for American Restaurant System SA cash generating unit (“CGU”), to determine its compliance with IAS 36;

- Evaluated the Group's key assumptions and estimates used to determine the discount rate, the future operating cash flows, the growth rates, operating margins, working capital needs and the capital expenditure;
- Involved our valuation specialists to assist us in the evaluation of key assumptions and estimates used by the Group, including the determination of the discount rates. In this context, we evaluated whether or not certain assumptions on which the valuation was based, individually and taken as a whole, considered: i) the economic environment of the industry, and the Group's economic circumstances; ii) existing market information; iii) the business plans of the Group including management's expectations (including, without being limited to: comparing the restaurant openings considered with commitments to franchisor, assessing the investment per restaurant) ; iv) the risks associated with the cash flows, included the potential variability in the amount and timing of cash flows and the related effect on the discount rate; v) specific requirements of IFRS; vi) benchmarking against general performance of peer companies and against the Group's historical financial performance and trends;
- Tested the mathematical accuracy of the discounted cash flow computation;
- Assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year;
- Reviewed the management's prepared sensitivity analysis over key assumptions in the future cash flow model in order to assess the potential impact of a range of possible outcomes;
- We further assessed the adequacy of the disclosures about the impairment test in the notes to the consolidated financial statements.

Key audit matter

2. Useful life of Property, plant and equipment, intangibles and right-of-use assets in the consolidated financial statements

The Group has significant investments in both property, plant and equipment and intangible assets that are associated with its operations and business units in Romania, Italy and Moldova. The Group leases its restaurant locations and recognize in the consolidated financial statements in accordance with the IFRS 16 provisions starting 1 January 2019.

As described in Note 12. Intangible assets, the main intangibles of the Group, other than goodwill, refer to the franchise agreements capitalized by the Group, while, as described in Note 11. Property, plant and equipment, the main tangible assets refer to leasehold improvements related to the locations where the restaurants are functioning, and equipment used in restaurants. Note 14. Leases, presents the details of the recognized right-of-use assets for lease contracts of restaurants and administrative premises, motor vehicles and equipment used in the Group operations.

Significant accounting judgements made by management, presented in Note 3 to the consolidated financial statements, relate to the determination of the remaining useful lives of the items of property and equipment and right-of-use assets, at least at each financial year-end. The judgements applied in this regard impact the carrying value of property, plant and equipment,

intangible assets and right-of-use assets and the depreciation and amortization charge recorded in profit or loss. Thus, this is considered to be a key audit matter.

How our audit addressed the key audit matter

Our audit procedures included, but were not limited to the following procedures:

- Compared the useful economic lives assigned with reference to the Group's historical experience, our understanding of the future utilization of assets by the Group and by reference to the depreciation policies applied by third parties operating similar assets;
- Reviewed of the useful lives assumptions reasonability for the additions in 2019 of both intangible assets and tangible assets, against the evaluation performed in prior years based on the general market practices as summarized in studies on technological and constructions assets classes, as prepared by international reputable agencies, technical experts or valuation bodies (e.g. American Society of Appraisers, Marshall and Swift);
- Assessed in particular the useful lives and residual values of intangibles with reference to the franchise agreements in force;
- Considered the requirements of IFRS 16, applied starting 1 January 2019, in the determination of the lease term for those contracts which have renewal and /or termination options;
- Evaluated the consistency of the business strategy assumptions used to determine the useful lives with the assumptions used for the business plan and other knowledge accumulated by us during the audit about management's plans including the development plan agreed with the franchisor.

We further assessed the adequacy of the disclosures included in the consolidated financial statements in respect to useful lives.

Other information

The other information comprises the Consolidated and Individual Directors' Report, but does not include the consolidated financial statements and our auditors' report thereon. We obtained the Consolidated and Individual Directors' Report, prior to the date of our auditor's report, and we expect to obtain the Annual Report which will include also the Non-Financial declaration, as part of a separate report, after the date of our auditor's report. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a

material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

- a) in the consolidated and individual Directors' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying consolidated financial statements as at December 31, 2019;
- b) the consolidated and individual Directors' Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 - 19;

- c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the consolidated financial statements as at December 31, 2019, we have not identified information included in the consolidated and individual Directors' Report that contains a material misstatement of fact.

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

Appointment and Approval of Auditor

We were appointed as auditors of the Group by the Company's Articles of Association on 4th May 2017 to audit the consolidated financial statements for the financial year end December 31, 2019. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 3 years, covering the financial periods end December 31, 2017 till December 31, 2019.

Consistency with Additional Report to the Audit Committee

Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 27 March 2020.

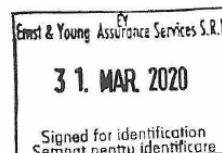
Provision of Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Group and we remain independent from the Group in conducting the audit.

In addition to statutory audit services and services disclosed in the consolidated financial statements, no other services were provided by us to the Company, and its controlled undertakings.

On behalf of,

Ernst & Young Assurance Services SRL
15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania
Registered in the electronic Public Register under No. FA77

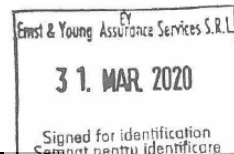


Name of the Auditor/ Partner: Alina Dimitriu
Registered in the electronic Public Register under No. AF1272
Bucharest, Romania

31 March 2020

SPHERA FRANCHISE GROUP SA
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

All amounts in RON thousand, unless specified otherwise



	<u>Note</u>	<u>2019</u>	<u>2018</u>
Restaurant sales		954,728	771,197
Restaurant expenses			
Food and material expenses		319,059	275,497
Payroll and employee benefits	8.1	215,739	161,874
Rent		22,480	54,372
Royalties		56,029	45,532
Advertising		49,359	41,059
Other operating expenses, net	6	93,750	69,227
Depreciation, amortization and impairment of non-current assets	8.2	71,917	20,458
Restaurant operating profit		126,395	103,178
General and administration expenses, net	7	50,023	73,048
Operating profit		76,372	30,130
Finance costs	9.1	17,538	3,102
Finance income	9.2	166	108
Profit before tax		59,000	27,136
Income tax expense	10	3,538	2,874
Profit for the period		55,462	24,262
Attributable to:			
Equity holders of the parent		55,226	24,057
Non-controlling interests		236	205
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Remeasurement loss on defined benefit plan	8.1	(1,178)	-
Exchange differences on translation of foreign operations		(197)	113
Total comprehensive income for the period, net of tax		54,087	24,375
Attributable to:			
Equity holders of the parent		53,863	24,155
Non-controlling interests		224	220
Earnings per share, basic and diluted (RON/share)	24	1.4234	0.6200

These consolidated financial statements from page 2 to page 57 were approved by the Board of Directors and were authorised for issue on 31 March 2020.

Chief Executive Officer & Chairman of the Board of Directors

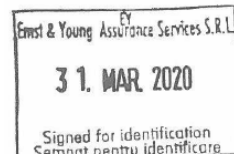
Georgios Argentopoulos

Chief Financial Officer

Valentin Budes

SPHERA FRANCHISE GROUP SA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

All amounts in RON thousand, unless specified otherwise



	Note	31 December 2019	31 December 2018
Assets			
Non-current assets			
Property, plant and equipment	11	199,415	158,122
Right-of-use assets	14	229,121	-
Intangible assets	12	64,835	62,150
Deposits for rent guarantee		8,416	5,219
Deferred tax assets	10	6,360	3,682
		112,082	122,979
Current assets			
Inventories	16	11,632	10,564
Trade and other receivables	17	39,289	16,444
Prepayments		3,889	5,306
Cash and short-term deposits	18	57,272	90,665
		620,229	352,152
Total assets			
Equity and liabilities			
Equity			
Issued capital	19	581,990	581,990
Share premium	19	(519,998)	(520,578)
Other reserves		(1,178)	-
Retained earnings		111,402	67,248
Foreign currency translation reserve		(166)	20
		172,050	128,680
Equity attributable to equity holders of the parent			
Non-controlling interests		201	146
		172,251	128,826
Total equity			
Non-current liabilities			
Interest-bearing loans and borrowings	13	73,617	86,787
Lease liabilities	14	190,073	-
Trade and other payables	22	-	4,749
Net employee defined benefit liabilities	8.1	1,906	-
		182,381	131,790
Current liabilities			
Trade and other payables	22	101,696	82,658
Interest-bearing loans and borrowings	13	34,427	37,669
Lease liabilities	14	45,139	-
Provisions	21	1,120	11,463
		447,978	223,326
		620,229	352,152
Total liabilities			
Total equity and liabilities			

These consolidated financial statements from page 2 to page 57 were approved by the Board of Directors and were authorised for issue on 31 March 2020.

**SPHERA FRANCHISE GROUP SA
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

All amounts in RON thousand, unless specified otherwise

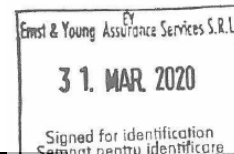
	Issued capital	Share premium	Other capital reserves	Retained earnings	Foreign currency translation reserve	Total equity	Non-controlling interest	Total equity
As at 1 January 2019, as previously reported	581,990	(520,578)		67,248	20	128,680	146	128,826
Impact of change in accounting policies (IFRS 16) - Note 4.1				3,180		3,180	47	3,227
As at 1 January 2019	581,990	(520,578)	-	70,428	20	131,860	193	132,053
Profit for the period				55,226		55,226	236	55,462
Other comprehensive income								
Remeasurement loss on defined benefit plan			(1,178)			(1,178)		(1,178)
Translation differences					(186)	(186)	(12)	(197)
Total comprehensive income	-	-	(1,178)	55,226	(186)	53,863	224	54,087
Transfer to share premium		580		(580)				-
Cash dividends				(13,673)		(13,673)	(216)	(13,889)
At 31 December 2019	581,990	(519,998)	(1,178)	111,402	(166)	172,050	201	172,251

	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)	-	43,191	(78)	104,525	19	104,544
Profit for the period				24,057		24,057	205	24,262
Other comprehensive income								
Translation differences					98	98	15	113
Total comprehensive income	-	-	-	24,057	98	24,155	220	24,375
Cash dividends							(93)	(93)
At 31 December 2018	581,990	(520,578)	-	67,248	20	128,680	146	128,826

These consolidated financial statements from page 2 to page 57 were approved by the Board of Directors and were authorised for issue on 31 March 2020.

SPHERA FRANCHISE GROUP SA
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

All amounts in RON thousand, unless specified otherwise

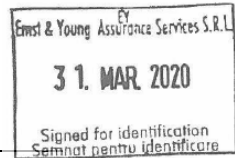


	<u>Note</u>	<u>2019</u>	<u>2018</u>
Operating activities			
Profit before tax		59,000	27,136
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of right-of-use assets	14	46,377	-
Depreciation and impairment of property, plant and equipment	11	26,951	19,213
Amortisation and impairment of intangible assets and goodwill	12	5,326	10,746
Net foreign exchange differences		5,297	(854)
(Gain)/Loss on disposal of property, plant and equipment		228	(161)
Provisions for taxes, net	7	(10,343)	11,463
Finance income	9.2	(166)	(108)
Finance costs (interest)	9.1	12,168	2,842
Working capital adjustments:			
Decrease in trade and other receivables, prepayments and deposits for guarantees		(27,743)	(13,554)
Increase in inventories		(1,067)	(1,957)
Increase in trade and other payables		17,458	8,925
Interest received		166	108
Interest paid		(12,039)	(2,919)
Income tax paid		(5,038)	(6,074)
Net cash flows from operating activities		<u>116,575</u>	<u>54,806</u>
Investing activities			
Proceeds from sale of property, plant and equipment		14	207
Purchase of intangible assets		(7,065)	(5,338)
Purchase of property, plant and equipment		(69,824)	(67,817)
Acquisition of a new store/subsidiary, net of cash	5.2	-	(3,737)
Net cash flows used in investing activities		<u>(76,875)</u>	<u>(76,685)</u>
Financing activities			
Proceeds from borrowings		22,062	86,034
Repayment of borrowings		(39,232)	(25,833)
Payment of lease liabilities		(41,767)	(312)
Dividends paid to equity holders of the parent		(13,671)	-
Dividends paid to non-controlling interests		(216)	(93)
Net cash flows used in financing activities		<u>(72,824)</u>	<u>59,796</u>
Net increase in cash and cash equivalents		<u>(33,125)</u>	<u>37,917</u>
Net foreign exchange differences		(267)	93
Cash and cash equivalents at 1 January		<u>90,665</u>	<u>52,655</u>
Cash and cash equivalents at 31 December		<u>57,273</u>	<u>90,665</u>

These consolidated financial statements from page 2 to page 57 were approved by the Board of Directors and were authorised for issue on 31 March 2020.

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

All amounts in RON thousand, unless specified otherwise



1. CORPORATE INFORMATION

These 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".

The consolidated financial statements for the year ended 31 December 2019 were authorized for issue in accordance with the resolution of the Board of Directors dated 31 March 2020.

The Group operates quick service and takeaway restaurant concepts (a chain of 99 restaurants) under the Kentucky Fried Chicken ("KFC"), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (23 restaurants as at 31 December 2019) as well as pizza delivery points (22 locations as at 31 December 2019) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (10 restaurants as at 31 December 2019) and one restaurant under Paul brand, in Romania. The Group's number of employees at 31 December 2019 was 6,084 (31 December 2018: 5,514).

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. Sphera renders to the benefit of the Group entities services such as management services, marketing support, development, sales support, human resources and other services.

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 which operates the KFC franchise in Moldova, 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 operating 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.

California Fresh Flavors SRL ("Taco Bell") was set up on 19 June 2017 and operates Taco Bell franchise in Romania. Sphera owns 99.99% of the company's shares. The company operates as a limited liability company and is registered at No. 239 Calea Dorobanti, Bucharest, Romania.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

Statement of Compliance

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

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

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2019.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

2.3 Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in profit or loss.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Where a business combination is effected primarily by exchanging equity interests, the acquirer is usually the entity that issues the equity. However, when a new entity is set up to issue equity shares to effect a business combination, the new entity has no economic substance and cannot be the acquirer. A combination between two or more entities that is structured so that a new entity issues equity instruments to the owners of the other entity(ies) is no different from a transaction in which one of the combining entities directly acquires the other(s). In such circumstances, the Group takes into consideration the following indicators in order to determine the acquirer:

- the relative size of the combining entities;
- relative voting rights after the combination;
- existence of a large minority voting interest in the combined entity if no other owner or organised group of owners has a significant voting interest;
- the composition of the governing bodies;
- the composition of the senior management of the combined entity;
- the terms of the exchange of equity interests - the acquirer is usually the combining entity that pays a premium over the pre-combination fair value of the equity interests of the other combining entity or entities.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.1 Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

2.4.2 Fair value measurement

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

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

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

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

2.4.3 Revenue

Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The Group operates in the quick service and take away restaurants business. Restaurant revenues are recognised at the moment of the transaction, in the amount of consideration received for the meals and services delivered, net of value added tax charged to customers; the goods are sold to customers on a cash basis.

Disaggregation of revenue from contracts with customers by primary geographical market and type of revenues is presented in the Segment information note. Other sources of revenues (revenues from management and administration services rendered by Sphera Franchise Group SA to related parties, interest income) are not significant to the Group.

2.4.4 Foreign currencies

The Group's financial statements are presented in Romanian New Lei ("RON"), which is also the 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 December 2019 and 31 December 2018 were:

	31 December 2019	31 December 2018
RON - EUR	4.7793	4.6639
RON - USD	4.2608	4.0736
RON - MDL	0.2481	0.2389

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.4.5 Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

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

Deferred tax

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Sales tax (VAT and similar taxes)

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

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

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

2.4.6 Property, plant and equipment

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

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

The cost of property, plant and equipment also includes the cost of replacing parts of the property, plant and equipment.

All repair and maintenance costs are recognised in the profit or loss as incurred. The Group leases its restaurant locations by way of lease contracts, which were recognised in the Group's statement of financial position in accordance with the IFRS 16 provisions starting 1 January 2019 (Note 4.1). The cost of improvements to leasehold assets is recognised as leasehold improvements and then depreciated as outlined below.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Costs directly related to construction or purchasing of assets connected with opening restaurants in leased locations, including the costs of architecture design, legal assistance, wages and salaries, and benefits of employees directly involved in launching a given location are included in "property, plant and equipment". These assets are depreciated over the expected useful life of the restaurant.

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

Freehold buildings	40 years over the lease contract duration (usually 10 years, including first renewal period)
Leasehold improvements	3 to 5 years
Computers and IT equipment	5 years
Vehicles	2 to 10 years
Other property, plant and equipment	

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

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

Start-up expenses for new restaurants

Start-up expenses for new restaurants represent costs related to the opening of new restaurant premises. Such expenses include some new personnel training costs and other overhead expenses that arise before the opening of new restaurants. Start-up expenses for new restaurants are recognised as operating expense in the accounting period in which the related work was performed.

2.4.7 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Right of use of land and land improvements	20 years
Right of use of buildings and leasehold improvements	3 to 10 years
Right-of-use assets of plant and machinery (motor vehicles and other equipment)	3 to 5 years

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The lease term was considered to be the non-cancellable period in the contract, without taking into consideration the renewal option.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section Impairment of non-financial assets.

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group performs a remeasurement of 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.

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

The main provisions of the accounting policy applicable to the *Group (as a lessee)* in accordance with the previous standards and based on which the comparative reporting figures have been prepared stated:

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in profit or loss on a straight-line basis over the lease term. Depending on contractual terms, the operating lease payment amounts are calculated for each restaurant as either a percentage of revenue (i.e. sales levels) with a minimum fixed monthly payment or as a fixed monthly payment. Some lease agreements contain escalation clauses.

For leases with fixed escalating payments and/or fit-out works incentives received, the Group records rent expense on a straight-line basis over the lease term. Contingent rentals are based on sales levels in excess of stipulated amounts, and thus are not considered minimum lease payments and are included in rent expense when attainment of the contingency is considered probable (i.e. when Group's sales occur).

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.4.8 Intangible assets

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

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

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

Franchise rights

Franchise costs are incurred in obtaining franchise rights or licences to operate quick service and take-away restaurant concepts. They include the initial fee paid to the system franchisor when a new restaurant is opened or when the rights and licences are renewed. These are measured at cost less accumulated amortisation and accumulated impairment. Amortisation is on a straight line basis over the life of the applicable franchise or licence agreement, of 10 years.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.9 Impairment of non-financial assets, including goodwill

At each reporting date, management assesses whether there is any indication of impairment for property, plant and equipment or intangible assets, excluding goodwill. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in the statement of comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to

determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

For the purpose of impairment testing each restaurant is a cash generating unit.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit (CGU) (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

For the purpose of goodwill impairment testing the Pizza Hut restaurant chain (which is also a reportable segment), is a single cash generating unit.

2.4.10 Financial instruments

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

i) Financial assets

Initial recognition and measurement

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

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

Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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

The Group's financial assets are represented by loans, trade and other receivables and cash and cash equivalents.

De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired

Or

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

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

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

- Financial instruments risk management Note 15
- Trade receivables Note 17

ii) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

De-recognition

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

iii) Offsetting of financial instruments

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.11 Inventories

Inventories, which include food, beverages and other supplies, are stated at the lower of cost or net realisable value. Cost of inventory is determined on the weighted-average basis and includes expenditures incurred in acquiring inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense and reported as a component of cost of sales in the statement of comprehensive income in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories is recognised as an expense in the same component of the statement of comprehensive income as the consumption of the respective inventory, in the period the write-down or loss occurs.

2.4.12 Cash and short-term deposits

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

For the purpose of the statement cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

2.4.13 Prepayments

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

2.4.14 Equity

Share capital

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

Dividends

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

2.4.15 Royalties

Royalties in connection to franchise rights are recognised as an expense as restaurants revenue is earned.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.16 Provisions

General

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

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

Onerous contracts

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

2.4.17 Employee benefits

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

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

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

Defined benefit plans (Italian subsidiary)

In accordance with the Italian labour regulations, the Group operates a leaving-service indemnity plan in Italy only, which requires contributions to be made to a separately administered fund. These benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognizes related restructuring costs

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'restaurant expenses', 'general and administration expenses' and 'finance costs' in the consolidated statement of profit or loss (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.
- Net interest expense or income.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Determining the lease term of contracts with renewal and termination options – Group as lessee

The majority lease contracts of the Group include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate. The Group determines the lease term as the non-cancellable term of the lease, without taking into consideration any periods covered by an option to extend the lease, unless the Group has already initiated formal procedures to renew the agreements. The Group's practice is to assess the reasonableness of exercising options three months -six months before the decision deadline, because in that time all relevant facts and circumstances to make such a decision can be generally available. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Useful lives of property and equipment and right-of-use assets

The Group assesses the remaining useful lives of items of property and equipment and right-of-use assets at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property and equipment and right of use and on depreciation recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

In particular, regarding the useful lives of property plant and equipment, the Group assesses for its operating leases that generally have an initial term of 5 years with renewal option for another 5 years, that the leasehold improvements' useful life is of 10 years due to the fact that historically most of such leases have been renewed after the initial term of 5 years, that the refurbishment needed after the first 5 years is of significantly less value compared to the initial set-up, and that 10 years is also the duration of the related franchise.

Regarding the estimation of the useful lives of right-of-use assets, after considering the potential economic penalty associated with the loss of the leasehold improvements, the lease term, thus the useful life of right-of-use assets, as determined in accordance with IFRS 16, does not include the extension period because, at the commencement date of the lease, the Group determined it is not reasonably certain it will exercise the renewal option. However, a different threshold (i.e., the expected usage of the asset) is used for the determination of the useful life of the leasehold improvement, an asset in the scope of IAS 16, as described previous paragraph.

Impairment of goodwill

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

The fair value less costs of disposal calculation is based on future cash flows, for which some of the main assumptions were future restaurants opening, growth rates, gross and net operating margins, working capital needs and discount rates, as well as economic assumptions such as the evolution of salaries in the economy and inflation.

The key assumptions used to determine the recoverable amount for the CGU, including a sensitivity analysis, are disclosed and further explained in Note 12.

Leases - Estimating the incremental borrowing rate IFRS 16

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

4. CHANGES IN ACCOUNTING POLICIES

4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2019

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group 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 has not early adopted any other standards, interpretations or amendments that have been issued but were not yet effective.

IFRS 16: Leases

IFRS 16 was issued in January 2016 and it replaced 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 most 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., office equipment, 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.

The Lessee 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 remeasurement 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:

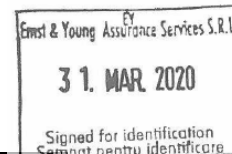
- Fixed lease payments for rented space,
- Rent calculated as a percentage of restaurant's turnover (contingent or variable lease payments), or
- Higher of above two, i.e. minimal base rent (fixed lease payments) and turnover rent.

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.

Apart from the premises for restaurant operations, the Group has several lease contracts for office premises, land, vehicles and equipment that had a less significant impact on the consolidated financial statements, as presented in Note 14 Leases.

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4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2019 (continued)

The effect of adoption of IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	<u>1 January 2019</u>
Assets	
Right-of-use assets	194,902
Property, plant and equipment (carrying value of the leased vehicles – finance leases under IAS 17)	(959)
Prepayments	(2,945)
Total assets	<u>190,998</u>
Liabilities	
Interest-bearing loans and borrowings – non-current	(432)
Lease liabilities - non-current	154,138
Interest-bearing loans and borrowings – current	(301)
Lease liabilities – current	37,950
Trade and other payables	(3,585)
Total liabilities	<u>187,771</u>
Retained earnings	3,180
Non-controlling interest	47
Total adjustment on equity	<u>3,227</u>

The main impact on the decrease of Trade and other payables and increase of Retained earnings resulted from the lease incentives accruals as at 31 December 2018, related to straight line allocation of rent expenses as per IAS 17.

Leases previously classified as finance 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.

Leases previously accounted for as operating leases

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 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.
 The weighted average incremental borrowing rate as at 1 January 2019 was 2.8592%.
- 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.

4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2019 (continued)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018, as follows:

	<u>1 January 2019</u>
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	(33,363)
Lease liability for previously unrecognized operating lease commitments as at 1 January 2019	191,355
Finance lease liability recognized as at 31 December 2018	733
Lease liability recognized as at 1 January 2019	192,088

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 adoption of IFRS 16, the lease liabilities were separately presented in the consolidated statement of financial position as at 31 December 2019, with no restatement of comparative data.

IFRS 9: Prepayment features with negative compensation (Amendment)

The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The Group does not have financial assets with prepayment features.

IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)

The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The Group does not hold investments in associates or joint ventures.

IFRIC Interpretation 23: Uncertainty over Income Tax Treatments

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. Management has assessed that the application of this interpretation did not have any impact on the financial position or performance of the Group.

IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. Management has assessed that the application of this amendment did not have significant impact on the financial position or performance of the Group.

4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2019 (continued)

The IASB has issued the **Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. Management has assessed that the application of these improvements does have no impact on the financial position or performance of the Group.

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

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

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

4.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2019 AND NOT EARLY ADOPTED

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

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

Conceptual Framework in IFRS standards

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

IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets.

4.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2019 AND NOT EARLY ADOPTED (continued)

The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. Management has assessed the application of these amendments will have no impact on the financial position or performance of the Group.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)

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

Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

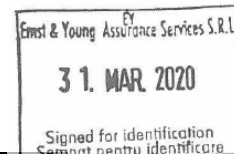
The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The Group does not use hedging accounting.

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. Management has assessed that application of these amendments will have no significant impact on the financial position of the Group.

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5. GROUP INFORMATION

5.1 Investments in controlled companies

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

<u>Company name</u>	<u>Country of incorporation</u>	<u>Field of activity</u>	<u>Control 31 December 2019</u>	<u>Control 31 December 2018</u>
US Food Network SA	Romania	Restaurants	99.9997%	99.9997%
American Restaurant System SA	Romania	Restaurants	99.9997%	99.9997%
California Fresh Flavors SRL	Romania	Restaurants	99.9900%	99.9900%
US Food 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, CFF and ARS as of 31 December 2019 and 31 December 2018 is below 1 thousand RON therefore there are no other presentations thereof.

5.2 Business combinations

In April 2018, the Group acquired a new store in Turin, Italy, for a total consideration of 3,727. The transaction has been considered a business combination in which assets and liabilities, significant processes and related employees have been transferred.

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).

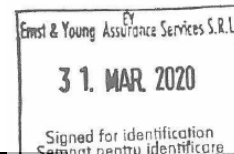
6. OTHER OPERATING EXPENSES, NET

	<u>2019</u>	<u>2018</u>
Third-party services	32,526	22,325
Utilities	25,438	19,512
Maintenance and repairs	12,272	8,471
Cleaning supplies	8,712	5,546
Small-wares	4,060	4,605
Transport	6,966	4,184
Telephone and postage	940	796
Insurance	894	648
Net (gain)/loss on disposal of property and equipment	228	(161)
Miscellaneous expenses and income, net	1,714	3,301
Total	93,750	69,227

Third party services refer to services rendered to restaurants and may include: security, cleaning, waste disposal, meal tickets settlement, cash collection, IT and HR services, food aggregators etc. These costs are directly dependent on number of restaurants in operation and are influenced by contract prices negotiated with suppliers.

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7. GENERAL AND ADMINISTRATION EXPENSES, NET

	2019	2018
Payroll and employee benefits (Note 8.1)	35,183	30,563
Third-party services	9,008	7,890
Depreciation, amortization and impairment of non-current assets	4,330	1,189
Impairment of goodwill (Note 12)	2,406	8,312
Rent	386	3,478
Banking charges	3,384	2,921
Transport	2,591	3,063
Maintenance and repairs	308	583
Small-wares	289	521
Insurance	603	506
Advertising	776	292
Telephone and postage	371	415
Provision for tax, VAT adjustments and late payment penalties (Note 21)	(10,343)	11,463
Expenses for litigations	-	947
Miscellaneous expenses and income, net	731	905
Total	50,023	73,048

The provision for tax recognised in the financial statements for the year ended 31 December 2018 refers to the value of income tax, VAT adjustments and related late payment interest that the tax authorities have considered as result of the tax audit performed at USFN SA for the periods 2013-2017 (VAT) and 2012-2016 (income tax). In December 2019, following a new tax revision performed by the fiscal authorities, the initial tax adjustments were revised down to the value of 1,120. The net revenue impact of 10,343 coming from reversal of initial provision recognized as at 31 December 2018 (11,463) and the updated value of the provision as at 31 December 2019 (1,120) is recorded in the profit and loss account for the year 2019 (Note 21).

For the year ended 31 December 2019, the Group recognised in the consolidated financial statements an impairment loss of 2,406 (31 December 2018: 8,312) in relation with the goodwill recorded on acquisition of ARS.

Expenses for litigations incurred in 2018 refer to the compensations claimed in court and paid to a former employee who has suffered injuries in a work accident. The Group has declared appeal at the Bucharest Court of Appeal against the civil sentence ruled by the Ilfov Court. On 27 February 2019, the Bucharest Court of Appeal issued a decision in the Group's favour, diminishing the value of the compensations from 947 to 375. The Court's decision is still subject to the claimant's appeal.

8. DISCLOSURE OF TOTAL PAYROLL AND EMPLOYEE BENEFITS EXPENSE AND TOTAL DEPRECIATION AND AMORTIZATION EXPENSE

8.1 Payroll and employee benefits

	2019	2018
Payroll and employee benefits recognized in "Restaurant expenses"	215,739	161,874
Payroll and employee benefits recognized in "General and administration expenses, net"	35,183	30,563
Total payroll and employee benefits	250,922	192,437
Of which, defined contribution to State pension plan*	5,767	2,140

*Starting 1 January 2018, following the Romanian legislation changes, the social security contributions were transferred from employers to the employee's responsibility, therefore the disclosure of the contribution to the State pension plan for 2018 refers only to the foreign subsidiaries.

8.1.DISCLOSURE OF TOTAL PAYROLL AND EMPLOYEE BENEFITS EXPENSE AND TOTAL DEPRECIATION AND AMORTIZATION EXPENSE (continued)

Payroll costs of 1,120 representing the value of project management and other technical activities performed by the Group's employees during the year 2019 for the construction or refurbishment of restaurants were capitalised in the cost of construction of the non-current assets.

The Group has in Italy 315 employees for the Italian's subsidiary operations. In accordance with the local labour regulations, Italian companies have to pay to their employees a leaving-service indemnity ("TFR"). The accrual for termination benefits in amount of 1,906 as at 31 December 2019 (439 as at 31 December 2018 – included within Trade and other payables) was calculated as a career-average lump sum, in accordance with the Italian statutory regulations. The Group performed an actuarial computation of these termination benefits in line with the IAS 19 "Employee benefits".

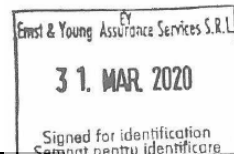
The amount of 1,906 representing defined benefit liabilities recorded at balance sheet date was determined based on the actuarial valuation performed by an authorised actuary.

	<u>2019</u>
Net benefit expense (recognized in profit or loss)	
Current service cost - Payroll and employee benefits	235
Current service cost - G&A expenses	20
Interest cost on benefit obligation	5
Net benefit expense	260
Reconciliation of benefit obligation	
Defined benefit obligation as at 1 January 2019	439
Interest cost	5
Current service cost - Payroll and employee benefits	235
Current service cost - G&A expenses	20
Benefits paid	(368)
Gross remeasurement loss on defined benefit plan	1,554
Exchange difference	21
Defined benefit obligation as at 31 December 2019	1,906
Remeasurement loss on defined benefit plan (recognized in other comprehensive income)	
Gross remeasurement loss on defined benefit plan	1,554
Deferred tax credit	(376)
Net remeasurement loss on defined benefit plan	1,178

The tax impact on the remeasurement loss on defined benefit plan of 376 is presented in Note 10.

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8.2 Depreciation and amortization

	<u>2019</u>	<u>2018</u>
Depreciation of right-of-use assets recognized in "Restaurant expenses"	43,431	-
Depreciation, amortization and impairment of other non-current assets recognized in "Restaurant expenses"	28,486	20,458
Depreciation, amortization and impairment recognized in "Restaurant expenses"	71,917	20,458
Depreciation of non-operating right-of-use assets recognized in "General and administration expenses, net"	2,946	-
Depreciation, amortization and impairment of non-current assets recognized in "General and administration expenses, net"	1,384	1,189
Depreciation, amortization and impairment recognized in "General and administration expenses"	4,330	1,189
Total depreciation and amortization	76,247	21,647

For the year ended 31 December 2019, depreciation expenses include the depreciation of right-of-use assets which have been presented in the Note 14.

9. FINANCE COSTS AND INCOME

9.1 Finance costs

	<u>2019</u>	<u>2018</u>
Interest on loans and borrowings	4,480	2,799
Finance charges payable on lease liabilities (Note 14)	7,688	44
Interest cost of benefit obligation (Note 8.1)	5	-
Foreign exchange loss, net	5,365	259
Total finance costs	17,538	3,102

9.2. Finance income

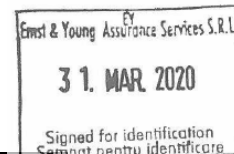
	<u>2019</u>	<u>2018</u>
Interest income	166	108
Total finance income	166	108

10. INCOME TAX

The major components of income tax expense for the years ended 31 December 2019 and 31 December 2018 are:

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10. INCOME TAX (continued)

	<u>2019</u>	<u>2018</u>
Current income tax:		
Current income tax charge	5,770	4,407
Deferred tax:		
Relating to origination and reversal of temporary differences	(2,232)	(1,533)
Income tax expense reported in the statement of comprehensive income	<u>3,538</u>	<u>2,874</u>

A reconciliation between tax expense and the product of accounting profit multiplied by Romania's domestic tax rate for the years ended 31 December 2019 and 31 December 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Accounting profit before income tax	<u>59,000</u>	<u>27,136</u>
At statutory income tax rate of 16%	9,440	4,342
Effect of higher tax rates in Italy on tax loss	(517)	(462)
Effect of lower tax rates in the Republic of Moldova	(23)	(49)
Other income and legal reserves exempted from tax	(797)	(638)
Effect of changes in the tax legislation (specific tax)	(6,635)	(4,772)
Sponsorship fiscal credit	-	(5)
Non-deductible expenses for tax purposes, including impairment loss for goodwill	2,070	4,458
At the effective income tax rate	<u>3,538</u>	<u>2,874</u>

The changes in tax legislation and tax rates relate to the tax levied on restaurant activity applicable for the companies active in the restaurant industry starting with 1 January 2017. Specifically, per the updated regulations, the income tax for the restaurant activity has been replaced by a specific tax, computed based on a minimum fixed amount multiplied by the impact of three criteria: restaurant area, restaurant location and seasonality.

Specific tax was in amount of 5,244 for the year ended 31 December 2019 (3,933 for the year ended 31 December 2018). The taxation of the non-restaurant activities has not suffered changes.

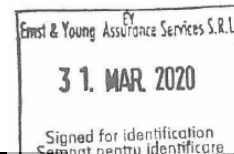
Deferred tax

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

	Statement of financial position		Statement of comprehensive income	
	31 December 2019	31 December 2018	2019	2018
Right-of-use assets	(13,327)	-	13,327	-
Property, plant and equipment	(266)	(214)	52	186
Intangible assets	(19)	(23)	(4)	23
Fiscal losses	6,100	3,757	(2,343)	(1,631)
Trade and other payables	(161)	162	323	(116)
Lease liabilities	13,622	-	(13,622)	-
Remeasurement loss on defined benefit plan (Note 8.2)	376	-	(376)	-
Translation difference	35	-	35	-
Deferred tax benefit	-	-	<u>(2,608)</u>	<u>(1,538)</u>
Net deferred tax assets	<u>6,360</u>	<u>3,682</u>		

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10. INCOME TAX (continued)

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Deferred tax asset arising from carried forward unused fiscal losses include:

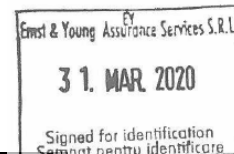
- 5,101 (31 December 2018: 2,421) arising from the tax losses of the Italian subsidiary that are available indefinitely for offsetting against its own future taxable profits;
- 999 (31 December 2018: 1,336) arising from the unused carried-forward tax losses of Sphera Franchise Group SA that are available for offsetting against the Company's tax profits within the next five years (i.e. seven years from the recognition, according to the Romanian tax law).

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold buildings and leasehold improvements	Plant and machinery	Other equipment	Constructio n in progress	Total
Cost					
At 1 January 2018	79,852	64,026	19,163	10,267	173,307
Additions	38,955	22,088	12,436	16,879	90,358
Disposals	-	1,884	-	-	1,884
Transfers	-	-	-	18,230	18,230
Transfer from assets held for sale	-	1,161	-	-	1,161
Exchange differences	96	102	29	4	231
At 31 December 2018	118,903	85,493	31,628	8,920	244,944
Additions	35,457	19,319	13,436	29,143	97,355
Disposals	-	778	965	-	1,743
Transfers	-	-	172	28,963	29,135
Transfers to ROUA	-	1,286	-	-	1,286
Exchange differences	665	366	221	-	1,252
At 31 December 2019	155,025	103,114	44,148	9,100	311,387
Depreciation					
At 1 January 2018	29,259	29,345	9,484	-	68,088
Depreciation charge for the year	8,298	7,467	3,592	-	19,357
Disposals	-	1,658	-	-	1,658
Transfer of assets held for sale	-	966	-	-	966
Exchange differences	22	38	9	-	69
At 31 December 2018	37,579	36,158	13,085	-	86,822
Depreciation charge for the year	11,536	9,092	5,110	-	25,738
Impairment charge	1,042	41	-	-	1,083
Disposals	-	628	887	-	1,515
Depreciation of finance lease assets under IAS 17 transferred to ROUA	-	323	-	-	323
Exchange differences	70	67	30	-	167
At 31 December 2019	50,227	44,407	17,338	-	111,972
Net Book Value					
At 1 January 2018	50,593	34,681	9,679	10,267	105,220
At 31 December 2018	81,324	49,335	18,543	8,920	158,122
At 31 December 2019	104,798	58,707	26,810	9,100	199,415

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11. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group has several finance lease contracts for motor vehicles. The carrying value of the leased assets as of 31 December 2018 was 959 (Note 4.1). The assets acquired under finance lease are pledged in favour of the leasing company.

As at 31 December 2019 and 31 December 2018, the gross book value of fully depreciated property, plant and equipment that were still in use amounted to 54,607 and 43,874 respectively.

The Group has pledged non-current assets (mostly equipment) in favour of Alpha Bank for the financing received. The net carrying amount of pledged assets as at 31 December 2019 is of 38,547 (31 December 2018: 37,916).

The additions during the years ended 31 December 2019 and 31 December 2018 consist mainly in new restaurants' leasehold improvements, as well as restaurants' kitchen equipment. The increase of the additions during 2019 is related to the network expansion by new 11 restaurants in Romania (6 KFC restaurants, 5 Taco Bell) and 5 new KFC restaurants in Italy.

In April 2018, the Group acquired a new store in Turin, Italy. The fair value of the identifiable property and equipment at the date of acquisition was of 3,542.

12. INTANGIBLE ASSETS

	Goodwill	Franchise rights	Other intangible assets	Intangibles in progress	Total
Cost					
At 1 January 2018	50,585	20,599	969	1,612	73,765
Additions	-	4,328	940	141	5,409
Disposals	-	-	106	-	106
Exchange differences	-	19	4	-	23
At 31 December 2018	50,585	24,946	1,807	1,753	79,091
Additions	-	4,779	874	2,272	7,925
Disposals	-	-	4	-	4
Exchange differences	-	75	25	-	100
At 31 December 2019	50,585	29,800	2,702	4,025	87,112
Amortisation					
At 1 January 2018	-	6,182	112	-	6,294
Amortisation	-	2,108	326	-	2,434
Impairment loss of goodwill	8,312	-	-	-	8,312
Accumulated amortisation of disposals	-	-	106	-	106
Exchange differences	-	5	2	-	7
At 31 December 2018	8,312	8,295	334	-	16,941
Amortisation	-	2,348	571	-	2,919
Impairment loss of goodwill	2,406	-	-	-	2,406
Accumulated amortisation of disposals	-	-	4	-	4
Exchange differences	-	8	7	-	15
At 31 December 2019	10,718	10,651	908	-	22,277
Net book value					
At 1 January 2018	50,585	14,417	857	1,612	67,471
At 31 December 2018	42,273	16,651	1,473	1,753	62,150
At 31 December 2019	39,867	19,149	1,794	4,025	64,835

12. INTANGIBLE ASSETS (continued)

Additions during the years ended 31 December 2019 and 31 December 2018 consisted mainly in franchise operating licenses acquired for newly opened restaurants. Additions to intangible in progress refer mainly to purchase of license for KFC e-commerce platform and implementation of ERP platform.

For impairment testing, goodwill acquired through business combinations is allocated to the Pizza Hut restaurant chain CGU, which is also an operating and reportable segment. The Group performed its annual impairment test as of 31 December 2019.

The recoverable amount of the CGU as at 31 December 2019, has been determined at 57,274 (2018: 63,483) based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2020-2024). The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor. This fair value measurement is on level 3 of the fair value hierarchy.

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

The key assumptions used in the calculation of the recoverable amounts are sales growth rates, EBITDA margins, discount rates, net working capital and terminal value growth rates. Capital expenditure/restaurant is also a key assumption. The values assigned to these key assumptions reflect past experience and a number of actions that the management intends to pursue, such as a temporary slowdown of the new store development plan, a new type of selling channel which will be implemented starting 2020 and a tighter control of certain expenses (restaurant payroll, marketing, general and administrative expenses).

Discount rate (post tax) used is 10% (2018: 11%). The discount rate reflects the current market assessment of the risks specific to ARS and was estimated based on the weighted average cost of capital for the industry. This rate was further adjusted to reflect the market assessment of any risk specific to ARS for which further estimates of cash-flows have not been adjusted. The WACC was determined by taking into account the debt equity structure of the peers.

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

Budget EBITDA margins are based on the following assumptions:

- Maintaining the current profitability for the existing restaurants through price increases with improvements on cost of goods sold due to increasing capacity of negotiation of Sphera Group, in order to compensate the increasing pressure on labour costs. The rest of the main expense categories trend will be relatively constant as percentage of sales.
- Opening of new restaurants with a new concept (Pizza Hut Express) with smaller costs for investment and smaller crew to operate. Part of them will be sub-franchised in order to meet the number of restaurants to be opened agreed with the franchisor.

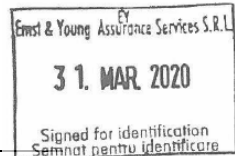
As a result of the analysis, as compared to the CGU carrying value of 59,680 (2018: 71,795), an impairment loss was recognised in the financial statements of 2,406 as at and for the year ended 31 December 2019 (2018: 8,312).

With regard to the assessment of impairment, management believes that the model is most sensitive to:

- cost of capital (WACC)
- terminal growth assumptions
- EBITDA margin
- NWC

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12. INTANGIBLE ASSETS (continued)

EBITDA margin reflects management's estimates regarding the operational profitability of the CGU, in line with historical levels and market evolution (and is not disclosed due to the strategic nature of this information). If EBITDA margin would decrease by 0.50% the recoverable amount of the CGU would be 43,383 and the impairment loss would be 16,297, while if the EBITDA margin would increase by 0.50% the recoverable amount of the CGU would be 71,165 and there would be no impairment.

Key drivers	Key drivers (%)	Fair value less cost to sell	Impairment / Headroom
	10.00%	57,274	(2,406)
Cost of capital	0.50%	51,982	(7,698)
	-0.50%	63,408	3,727
	3.00%	57,274	(2,406)
Perpetuity growth factor	2.50%	51,822	(7,858)
	3.50%	63,565	3,884
	0%	57,274	(2,406)
Net working capital (%/sales)	-0.5%	48,193	(11,487)
	0.5%	66,355	6,675

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13. INTEREST-BEARING LOANS AND BORROWINGS

As of 31 December 2018, the interest-bearing loans and borrowings included liabilities related to finance lease recognized in relation to IAS 17. In 2019, following adoption of IFRS 16, liabilities from finance lease under the new standard are no longer recorded as interest-bearing loans and borrowings, being instead presented as a separate line in the consolidated statement of financial position. The financial statements as of 31 December 2018 have not been restated with respect to this reclassification (Note 4.1).

Current interest-bearing loans and borrowings

Obligations under finance leases (Note 14)
Bank loan

Total current interest-bearing loans and borrowings

Non-current interest-bearing loans and borrowings

Obligations under finance leases (Note 14)
Bank loan

Total non-current interest-bearing loans and borrowings

Total interest-bearing loans and borrowings

	Interest rate, %	Maturity	31 December 2019	31 December 2018
EURIBOR 3M + relevant spread		5 years from each withdrawal	-	301
			34,427	37,368
			34,427	37,669
EURIBOR 3M + relevant spread		5 years from each withdrawal	-	432
			73,617	86,355
			73,617	86,787
			108,044	124,456

The Group has a credit facility from Alpha Bank Romania made up of 7 sub-limits, out of which can be accessed by companies included in the consolidation, as follows: credit facility for the development of new locations, issuance of bank guarantee letters, credit card, financing of Moldova subsidiary, financing of working capital and financing of Italian subsidiary. The loan is secured with property, plant and equipment of each restaurant location for which the credit limited has been utilised, pledge on business goodwill, pledge on current accounts opened with the bank, promissory notes issued, pledge on receivables from and shares owned by the Group in its Moldova and Italia subsidiary. The carrying amount of pledged property, plant and equipment and cash and cash equivalents is disclosed in Notes 11 and 18.

Covenants:

The Group's borrowing arrangement with the Bank contains several covenants, mainly of quantitative nature, out of which the most important relates to the ratio bank net debt, including non-cash loan utilized for letter of guarantee / EBITDA at a consolidated level, excluding the impact of IFRS 16, which should not exceed at any point in time 2.5.

Breaches in meeting the financial covenant at Group consolidated level would permit the bank to call the loan amount needed to meet the financial covenant. There have been no breaches of the consolidated financial covenant for the years ended 31 December 2019 and 31 December 2018.

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13. INTEREST-BEARING LOANS AND BORROWINGS (continued)

Breaches in meeting standalone financial covenants allow the bank to cease any loan disbursement to the affected company and to immediately call the loan.

In 2019 and 2018, American Restaurant System recorded a standalone Net debt/EBITDA above 2.5 and negative net worth, thus failing to meet the standalone financial covenants. As a result, American Restaurant System was not allowed to perform any further drawings from the loan. By the end of the financial year 2018, the Bank issued a waiver letter by which it waived its right to declare the loan anticipated due in relation to breach of financial covenants and stated that it has decided to extend within the usual course of business the loan facilities maturities and availability period, under the terms of credit contract and subsequent amendments. The loan balance of American Restaurant System as at 31 December 2018 was of 14,048, out of which only 3,863 long term.

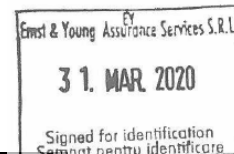
As of 31 December 2019, the equity ratio individual covenant of ARS was not met and, as no waiver was received from the bank, the long-term outstanding balance of ARS bank loans and borrowing of 976 is recorded as a current liability

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

	31 December 2018	Non-cash changes				Cash changes			31 December 2019	
		Transfer of finance lease (IAS 17) to Lease liabilities (Note 4.1)	Interest accrual	Bank charges related to financing	Foreign exchange gains/losses	Drawings	Repayments	Interest paid	Bank charges paid	
Interest-bearing loans and borrowings	124,456	(733)	4,346	152	1,400	22,062	(39,232)	(4,351)	(56)	108,044
Bank loans	123,723	-	4,346	152	1,400	22,062	(39,232)	(4,351)	(56)	108,044
Financial leases	733	(733)	-	-	-	-	-	-	-	-

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14. LEASES

The Group has lease contracts for restaurants and administrative premises, motor vehicles and equipment used in its operations. Leases for restaurants premises generally have lease terms between 3 and 10 years (building and leasehold improvements), 20 years (land and land improvements), while motor vehicles and other equipment generally have lease terms between 3 and 5 years.

The Group has leases of certain office equipment (i.e. printing and photocopying machines) that are considered of low value. The Group applies the “short-term leases” and “lease of low-value assets” recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	Land and land improvements	Freehold buildings and leasehold improvements	Motor and other equipment vehicles	Total
As at 1 January 2019	7,140	183,259	4,503	194,902
Additions	2,104	76,374	1,293	79,771
Depreciation expense	485	44,285	1,607	46,377
Exchange difference	-	819	6	825
As at 31 December 2019	8,759	216,167	4,195	229,121

Set out below are the carrying amounts of lease liabilities and the movements during the period:

As at 1 January 2019	192,088
Additions	79,519
Accretion of interest	7,688
Payments	49,062
(Unrealized) forex exchange loss	4,150
Translation difference	830
As at 31 December 2019	235,212
Non-current	190,073
Current	45,139

The following are the amounts recognized in profit or loss:

	2019
Depreciation expense of right-of-use assets	46,377
Interest expense on lease liabilities	7,688
Forex exchange differences, net	4,150
Expense relating to short-term leases (included in restaurant expenses)	639
Expense relating to leases of low value assets (included in administrative expenses)	374
Variable lease payments (included in restaurant expenses - rent)	21,750
Total amount recognized in profit or loss	80,978

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Group's principal financial liabilities comprise loans and borrowings, lease liabilities and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's financial assets are represented by loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations, as well as long-term deposits to guarantee rent payables.

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

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Trade and other receivables and payables are non-interest bearing financial assets and liabilities. The borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term and short-term credit facilities. Interest rates on the Group's debt finance are variable. The interest rates on credit facilities of the Group are disclosed in Note 13. Changes in interest rates impact primarily loans and borrowings by changing either their future cash flows (variable rate debt). Management policy is to resort mainly to variable rate financing. However, at the time of rising new loans or borrowings management uses its judgment to decide whether it believes that fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings. With all other variables held constant, the Group's profit before tax and equity are affected through the impact on floating rate borrowings, as follows:

	<u>Increase in basis points</u>	<u>Effect on profit before tax</u>
31 December 2019	1%	(1,080)
EUR		
31 December 2018	1%	(1,245)
EUR		

The Group does not hedge its interest rate risk.

The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment. An equal decrease of the interest rate would have the same effect but of opposite impact.

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Foreign currency risk

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

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

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the EUR and US dollar exchange rate. The Group's exposure to foreign currency changes for all other currencies is not material. With all other variables held constant the Group's profit before tax and equity (excluding translation of Italian subsidiary for presentation into RON) are affected as follows:

	<u>Increase in EUR rate</u>	<u>Effect on profit before tax</u>	<u>Increase in USD rate</u>	<u>Effect on profit before tax</u>
31 December 2019	1%	(3,544)	1%	(34)
31 December 2018	1%	(1,249)	1%	(4)

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

Credit risk

The Group is not significantly exposed to credit risk as the majority of its sales are on a cash basis. The Group's credit risk is primarily attributed to trade and other receivables and balances with banks. The carrying amount of trade and other receivables, net of allowance for impairment (Note 17 and deposits for rent guarantee as per statement of financial position) plus balances with banks (Note 18), represent the maximum amount exposed to credit risk. Management believes that there is no significant risk of loss to the Group beyond the allowances already recorded.

The Group invests cash and cash equivalents with highly reliable financial institutions. The Group has only plain vanilla deposits with reputable banks, none of which has experienced any difficulties in 2019 or up to the date of these consolidated financial statements. The majority of cash is transacted through and placed with Alpha Bank Romania, member of Alpha Bank Group from Greece and Banca Romana de Dezvoltare (BRD), a member of Societe Generale Group from France, as well as with Unicredit Bank Italy. The long-term credit rating of Alpha Bank Greece is Caa1 as provided by Moody's rating agency, no credit rating being available for its Romanian subsidiary. The long-term credit rating of BRD is Baa3, while the one for Unicredit is Baa1, both provided by Moody's.

There is no significant concentration of credit risk in respect of trade and other receivables due to the fact that sales are based mainly on cash and credit card payments. Therefore there are no formal policies in the Group to manage credit risk for trade receivables. The Group's credit risk is primarily attributed to loans and receivables from related parties, for which the probability of losses is considered remote.

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Liquidity risk

The Group has adopted a prudent financial liquidity management approach, assuming that sufficient cash and cash equivalents are maintained and that further financing is available from guaranteed funds from credit lines. The tables below summarize the maturity profile of the Group's financial liabilities, including principal amounts and interests according to contractual terms, at 31 December 2019 and 31 December 2018 based on contractual undiscounted payments.

31 December 2019	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings	72	9,756	28,185	77,974	33	116,020
Lease liability	-	13,203	39,608	136,326	88,084	277,221
Trade and other payables	14,497	86,635	1,058	9	-	102,199
Total:	14,569	109,594	68,851	214,309	88,117	495,440

31 December 2018	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings (including finance lease as per IAS 17)	76	8,038	33,663	85,377	7,235	134,389
Trade and other payables	8,144	74,515	-	4,748	-	87,407
Total:	8,220	82,553	33,663	90,125	7,235	221,796

At 31 December 2019, the Group had available 87,087 of undrawn uncommitted borrowing facilities (31 December 2018: 47,449), thus being able to respond to any unforeseen higher cash outflow needs.

Capital management

Capital includes the equity attributable to the equity holders of the parent.

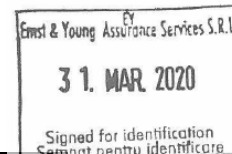
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

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

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

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15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

	<u>31 December 2019</u>	<u>31 December 2018</u>
Interest-bearing loans and borrowings (including finance lease as per IAS 17 as of 31 December 2018)	108,044	124,456
Leases in relation to IFRS 16	235,212	-
Financial trade and other payables	68,257	57,615
Less: cash and short-term deposits	<u>57,272</u>	<u>90,665</u>
Net debt	<u>354,241</u>	<u>91,406</u>
Equity	172,251	128,826
Capital and net debt	<u>526,492</u>	<u>220,232</u>
Gearing ratio:	67%	42%

The Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. For the covenants in force as at 31 December 2019 and 31 December 2018 please refer to Note 13.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

Fair values

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

The carrying amount of the interest bearing loans and borrowings approximate their fair value. Management estimates that the margin applicable over Euribor at the balance sheet date would be similar to the ones at the dates of each previous withdrawal, due to the fact that the Group maintained over the past years a low gearing ratio and a stable financial condition, and also based on statistics published by the National Bank of Romania.

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

The carrying amounts of these financial instruments are considered to approximate their fair values, due to their short term nature (in majority) and low transaction costs of these instruments (level 3 measurement).

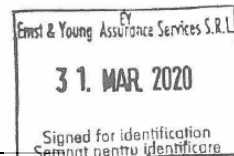
16. INVENTORIES

	<u>31 December 2019</u>	<u>31 December 2018</u>
Raw materials	8,355	7,292
Consumables	2,428	2,512
Goods for resale	849	760
Total	<u>11,632</u>	<u>10,564</u>

For the year ended 31 December 2019, inventories amounting to 332,120 (2018: 286,169) were recognised as an expense in profit or loss, in "Food and materials" as well as in "Other operating expenses, net" and "General and administrative expenses, net" ("Small-wares" and "Cleaning supplies").

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17. TRADE AND OTHER RECEIVABLES

	31 December 2019	31 December 2018
Trade receivables, net	2,193	874
Trade receivables from related parties	160	994
Advances to related parties	169	169
Loans granted to related parties	785	966
Tax receivables (VAT receivables mainly)	27,565	11,569
Advance to suppliers	2,764	190
Meal tickets	947	1,253
Deposits for guarantees	4,200	-
Other debtors	506	429
Total	39,289	16,444

Terms and conditions relating to related party transactions are described in Note 26.

Trade receivables are non-interest bearing and are generally on terms of 30-90 days.

As at 31 December 2019, trade receivables with a value of 392 (31 December 2018: 392) were impaired and fully provided for. There were no movements during 2019 in the provision for impairment of receivables.

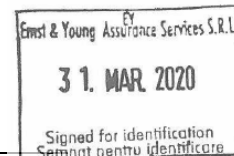
As at 31 December 2019 and 31 December 2018, the ageing analysis of trade receivables and trade receivables from related parties, net of allowances, is, as follows:

	Trade receivables					
	Total	Current	Days past due			
			< 30 days	30-60 days	61-90 days	>91 days
31-December 2019						
Expected credit loss rate		0%	0%	0%	0%	60%
Estimated total gross carrying amount at default	2,914	463	1,695	92	10	654
Expected credit loss	392	-	-	-	-	392
Net	2,522	463	1,695	92	10	262
31 December 2018						
Expected credit loss rate		0%	0%	0%	0%	32%
Estimated total gross carrying amount at default	2,429	216	665	170	154	1,224
Expected credit loss	392	-	-	-	-	392
Net	2,037	216	665	170	154	832

For the loans attributed to related parties, the Group's considers the probability of losses being remote.

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18. CASH AND SHORT-TERM DEPOSITS

	31 December 2019	31 December 2018
Cash at banks and on hand	40,947	56,237
Cash in transit	1,873	821
Short-term deposits	14,452	33,607
Total	57,272	90,665

Deposits at banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group.

As part of the financing agreement with Alpha Bank the Group has pledged the cash available in the accounts opened with the bank. The balance of the pledged bank accounts as at 31 December 2019 is of 37,228 (31 December 2018: 59,645).

19. ISSUED CAPITAL

	31 December 2019	31 December 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 December 2019 are: Tatika Investments Ltd. (27.33%), Computerland Romania SRL (21.44%), Wellkept Group SA (16.34%), Lunic Franchising and Consulting LTD (10.99%) and free float (23.90%).

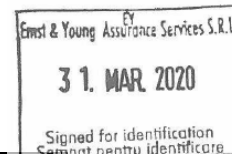
As of 31 December 2018, the shareholders of Sphera Franchise Group SA were: Tatika Investments Ltd. (27.33%), Computerland Romania SRL (20%), Wellkept Group SA (16.34%), Anasa Properties SRL (10.99%) and free float (25.34%).

On 22 November 2019, Anasa Properties SRL transferred its shares hold with Sphera Franchise Group SA, representing 10.99% of the Company's shareholding, to Lunic Franchising and Consulting Ltd.

The share capital has not suffered any changes during 2019 and 2018.

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19. ISSUED CAPITAL (continued)

The share premium, resulted in 2017 once with the creation of Sphera Group as detailed below, was diminished by 580, following the approved distribution of 2018 profits (Note 20).

	<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)

20. PROFIT DISTRIBUTION

	<u>2019</u>	<u>2018</u>
Dividends declared and paid during the period:		
To shareholders of Sphera Franchise Group SA	13,673	-
To non-controlling interests	216	93
Total dividends for the period	13,889	93
Dividends per share (RON/share)	0.3524	-

For the year ended 31 December 2019, the Board of Directors has proposed to the shareholders' approval, the following allocation 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 2019:

- Setting up the legal reserves in accordance with the statutory regulations in amount of 1,617;
- Profit not distributed of 30,382.

For the year ended 2018, at the Annual General Shareholders Meetings 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:

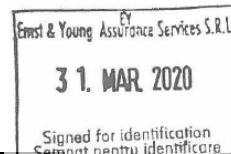
- Setting up the legal reserves in accordance with the statutory regulations in amount of 1,990;
- Covering accumulated losses from 2017 in amount of 10,196 (out of which current loss of the period ended 31 December 2017 of 9,615 and negative share premium of 580);
- Distribution of dividends to the 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.

On 2 March 2020, the General Shareholders Meeting of Sphera Franchise Group SA approved the distribution of dividends of 13,679 (0.3525 RON/ordinary share) from the undistributed net profit of Sphera Franchise Group SA for the financial year 2018 (Note 29).

Proposed dividends on ordinary shares, subject to approval at the annual general meeting, are not recognised as a liability as at 31 December (Note 29).

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21. PROVISIONS

Provision for tax

During 2018 and 2019, USFN SA was 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).

During 2019, the group has started an administrative procedure against tax review report. The initial report has been annulled in part and a new tax audit has been performed. The new tax audit was finalized in December 2019. As a result, the fiscal authorities issued a new tax audit report and revised down adjustments to income tax and VAT, as well as related interest and late payments penalties. The new tax audit report has not been disputed by the Group and remained final, all liabilities indicated thereof being subsequently settled in February 2020.

As of 31 December 2019, based on the final tax report, the Group recognizes in the consolidated financial statements as of 31 December 2019 a remaining provision for tax in amount of 1,120, representing the estimated VAT (320) and income tax adjustments (353) for the period under review, and the related interest and late payment penalties (447). The net revenue impact of 10,343 coming from reversal of initial provision recognized as at 31 December 2018 (11,463) and the updated value of the provision as at 31 December 2019 (1,120) is recorded in the profit and loss account for the year 2019.

22. TRADE AND OTHER PAYABLES

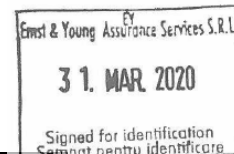
	31 December 2019	31 December 2018
Trade payables	66,626	52,705
Other payables to related parties	222	160
Other payables	906	5,125
Salary liability	26,562	21,186
Social contribution liability	2,068	3,679
Other employee related liabilities	2,332	2,148
Current income tax	2,535	1,803
VAT payable	-	306
Other taxes	445	295
Total	101,696	87,407
Less: non-current portion of other payables	-	4,749
Trade and other payables, current	101,696	82,658

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 30-day terms
- For terms and conditions relating to related parties, refer to Note 26.

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22. TRADE AND OTHER PAYABLES (continued)

The other current and non-current payables are summarized below:

	31 December 2019	31 December 2018
Lease incentives (current and non-current)	-	3,109
Free of charge fit-outs (current and non-current)	-	1,607
Other payables (current)	906	409
Total	906	5,125

The lease incentive amounts relate to accruals recorded by the Group in order to allocate the lease incentives provided by landlords over the contractual period on a straight line basis. The free of charge fit-outs are represented by free of charge fit-out works/cash incentives received from landlords. The Group has recognized the amounts received in other payables and releases it to profit and loss over the contractual period.

23. EBITDA

	Note	2019	2018
Operating profit		76,372	30,130
Adjustments to bridge operating profit to EBITDA:			
Depreciation, amortization and impairment included in restaurant expenses	8.2	71,917	20,458
Depreciation, amortization and impairment included in general and administration expenses	8.2	4,330	1,049
EBITDA		152,619	51,637
Non-recurring expenses		(7,937)	20,722
Normalised EBITDA		144,682	72,359

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

For the year ended 31 December 2019, EBITDA was normalized to exclude the following non-recurring expenses: release of tax provision (10,343), impairment loss of goodwill (2,406).

For the year ended 31 December 2018, EBITDA was normalized to exclude the following non-recurring expenses: impairment loss of goodwill (8,312), expenses for litigations (947) and the income tax and VAT adjustments and related late payment penalties (11,463).

24. EARNINGS PER SHARE (EPS)

	31 December 2019	31 December 2018
Profit attributable to ordinary equity holders of the parent	55,226	24,057
Weighted average number of ordinary shares	38,799,340	38,799,340
Earnings per share, basic and diluted (RON/share)	1.4234	0.6200

There are no dilutive instruments to be considered.

25. COMMITMENTS AND CONTINGENCIES

Group as lessee - Operating lease commitments

The Group has entered into operating lease agreements for the premises of most of its restaurants and several vehicles and equipment. The lease terms are between five and ten years, with very few agreements exceeding ten years period. The contract period of the operating lease agreements for vehicles and office equipment does not exceed five years term. As at 31 December 2018, future minimum rentals payable under non-cancellable operating leases were presented below.

Starting 1 January 2019, the Group applied IFRS 16 Leases, using the modified retrospective approach for transition. 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, unless practical expedients are applicable. A reconciliation between future operating lease commitments as at 31 December 2018 to lease liability as at 1 January 2019 is presented in the Note 4.1 Leases.

	31 December 2018
Within one year	43,243
After one year but not more than five years	114,985
More than five years	66,637
Total:	224,865

Group as lessee - Finance leases

The Group has finance leases for vehicles. The Group's obligations under finance leases are secured by the lessor's title to the leased assets. As at 31 December 2018, future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments were, as follows:

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.

	31 December 2018	
	Minimum payments	Present value of payments
Within one year	458	301
After one year but not more than five years	326	432
More than five years	-	-
Total minimum lease payments	784	733
Less amounts representing finance charges	50	-
Present value of minimum lease payments	734	733

Please see Note 14 for presentation of the maturity profile of the Group's financial lease liabilities, including principal amounts and interests according to contractual terms, at 31 December 2019 and 31 December 2018 based on contractual undiscounted payments.

25. COMMITMENTS AND CONTINGENCIES (continued)

Other commitments

Per the Romania new network development plan signed in October 2017, the Group has agreed with KFC Europe to open a minimum of 39 new KFC locations (out of which 29 standard format restaurants and 10 smaller format restaurants meaning rural drive-thru or an agreed small box design) during the years 2018-2022 (out of which 7 units in 2019). Should the Group fail to achieve these targets, the Group will pay KFC Europe a penalty for each such location; the Group has not paid such penalties to date, being in line with the committed development plan.

Per the Romania new network development plan concluded with Pizza Hut Europe (Master Franchisor) in October 2017, the Group has agreed to open a minimum of 34 outlets (restaurants and pizza delivery) during the years 2017- 2021 (out of which 6 locations in 2019). Should the Group fail to achieve these targets, the Group will pay PH Europe Sarl a penalty for each such location. For the year ended 31 December 2019, the Group has postponed the committed openings for the next years and recognised in the consolidated financial statements a liability for the initial fees due to YUM related to the committed stores not yet realised as at 31 December 2019. Starting 2020, the assumed continuing fees for the restaurants which should have been opened in 2019 will be monthly accrued according to the development plan agreement.

Per the Romania network development plan concluded with TB International Holdings II SARL (the Franchisor) in April 2017, the Group has agreed to open a minimum of 10 Taco Bell restaurants during the years 2017- 2019 (2 restaurants in 2017, 3 restaurants in 2018 and 5 restaurants in 2019).

If the Group exceeds the minimum annual target, the Franchisor grants incentives for the franchise fees. In 2019, the Group increased Taco Bell network by 5 new stores, in line with the committed development plan.

Per the Italy network development plan, the Group has agreed in October 2016 (Tri Veneto region) and August 2017 (Piemonte region) with KFC Europe to open a minimum of 25 KFC locations during the years 2016 - 2022 in the Northern part of Italy. Should the Group fail to achieve these targets, the Group might lose the exclusive franchise rights over the franchised regions. In 2019, the Group extended the Italian network with 5 restaurants. As presented in the Note 29, at the beginning of 2020, the Group agreed with Yum Italy to terminate existing development agreements for these two regions signed (Tri Veneto and Piemonte) and entered into negotiations for new development agreements for other regions in Italy, that would apply for 2021 onwards as the development plan for 2020 is already approved and ongoing.

Bank letter of guarantees

The Group has issued bank letters of guarantee in favour of suppliers as at 31 December 2019 in amount of 15,595 (31 December 2018: 10,449). Letters of guarantee as at 31 December 2019 include a 3,495 bank letter of guarantee issued in favour of tax authorities.

Other contingencies

Taxation

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

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

25. COMMITMENTS AND CONTINGENCIES (continued)

Contingent liabilities may arise in relation to additional tax assessments that may be imposed by the tax authorities as a result of reviews performed. Corporate tax returns can be subject to review by tax authorities within a 5-year period in Romania and Italy and a 4-years period in Republic of Moldova. Recently, there has been an increase in audits carried out by the tax authorities.

Transfer pricing

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

The Group has prepared transfer pricing files.

Legal proceedings

During the period, the Group was involved in a small number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of Management, based on legal advice, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

In 2019, USFN, alongside the owner of the building where one of the KFC drive-through restaurant is operating, has been suited by a third party acting as plaintiff in connection with utilities pipes (electrical, gas and water) [sub]crossing plaintiff’s plot in absence of a pre-agreement. Plaintiff requests from USFN and the landlord, inter alia, payment of liquidated damages in amount of aprox. 705. Given the court proceedings is still incipient (not even the first hearing took place), a result cannot be fully anticipated.

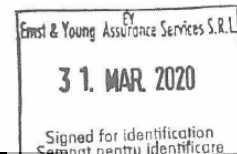
26. RELATED PARTY DISCLOSURES

During the years ended 31 December 2019 and 31 December 2018, 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 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 (until November 2019)	Romania	Rent and utilities administrative area (2018); payment of dividends
Wellkept Group SA	Shareholder	Romania	Rent training center and payment of dividends
Tatika Investments Ltd.	Shareholder	Cyprus	Payment of dividends

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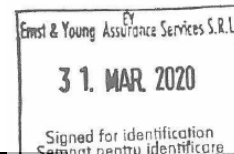
<u>Related party</u>	<u>Nature of the relationship</u>	<u>Country of incorporation</u>	<u>Nature of transactions</u>
Computerland Romania SRL	Shareholder	Romania	Payment of dividends
Cinnamon Bake&Roll SRL	Entity with several common members of key management personnel	Romania	Sale of goods and services, 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:

<u>Related party</u>	<u>31 December 2019</u>	<u>Sales to related parties</u>	<u>Purchases from related parties</u>	<u>Amounts owed by related parties</u>	<u>Amounts owed to related parties</u>
Cinnamon Bake&Roll SRL		2	5	954	3
Moulin D'Or SRL		954	35	159	2
Lucian Vlad			276	-	-
Radu Dimofte			114	-	-
Wellkept Group SA			462	-	-
Anasa Properties SRL			-	-	-
Midi Development SRL		17	149	1	73
Grand Plaza Hotel SA			1,071	-	33
Arggo Software Development and Consulting SRL			509	-	12
Elicom SRL		-	1,196	-	98
Elicom Connect SRL		-	11	-	1
		973	3,828	1,114	222
Related party	31 December 2018				
Cinnamon Bake&Roll SRL		4	7	1,271	2
Moulin D'Or SRL		1,529	40	854	5
Lucian Vlad			522	-	-
Radu Dimofte			154	-	-
Wellkept Group SA			416	-	-
Anasa Properties SRL		3	52	-	-
Midi Development SRL		16	152	4	26
Grand Plaza Hotel SA			1,005	-	97
Arggo Software Development and Consulting SRL			442	-	30
Elicom SRL		-	868	-	169
Elicom Connect SRL		-	10	-	1
		1,552	3,668	2,129	330

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26. RELATED PARTY DISCLOSURES (continued)

The Group has granted a loan to Cinnamon Bake&Roll SRL. The loan balance as at 31 December 2019, included in the balances presented above, was of 734 (31 December 2018: 924) and the interest accrual as at 31 December 2019 was of 51 (31 December 2018: 42).

Rent paid in advance as at 31 December 2019 to the above mentioned related parties amounts to 30 (31 December 2018: 44).

Intangibles in progress include an amount of 949 (31 December 2018: 956) representing the capital expenditure related to the new ERP system implementation services provided by Arggo Software and Development SRL.

In 2019, Sphera Franchise Group SA paid dividends to its shareholders of a total gross amount of 13,673, (representing 0.3524 RON/ordinary share), as approved by the Annual General Shareholders Meeting held on 25 April 2019.

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 years ended 31 December 2019 and 31 December 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:

	<u>2019</u>	<u>2018</u>
Short-term employee benefits	10,663	9,841
Total compensation paid to key management personnel	<u>10,663</u>	<u>9,841</u>

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

27. 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

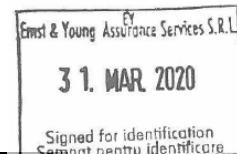
The Group has also two more immaterial operating segment, being one Paul restaurant which is managed by USFN and which was aggregated into the KFC segment and the management and other support services provided by Sphera to other related parties.

The Group's service revenues resulting from the contracts signed with other related parties are presented in the "Other" category (971). The Parent company's service revenues rendered to its subsidiaries are presented in the "Inter-segment revenues" line and eliminated during consolidation.

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 special purpose financial statements.

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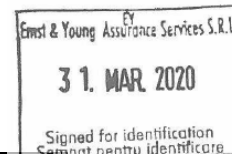
27. SEGMENT INFORMATION (continued)

2019	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	789,402	131,728	32,627	971	-	954,728
Inter-segment revenues	-	-	-	29,389	(29,389)	-
Dividend revenues				51,239	(51,239)	-
Operating expenses	702,817	135,012	33,371	49,472	(42,315)	878,357
Segment operating profit	86,585	(3,284)	(744)	32,127	(38,313)	76,372
Finance costs	13,705	3,170	1,657	1,797	(2,792)	17,538
Finance income	944	10	-	2,004	(2,792)	166
Income taxes	1,403	1,560	238	337	-	3,538
Net profit/(loss)	72,421	(8,004)	(2,640)	31,998	(38,313)	55,462
Total assets	459,009	67,672	38,923	108,256	(53,631)	620,229
Total liabilities	363,911	82,148	46,219	54,907	(99,207)	447,978
Capital expenditure	61,745	2,588	11,333	779	(127)	76,318
Depreciation of right of use assets	32,598	10,274	2,352	1,153	-	46,377
Depreciation, amortization and impairment of other non-current assets	21,411	6,480	1,392	2,993	-	32,276
2018	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	634,837	122,820	12,033	1,507	-	771,197
Inter-segment revenues	-	-	-	25,007	(25,007)	-
Dividend revenues				61,798	(61,798)	-
Operating expenses	586,955	127,671	14,731	48,207	(36,499)	741,067
Segment operating profit	47,882	(4,851)	(2,698)	40,105	(50,306)	30,130
Finance costs	2,079	949	521	1,268	(1,714)	3,102
Finance income	849	7	-	965	(1,714)	108
Income taxes	1,054	1,448	108	264	-	2,874
Net profit/(loss)	45,598	(7,242)	(3,327)	39,538	(50,306)	24,262
Total assets	234,865	48,846	14,904	78,777	(25,241)	352,152
Total liabilities	177,614	55,760	19,934	43,754	(73,736)	223,326
Capital expenditure	58,730	10,129	6,350	2,451	(123)	77,537
Depreciation, amortization and impairment	15,569	5,115	600	8,675	-	29,959

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

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27. SEGMENT INFORMATION (continued)

Geographic information:

Revenue from external customers	2019	2018
Romania	844,970	722,821
Italy	98,430	38,613
Republic of Moldova	11,328	9,763
Total restaurant revenue	954,728	771,197

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

Non-current assets	31 December 2019	31 December 2018
Romania	371,457	181,033
Italy	132,268	45,946
Republic of Moldova	4,422	2,194
Total	508,147	229,173

Non-current assets consist mainly on leasehold improvements and kitchen related equipment. As at 31 December 2019, as a result of adoption of IFRS 16 Leases, non-current assets include also right of use assets.

Transfer prices between operating segments are on an arm's length's basis in a manner similar to transactions with third parties.

28. AUDITOR'S FEES

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

The fee for the statutory audit of the consolidated and standalone financial statements as of 31 December 2019 of Sphera Franchise Group SA prepared in accordance with MOF 2844/2016 and of the statutory audit of the financial statements as of 31 December 2019 of US Food Network SA and American Restaurant System SA in accordance cu MOF 1802/2014 and of the statutory audit of US Food Network Srl Italy was of 561 (excluding VAT).

Other non-assurance services amounted 47 (excluding VAT) in connection with the procedures performed by the audit company for the Group's half-yearly related parties' reports, prepared in accordance with the stock exchange regulations.

29. EVENTS AFTER THE REPORTING PERIOD

Proposed profit distribution for the financial year 2019

For the year ended 31 December 2019, the Board of Directors has proposed to the shareholders' approval, the following allocation 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 2019:

- Setting up the legal reserves in accordance with the statutory regulations in amount of 1,617.
- Profit not distributed of 30,382.

New openings

On 17 January 2020, the Group opened the 100th KFC restaurant of the portfolio in Rome Tiburtina train station, Italy.

Increase of share capital of American Restaurant System SA

On 27 February 2020, the Extraordinary General Shareholders Meeting of American Restaurant System SA approved the increase of share capital of the Company with the value of 20,000 (from 95 to 20,095) by converting a part of the loan granted by Sphera Franchise Group SA (20,000) and cash contribution from Lunic Franchising and Consulting LTD (0.006), the shareholding structure remaining unchanged.

Payment of dividends for 2018

On 2 March 2020, the General Shareholders Meeting of Sphera Franchise Group SA has approved the distribution of dividends in total gross amount of 13,679 (0.3525 RON/ordinary share) from the undistributed net profit of Sphera Franchise Group SA for the financial year 2018. The payment of the dividends will start on 31 March 2020.

Development commitments – USFN Italy

At the beginning of 2020, USFN Italy was operating a total of 16 stores, higher than the target. However, 4 stores were opened in areas other than those with exclusive franchise rights. Hence, Yum Italy and USFN Italy agreed to terminate the existing development agreements for the two regions signed in 2016-2017 (Triveneto and Piemonte) and entered into negotiations for new development agreements that would apply for 2021 onwards as the development plan for 2020 is already approved and ongoing.

The emergency state that the Italian government has applied in the country due to the coronavirus epidemic and the consecutive measures which directly affect restaurant operations do not allow for the time being these negotiations to be concluded. Both parties are monitoring the evolutions and will resume when a clear picture of the market will be in place.

Coronavirus impact on business

The coronavirus outbreak occurred at a time close to reporting date and the condition has continued to evolve throughout the period to the consolidated financial statements approval date.

Management assessment is that the measures taken by various authorities in 2020, in the countries where Group operations are located, represent a non-adjusting event and should not be reflected in the valuation of assets and liabilities of the Group as at 31 December 2019. Being in the early stages of the outbreak, the high level of uncertainties due to the unpredictable outcome of this disease make it difficult to estimate the financial effects of the outbreak.

The Group operates 16 KFC Franchise restaurants in the Northern part of Italy, which account about 10% of the Group sales. During March 2020, the Italian government announced special measures to mitigate the spread of the coronavirus epidemic in the country.

29. EVENTS AFTER THE REPORTING PERIOD (continued)

Under the current circumstances, based on the consecutive measures of the Italian government, the execution of the development plan of 2020 may suffer some delays not being able to guarantee its feasibility in terms of supplies required, human resources mobilization and other logistics or regulatory factors.

The Romanian authorities have also taken a number of measures to combat the spread of the epidemic, including the declaration of a state of emergency, starting on 16 March 2020. The measures included the closure, among other things, of restaurants and bars.

Starting 20 March 2020, the restaurants are closed, with the temporary closure estimated to last until 21 April 2020. However, the order also provides the permission to commercialize food and alcoholic and non-alcoholic beverages that do not require clients to remain in the spaces designated to consumption, as „drive-in”, „room-service” or customer delivery services. Therefore, KFC and Pizza Hut Delivery will continue to serve products to its customers only through the delivery service for both brands, as well as the dedicated car lines in Drive Thru in KFC, available both in Bucharest and around the country. Pizza Hut Dine-in and Taco Bell restaurants will remain closed until further decisions of the Romanian authorities.

The high level of uncertainty caused by the coronavirus outbreak will lead to a highly volatile market environment in the following months and the subsequent measures imposed by the various authorities, if any, in the countries where Group operations are located will potentially further adversely impact the overall current operations and the Group’s results for the next period.

Actions taken or in progress to be taken by the Group in order to maintain the viability of the group and its business lines include, without being limited to, reducing expenses in the context of the support measures announced by the Romanian Government (salaries for staff in technical unemployment, renegotiation or suspension of rent by obtaining certificates of force majeure), reducing the working schedule of the non-critical headquarter employees, ongoing negotiations with suppliers of services in order to suspend or significantly reduce the fees for their services rendered to Sphera Group. Ongoing discussion are initiated with banks for increasing available liquidity to the Group, in the event the current crisis will extend for a longer period.

The Management’s position is that the currently taken measures will ensure the business continuity and thus the going concern principle remains applicable for these financial statements.

Chief Executive Officer & Chairman of the Board of Directors

Georgios Argentopoulos



Chief Financial Officer

Valentin Budes



SPHERA FRANCHISE GROUP SA

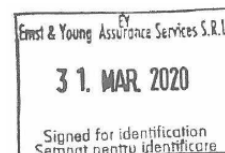
CONSOLIDATED AND STANDALONE DIRECTORS' REPORT

Prepared in accordance with Ministry of Public Finance Order no. 2844/2016

Year ended 31 December 2019

**SPHERA FRANCHISE GROUP SA
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1. CORPORATE INFORMATION

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

Sphera Franchise Group SA together with its subsidiaries: US Food Network SA (“USFN”), US Food Network SRL Italy (“USFN Italy”), US Food Network SRL Moldova (“USFN Moldova), California Fresh Flavors SRL (“Taco Bell”) and American Restaurant System SA (“ARS”) form “the Group” (or “SFG”).

Sphera Group is the leading food service operator in Romania and operates quick service and takeaway restaurant concepts (a chain of 99 restaurants) under the Kentucky Fried Chicken (“KFC”), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (23 restaurants as at 31 December 2019) as well as pizza delivery points (22 locations as at 31 December 2019) under the Pizza Hut (“PH”) and Pizza Hut Delivery (“PHD”) brands, spread across Romania, one chain of restaurants under the “Taco Bell” brand (10 restaurants as at 31 December 2019) and one restaurant under Paul brand, in Romania. The Group’s number of employees at 31 December 2019 was 6,084 (31 December 2018: 5,514).

Sphera Franchise Group SA has prepared separate financial statements for the year ended 31 December 2019 in accordance with Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards (IFRS) and annual consolidated financial statements for the year ended 31 December 2019 in accordance with IFRS, as endorsed by the EU. Separate financial statements and consolidated financial statements of Sphera Franchise Group SA are public and may be obtained from the company’s website, www.spheragroup.com.

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

2. GROUP STRUCTURE

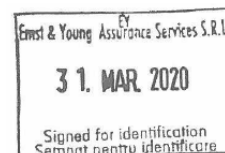
Details of the Sphera’s investments in controlled companies representing also the Group’s consolidated subsidiaries as at 31 December 2019 and 31 December 2018 are as follows:

Company name	Country of incorporation	Field of activity	Control 31 December 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 Flavors SRL	Romania	Restaurants	99.9900%	99.9900%
US Food Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%	100.0000%

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). In June 2017, Sphera set up the newest subsidiary of the Group, California Fresh Flavors, bringing in its portfolio the Taco Bell brand.

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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 which operates the KFC franchise in Moldova, 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 operating 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.

California Fresh Flavors SRL ("Taco Bell") was set up on 19 June 2017 and operates Taco Bell franchise in Romania. Sphera owns 99.99% of the company's shares. The company operates as a limited liability company and is registered at No. 239 Calea Dorobanti, Bucharest, Romania.

3. SHAREHOLDERS AND ISSUED CAPITAL

The shareholders of Sphera Franchise Group SA at 31 December 2019 are: Tatika Investments Ltd. (27.33%), Computerland Romania SRL (21.44%), Wellkept Group SA (16.34%), Lunic Franchising and Consulting LTD (10.99%) and free float (23.90%).

As of 31 December 2018, the shareholders of Sphera Franchise Group SA were: Tatika Investments Ltd. (27.33%), Computerland Romania SRL (20%), Wellkept Group SA (16.34%), Anasa Properties SRL (10.99%) and free float (25.34%).

On 22 November 2019, Anasa Properties SRL transferred its shares hold with Sphera Franchise Group SA, representing 10.99% of the Company's shareholding, to Lunic Franchising and Consulting Ltd.

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

4. CORPORATE GOVERNANCE

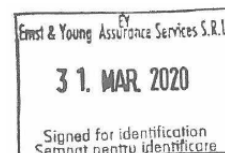
The Group adhered to the Corporate Governance Code issued by the Bucharest Stock Exchange and applies the principles of corporate governance provided by the Code.

The Group has taken and will continue to take the professional, legal and administrative steps necessary for ensuring compliance with the provisions of the Code.

More details about the compliance with the principles and recommendations stipulated under the Corporate Governance Code issued by the Bucharest Stock Exchange will be presented in the Group's Annual Report.

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5. MANAGEMENT OF THE COMPANY AND OF THE GROUP

Company is managed by the Board of Directors. Its members are appointed for a mandate of 4 years.

The structure of the Board of Directors as of 31 December 2019 was the following:

Name	Date of appointment	Title	Role
Georgios Argentopoulos	25 April 2019	Chairman of the BoD	Executive member
Anastasios Tzoulas	25 April 2019	Vice-Chairman of the BoD	Independent member
Lucian Hoanca	25 April 2019	Member of the BoD	Non-executive member
Silviu Gabriel Cârmaciu	25 April 2019	Member of the BoD	Non-executive member
Georgios Vassilios Repidonis	25 April 2019	Member of the BoD	Non-executive member
Valentin Arnaoutou	25 April 2019	Member of the BoD	Non-executive member
Razvan Stefan Lefter	25 April 2019	Member of the BoD	Independent member

On April 08th, 2019, Mr. Mark Nicholas Hilton announced his resignation from the position of Director of the Company, starting April 30th 2019, as the last mandate day.

On April 08th Mr. Georgios Argentopoulos is appointed as Director of the Company, for a mandate of 4 years, starting with May 01st, 2019.

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

Name	Title	Date of Appointment
Georgios Argentopoulos	Chief Executive Officer (CEO)	April 8 th , 2019 (effective May 1 st , 2019)
Valentin-Ionut Budes	Chief Financial Officer (CFO)	March 7 th , 2019 (effective May 9 th , 2019)
Cristian Osic	Chief Development Officer (CDO)	July 8 th , 2019 (effective September 1 st , 2019 - new mandate)
Călin Viorel Ionescu	Chief Operating Officer (COO)	July 8 th , 2019 (effective September 1 st , 2019 - new mandate)
Oana Monica Eftimie	Chief Marketing Officer (CMO)	July 8 th , 2019 (effective September 1 st , 2019 - new mandate)

On March 7th, 2019, the Board of Directors of the Company has appointed Mr. Valentin- Ionut Budes as Chief Financial Officer, for a mandate of 4 years, starting with May 9th, 2019.

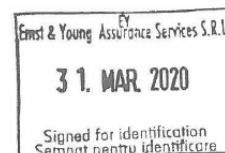
On July 8th, 2019, the Board of Directors approved the mandate extension for a 4-year duration for the executive directors in office, respectively, Mr. Cristian Osic – CDO, Mr. Calin Ionescu - COO and Mrs. Oana Monica Eftimie - CMO, effective as of September 1st, 2019, as per the scheme above.

Consultative committees

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

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6. PRINCIPAL SCOPE OF BUSINESS

The Group's franchised foodservice business was launched in 1994 with the opening of the first Pizza Hut location, which was followed by the opening in 1997 of the first KFC location, both in Bucharest. As at 31 December 2019, the Group operates 155 restaurants, of which 99 KFC restaurants (82 restaurants located in Romania, 2 restaurants located in the Republic of Moldova and 15 restaurants in Italy), 45 Pizza Hut units (of which 22 are delivery units), 10 Taco Bell units and one restaurant under Paul brand. Through USFN (Romania), with restaurant sales of RON 680 million in 2019, we are the second largest restaurant group in the quick-service restaurant sector in Romania and, through ARS (Romania), with restaurant sales of RON 132 million in 2019, we are the largest restaurant group in the full-service restaurant sector in Romania.

Our business is conducted through the following segments:

- Quick-service restaurants - through our KFC restaurants (in Romania, the Republic of Moldova and Italy) and Taco Bell restaurants (in Romania);
- Full-service restaurants - through our Pizza Hut Dine-In restaurants in Romania;
- Delivery restaurants - through our Pizza Hut delivery units in Romania.

KFC is the leading chicken restaurant chain in Romania in terms of both total sales and number of restaurants. The first KFC restaurant in Romania opened in 1997 in Bucharest and, at the end of 2019, there were 82 KFC restaurants in Romania. In 2008, we opened the first KFC restaurant in the Republic of Moldova, where we currently operate two restaurants (both in Chisinau), while in 2017 we opened our first two restaurants in Italy, where we currently operate 15 restaurants spread across the northern region of Italy.

Of the 82 KFC restaurants operating in Romania as at 31 December 2019, 52 are food court locations (in malls or commercial centres), 14 are inline (street locations), while another 16 are Drive-Thru locations. In 2018, KFC Romania has also launched the delivery activity, which now carried out from 30 stores in Bucharest and another 11 cities.

In our KFC restaurants, we sell food and beverages products either individually or part of a price-attractive bundle labelled "menu". Generally, the menus include three main components: a portion of a chicken-based product (sandwiches, wrappers or pieces of chicken meat), a medium-sized portion of French fries and a medium-sized non-alcoholic drink. For an additional price, our customers can choose to opt for the "Go Large" version of the menu, which consists of large-sized portions of French fries and non-alcoholic drink. A dipping sauce is also offered in some menu offers. Whereas menus are normally sized for one person, we also offer products, called Buckets, that are targeted for group consumption (normally, up to four persons). Buckets generally consist of higher number of chicken meat pieces and some include portions of French fries and non-alcoholic drinks.

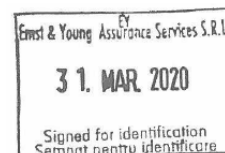
Pizza Hut is the largest casual dine-in restaurant chain in Romania in terms of both total sales and number of restaurants. The first Pizza Hut Dine-In restaurant opened in 1994 in Bucharest and, as at 31 December 2019, there were 23 Pizza Hut Dine-In restaurants across the major cities of Romania. In 2008, we opened the first delivery restaurant, and by the end of the year 2019, our Pizza Hut Delivery network totalled 22 restaurants.

Of the 23 Pizza Hut Dine-In restaurants operating in Romania as at 31 December 2019, 20 are located near food courts with our dedicated seating (in malls or commercial centres) and 3 are inline (street locations). At the same time, 12 out of the 22 Pizza Hut Delivery restaurants were located within commercial centres, while the remaining 10 were inline locations.

In our Pizza Hut restaurants, we primarily sell pizza (a wide range of traditional and proprietary recipes, on a variety of dough types, such as pan, classic, thin, Italian, cheesy bites, crown crust) and pasta, other main-course products (such as burgers and ribs) as well as beverages (primarily non-alcoholic) and deserts.

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7. OVERVIEW ON FINANCIAL RESULTS

7.1 Consolidated financial results

Consolidated results for the years ended 31 December 2019 and 31 December 2018 are presented below:

	2019 (1)	2019 (2) (unaudited)	2018
Restaurant sales	954,728	954,728	771,197
Restaurant expenses	828,333	830,448	668,019
Restaurant operating profit	126,395	124,281	103,178
General and administration expenses, net	50,023	50,519	73,048
Operating profit	76,372	73,761	30,130
Finance result	(17,372)	(5,815)	(2,994)
Profit before tax	59,000	67,946	27,136
Income tax expense	3,538	3,779	2,874
Profit for the period	55,462	64,167	24,262
EBITDA	152,619	103,926	51,637
Normalized EBITDA	144,682	95,989	72,359

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

Starting 1 January 2019, Sphera Group applied *IFRS 16 Leases* that sets out the principles for the recognition, measurement, presentation and disclosure of leases, as extensively presented in the financial statements, separate and consolidated. IFRS 16 requires lessees to account for most leases under a single on-balance sheet model like the accounting for finance leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

In order to ensure comparability with the previous year financial results, the management financial analysis of the Group's performance has not considered the impact of adoption of this new standard.

Consolidated sales of Sphera reached RON 954.7million for the year 2019, representing an increase of 23.8% compared to the previous year. The main drivers for this performance were the growth in the sales of USFN Romania (KFC restaurants) (+15.9% Y/Y), which had a contribution of 16.9 pp in the consolidated sales growth rate. ARS (Pizza Hut restaurants) contributed with 3.3 pp in the consolidated sales growth rate. Our KFC operations in Italy contributed 2.5 pp in the consolidated sales growth rate (the Y/Y increase being of 154.9% as effect of new restaurants openings and maturity reaching for those opened a year before). Taco Bell operations in Romania contributed another 0.8 pp in the consolidated sales growth rate (Y/Y increase of 171.2%).

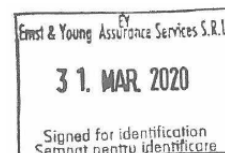
Consolidated operational expenses reached RON 830.5 million in the year 2019, representing an increase of 24.3% compared to the previous year. As percentage of sales, operational expenses increased by 0.4 pp year-on-year to 87.0% in the year 2019 from 86.6% in 2018. The stable evolution of this percentage is the effect of the control of cost of goods sold (-2.3 pp decrease versus 2018 as percentage from sales) which compensated the necessary increase in labour cost (+1.6 increase versus 2018 as percentage from sales).

General and administration (G&A) expenses decreased to RON 50.5 million in the year 2019 (5.3% of sales), lower with 30.8% compared to previous year (9.5% of sales). Excluding non-recurring expenses from the results of both years, G&A expense reached 58.5 million in the year 2019 (6.1% of sales), up 11.7% compared to the previous year 6.8% of sales).

As a reminder, for the 2018 non-recurring expenses included in the G&A category amount to RON 20.7 million, of which RON 11.5m represents a provision for potential liabilities (VAT and late penalties) that Sphera recognised upon receiving the draft report issued by the tax authorities on 27 February 2019, following the tax audit performed at USFN RO by the fiscal authorities for the periods 2013-2017 (VAT) and

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2012-2016 (income tax), RON 8.31 million represents an impairment loss in relation with the goodwill recorded on the acquisition of ARS, while another RON 0.95 million refer to the compensations claimed in court and paid to a former employee who has suffered injuries in a work accident.

For the year 2019 non-recurring expenses included in the G&A category is in amount of -7.9 million. The amount includes the reversal of the tax provision made in 2018 in amount of RON 10.3 million and a further impairment loss in relation with the goodwill recorded on the acquisition of ARS of RON 2.4 million.

On a stand-alone basis, G&A expenses of the Parent company include an impairment loss of investment in ARS in amount of RON 15.5 million (2018: RON 19,8 million); this impairment loss may be reversed in the future financial years, subject to a better performance of the subsidiary.

Net consolidated profit reached RON 64.2 million in the year 2019, being 164.5% higher than in the previous year. The net profit margin decreased 3.6 pp to 6.7% of sales in the year 2019.

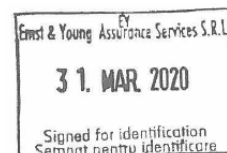
	2019 (1)	2019 (2) (unaudited)	2018
Operating profit	<u>76,372</u>	<u>73,761</u>	<u>30,130</u>
Adjustments to bridge operating profit to EBITDA:			
Depreciation and amortization included in restaurant expenses	71,917	28,640	20,458
Depreciation and amortization included in general and administration expenses	4,330	1,525	1,049
EBITDA	<u>152,619</u>	<u>103,926</u>	<u>51,637</u>
Non-recurring general and administration expenses	(7,937)	(7,937)	20,722
Normalised EBITDA	<u>144,682</u>	<u>95,989</u>	<u>72,359</u>

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

Normalized EBITDA advanced 32.7% Y/Y to RON 96.0 million in the year 2019, while EBITDA increased 101.3% Y/Y to RON 103.9 million. Normalized EBITDA margin is higher with 0.7 pp to 10.1% in the year 2019, mainly as a result of a 0.7 pp improvement in the normalized G&A expenses (as percentage of sales).

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A summary of consolidated financial position as of ended 31 December 2019 and 31 December 2018, respectively is presented below:

	31 December 2019 (1)	31 December 2019 (2) (unaudited)	%	31 December 2018	%
Non-current assets					
Total	508,147	281,009	71%	229,173	65%
Non-current assets	279,026	281,009	71%	229,173	65%
Right-of-use assets	229,121	-		-	
Current assets Total	112,082	114,974	29%	122,979	35%
Total assets	620,229	395,983	100%	352,152	100%
Total equity	172,251	177,723	45%	128,826	37%
Non-current liabilities					
Total	265,596	76,184	19%	91,536	26%
Non-current liabilities	75,523	76,184	19%	91,536	26%
Lease liabilities (IFRS 16)	190,073	-		-	
Current liabilities Total	182,381	142,076	36%	131,790	37%
Current liabilities	137,242	142,076	36%	131,790	37%
Lease liabilities (IFRS 16)	45,139	-		-	
Total liabilities	447,978	218,261	55%	223,326	63%
Total equity and liabilities	620,229	395,983	100%	352,152	100%

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

In order to ensure comparability with the previous year financial results, the management financial analysis of the Group's financial position has not considered the impact of adoption of this new standard.

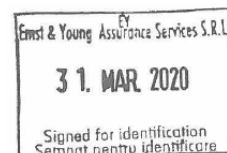
Consolidated total assets increased with 22.6% Y/Y to RON 396.0 million as of 31 December 2019, driven mainly by a 22.6% Y/Y increase in non-current assets (as a result of the opening of new stores).

Total liabilities decreased slightly with 2.3% Y/Y to RON 218.3 million as of 31 December 2019, of which 49.5% were accounted for interest-bearing loans (having a descend of -13.2% Y/Y to RON 108.0 million, as effect of loan repayment) and another 48.8% were accounted for by trade and other payables (up with 21.8% Y/Y to RON 106.5 million).

Consolidated total equity grew by 38% Y/Y to RON 177.7 million, as a result of the net profit achieved by the Group during the year 2019.

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Main consolidated financial ratios as at 31 December 2019

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

	<u>2019(1)</u>		<u>2019(2)</u>		<u>2018</u>
Current ratio					
<u>Current assets</u>	112,082	= 0.61	114,974	= 0.81	122,979
<u>Current liabilities</u>	182,381		142,076		131,790
Debt to Equity ratio					
<u>Interest-bearing debt</u>	263,690	= 153.08%	73,617	= 41.42%	86,787
<u>Equity</u>	172,251		177,724		128,826
<u>Interest-bearing debt</u>	263,690	= 60.49%	73,617	= 29.29%	86,787
<u>Capital employed</u>	435,941		251,341		215,613
Trade receivables turnover (days)					
<u>Average receivables</u>	27,867	= 10.51	27,867	= 10.51	12,449
<u>Sales</u>	954,728		954,728		771,197
Fixed asset turnover					
<u>Sales</u>	954,728	= 1.94	954,728	= 3.58	771,197
<u>Net fixed assets</u>	493,371		266,476		220,272

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

7.2 Standalone financial results of Sphera Franchise Group SA

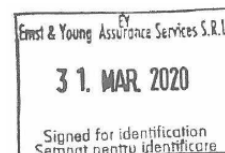
	<u>2019</u>	<u>2018</u>
Dividend revenue	51,239	61,798
Revenue from services	30,360	26,514
Payroll and employee benefits	25,717	21,598
Impairment loss of investments in subsidiaries	15,457	19,804
Other expenses	8,297	6,805
Operating profit	32,128	40,105
Financial result	207	(303)
Profit before tax	32,335	39,802
Income tax	337	264
Net profit for the period	31,998	39,538

The Company's revenues include dividend income from subsidiaries (US Food Network SA and US Food Network SRL – Republic of Moldova) and revenues from services rendered. Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established which is generally when shareholders approve the dividend.

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

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At each reporting date, management assesses whether there is any indication of impairment investments in subsidiaries. As of 31 December 2019, the assessment whether there are indicators of impairment for its cost of investment in subsidiaries, was as follows:

- USFN and USFN Moldova's activities in 2019 have continued in line or at better performance than anticipated through the cash flow projections based on which their fair value (USFN 519,704 and USFN Moldova: 1,735) was determined in May 2017, therefore no impairment indicator was identified;
- USFN Italy, that started activity during 2017, has performed in 2019 as anticipated through the cash flow projections and no impairment indicator was identified;
- Taco Bell has performed in 2019 in accordance with management's expectation, therefore no impairment indicator was identified to adjust its actual carrying value (100);
- Pizza Hut's performance in 2018 and 2019 was below the cash flow projections based on which their fair value was determined in May 2017. Management estimated the recoverable amount of the investment at 57,274 (2018: 63,483) based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2020-2024). The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor. As a result of the analysis, as compared to the investment carrying value of 60,786 and also considering the loan granted to ARS of 31,750 (2018: 22,500) and the impairment loss already recognized in the financial statements as at and for the year ended 31 December 2018 of 19,804, there was a decrease of the investment's recoverable amount of additional 15,457 for which the Company recognized an impairment loss in the financial statements as at and for the year ended 31 December 2019. This impairment loss may be reversed in the future financial years, subject to improving performance of the subsidiary.

Net profit for the year was 31,998 (2018:39,538), decrease determined by the lower dividends received from its subsidiaries in 2019.

In what regards the financial position, the main elements of the balance sheet as of 31 December 2019 are detailed below:

	31 December 2019	%	31 December 2018	%
Assets				
Non-current assets	593,368	87%	583,833	89%
Current assets	91,197	13%	71,254	11%
Total assets	684,565	100%	655,087	100%
Equity and liabilities				
Total equity	629,658	92%	611,333	93%
Non-current liabilities	38,423	6%	35,992	5%
Current liabilities	16,484	2%	7,762	1%
Total liabilities	54,907	8%	43,754	7%
Total equity and liabilities	684,565	100%	655,087	100%

Besides cash, current assets refer to loans granted to the subsidiaries of 58,425 (31 December 2018: 41,922), amounts invoiced to related parties for management and support services of 8,750 (31 December 2018: 8,925) and tax receivables of 4,044 (31 December 2018: 0).

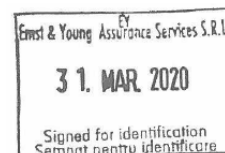
Non-current assets comprise mainly net investments in subsidiaries of 576,704 (31 December 2018: 576,309).

Current and non-current liabilities are mainly in relation to the lease liabilities from lease of office premises and administrative vehicles and the bank loan and one of its subsidiaries, US Food Network SA.

Other non-current assets refer to receivables from third parties 7,004 (31 December 2018 3,583), property, plant and equipment and intangible assets 2,659 (31 December 2018: 2,566), right-of-use assets resulting from adoption of IFRS 16 of 5,963 and deferred tax asset recognized for the fiscal loss carried forward 999 (31 December: 1,336).

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8. DIVIDEND DISTRIBUTION

	<u>2019</u>	<u>2018</u>
Dividends declared and paid during the period:		
To shareholders of Sphera Franchise Group SA	13,673	-
To non-controlling interests	216	93
Total dividends for the period	<u>13,889</u>	<u>93</u>
Dividends per share (RON/share) – Sphera’s shares	0.3524	-

On 25 April 2019, the General Shareholders Meeting approved the proposal of the Board of Directors to distribute dividends in total amount of 13,673 (0.3524 RON/ordinary share), based on the Sphera’s net profit attributable to stockholders. The payment of the dividends started on 25 October 2019.

On 2 March 2020, the General Shareholders Meeting of Sphera Franchise Group SA approved the second distribution of dividends in total gross amount of 13,679 (0.3525 RON/ordinary share) from the undistributed net profit of Sphera Franchise Group SA for the financial year 2018. The payment of the dividends will start on 31 March 2020.

For the year ended 31 December 2019, the Board of Directors has proposed to the shareholders’ approval, the following allocation 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 2019:

- Setting up the legal reserves in accordance with the statutory regulations in amount of 1,617;
- Profit not distributed of 30,382

9. KEY FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATIONS

The Group’s results of operations have been and are expected to continue to be affected by a number of key factors.

General economic environment in the markets

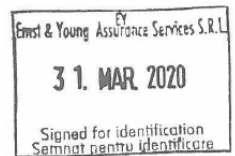
The Group’s results of operations are affected by specific local economic conditions in the markets and geographic areas in which it operates. Such conditions include levels of employment, commodity inflation, real disposable income, private consumption, the availability of consumer credit, consumer confidence, applicable taxes, and consumer willingness to spend. In an unfavourable economic environment with a decrease in disposable income, the Group’s customers may reduce the frequency with which they dine out or order-in or may choose more inexpensive dining options. This trend is however offset by the general affordability of our products, as customers may substitute the Group’s products for other, more expensive, options. Positive economic conditions, in contrast, tend to increase consumer demand for the Group’s products. Changes in general economic conditions therefore affect customer traffic, average ticket price and the Group’s ability to pass through cost increases to customers.

Competitive environment

The Group operates in a highly competitive market, particularly with respect to food quality, price, service, convenience and concept, which in turn may be affected by considerations such as changes in consumer preferences. The Group competes against international chains, as well as many national, regional and local businesses in the quick-service, casual dine-in and delivery/takeaway restaurant sectors not only for customers, but also for management and store employees, suitable real estate sites and qualified sub-franchisees. This competition can put downward pressure on product prices and demand for the Group’s products as well as upward pressure on wages and rents, resulting in reduced profitability. The presence of food-aggregators contributes also to the increase of the competition on a segment where the Group had a relatively safe position.

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Price risk

Cost of sales represents the most significant expense of the Group. Gross margin is affected by a number of factors, including movements in the cost of sales (including with respect to the prices of raw materials), the extent to which the Group can negotiate favourable prices and rebates from suppliers as well as the mix of products that it sells from time to time.

The Group seeks to procure its principal inputs from multiple suppliers, in the event that the Group's primary suppliers cannot deliver the components in the contracted amounts and specifications, the Group's requirements exceed the Group's minimum contracted amounts or the Group is subjected to unanticipated price increases. Prices of the Group's raw materials are generally set by market conditions and the Group is not always able to pass these changes along to the Group's customers, particularly in the short term. The Group seeks to manage factors which put pressure on the Group's gross margin. For example, the Group maintains relationships with additional suppliers.

Payroll

Cost of labour represent our second most important expense and was the fastest growing expense item at restaurant level. It is expected that personnel costs to grow proportionally with the growth of the number of the restaurants and our restaurant revenue complemented by appropriate increase in sales prices. Factors that influence fluctuations in the labour costs include minimum wage and payroll tax legislation, the frequency and severity of labour-related claims, health care costs, the performance of our restaurants, new openings and whether new employees are fixed overhead costs or are restaurant hires.

Marketing and advertising activities

The Group's marketing and advertising activities are an essential part of attracting new customers as well as retaining existing customers. Marketing is particularly important for the Group to communicate its product innovation and price promotion programs to customers and to reinforce the Group's brand awareness, build the Group's image and drive customer volumes. According to the franchise agreements signed so far, the Group is obliged to spend at least 5% of its restaurant sales on marketing and advertising activities.

The effectiveness of the marketing and advertising activities can vary from one year to another and from one campaign to another, depending on the products under promotion, the quality of our communication as well as on the ability of our employees to communicate to customers the ongoing campaigns and promote trade-up products.

The Group also monitors closely the expenditure and frequency of marketing and advertising campaigns by the Group's competition and seeks to maintain a relatively constant presence in the market.

Product liability claims or poultry related health pandemics could have a negative impact on consumers' confidence in the safety and quality of our products

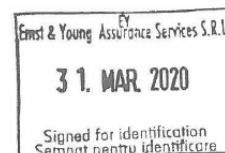
The Group may from time to time be involved in product liability claims typical for the food industry, such as product alteration or injury following consumption.

Also, incidents of health pandemics, food-borne illnesses or food tampering could force the Group to close a number of restaurants for an undetermined period of time. Widespread illnesses such as avian influenza, the H1N1 influenza virus, e-coli, or hepatitis A generally affecting the population may cause customers to avoid certain products, resulting in lack of confidence from customers in the products offered by the Group, especially in poultry food. What is more, even if such poultry related health pandemics would not affect the products offered by the Group, but by other restaurants, still a direct impact can be produced over consumers, who might avoid poultry products irrespective of who is offering them. This would result in a decrease in the number of clients for the Group's restaurants.

Furthermore, the Group's reliance on third-party food suppliers and distributors increases the risk of food-borne illness incidents to all of the Group's restaurants that are served by the respective suppliers and distributors. Power outages and other issues beyond the Group's control can result in costly spoilage or contamination of food. Also, any media news or reports of inspection authorities released to the public identifying unsanitary preparation or preservation of food products in restaurants that are not related to the

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Group or that are not under the Group's control may change the perception of its customers about the quality of the products in restaurants in general. Adverse publicity may negatively impact our reputation, regardless of whether the allegations are valid.

As our core business is the operation of restaurants, the Group depends on consumer confidence in the quality and safety of food products offered in our restaurants. While the Group maintains high standards for the quality of food products and dedicates substantial resources to ensure that these standards are met, the spread of these illnesses is often beyond its control and the Group cannot assure that food-borne illnesses will not occur, as a result of consumption of its products. Product liability risks are currently not covered by product liability insurance.

In addition, the food service industry in general is subject to the threat of food tampering by suppliers, employees or customers, such as addition of foreign objects to the food that the Group sells. Instances of food tampering, even those occurring solely at competitor restaurants, in the markets where the Group operates, or even in other markets, even totally unrelated with the Group's market geographies, could cause negative publicity to the restaurant industry in general, and to the Group in particular.

All of the above could (with immediate effect) result in significantly reduced demand for our food, reduced guest traffic, severe declines in restaurant sales and financial losses as well as significant reputational damages and legal claims of aggrieved guests, even if we were ultimately deemed not to be responsible for the issue or our liability was limited. A decrease in customer confidence in the Group's products as a result of real or perceived public health concerns or negative publicity may have a material adverse effect on our business, results of operations and financial condition.

Consumer preferences

Consumer preferences in the quick-service, casual dine-in and delivery/takeaway foodservice segments are affected by a range of factors, including consumer tastes, national, regional and local economic conditions and demographic trends. For instance, prevailing health or dietary preferences may cause consumers to avoid fast-food products or pizza products offered by the Group in favour of foods that are perceived to be healthier. Changes in consumer preferences can significantly impact demand for the Group's products, but this impact may be somehow limited by our exposure to multiple segments of the foodservice sector.

The Group seeks to maintain the appeal of its products to customers through product innovation, characterized by frequent introduction of new product offerings, and the consumer reaction to new product launches can affect the Group's sales.

Accordingly, the Group's results of operations are affected by the Group's success against the Group's competitors in the quick-service, casual dine-in and delivery/takeaway foodservice segments, which is dependent on a variety of factors, including the comparative attractiveness and taste of the Group's products, perceived product and service quality and the availability of comparable products from its competitors. The pricing of the Group's products, and in particular, the timing and terms of specially-priced offers to customers, can have a significant impact on both the volume of the Group's sales and the Group's margins, as well as the Group's market share against competitors.

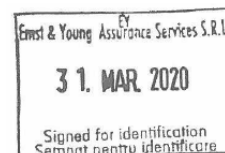
10. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Group's principal financial liabilities comprise loans and borrowings, finance leases and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's financial assets are represented by loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations, as well as long-term deposits to guarantee rent payables.

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

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Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Trade and other receivables and payables are non-interest-bearing financial assets and liabilities. The borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term and short-term credit facilities. Interest rates on the Group's debt finance are variable. Changes in interest rates impact primarily loans and borrowings by changing either their future cash flows (variable rate debt). Management policy is to resort mainly to variable rate financing. However, at the time of rising new loans or borrowings management uses its judgment to decide whether it believes that fixed or variable rate would be more favourable to the Group over the expected period until maturity.

The Group does not hedge its interest rate risk.

On a standalone basis, interest rate on the Company's debt finance from bank is variable. Interest rates on the Company's debt finance from Group companies are fixed. Thus, changes in interest rate do not impact loans and borrowings to third parties either since future cash flows are not affected by such changes in interest rates. In connection to loans granted or obtained from related parties, management policy is to resort mainly to fixed rate financing. However, at the time of rising or granting new loans or borrowings management shall use its judgment to decide whether it believes that fixed or variable rate would be more favourable to the Company over the expected period until maturity.

Foreign currency risk

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

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

On a individual basis, the Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's financing activities, as the financing contracted by the Company is Euro based. The vast majority of revenues and expenses, trade and other receivables and payables is in RON. Part of the loans granted to related parties are denominated in EUR. Natural hedging occurs from the Company's financing activities, as the Company grants loans to its subsidiaries in the same currencies in which the funds are obtained from the bank.

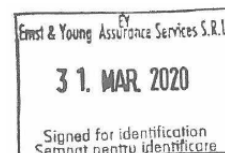
Credit risk

The Group is not significantly exposed to credit risk as the majority of its sales are on a cash basis. The Group's credit risk is primarily attributed to trade and other receivables and balances with banks. The carrying amount of trade and other receivables, net of allowance for impairment and deposits for rent guarantee as per statement of financial position plus balances with banks, represent the maximum amount exposed to credit risk. Management believes that there is no significant risk of loss to the Group beyond the allowances already recorded.

The Group invests cash and cash equivalents with highly reliable financial institutions. The Group has only plain vanilla deposits with reputable banks, none of which has experienced any difficulties in 2019 or up to the date of these consolidated financial statements. The majority of cash is transacted through and placed with Alpha Bank Romania, member of Alpha Bank Group from Greece and Banca Romana de Dezvoltare (BRD), a member of Societe Generale Group from France, as well as with Unicredit Bank Italy. The long-term credit rating of Alpha Bank Greece is Caa1 as provided by Moody's rating agency, no credit rating being available for its Romanian subsidiary. The long-term credit rating of BRD is Baa3, while the one for Unicredit is Baa1, both provided by Moody's

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There is no significant concentration of credit risk in respect of trade and other receivables due to the fact that sales are based mainly on cash and credit card payments. Therefore, there are no formal policies in the Group to manage credit risk for trade receivables. The Group's credit risk is primarily attributed to loans and receivables from related parties, for which the probability of losses is considered remote.

In what regards the Company, the carrying amount of trade and other receivables, plus balances with banks, plus the loans and receivables from related parties represent the maximum amount exposed to credit risk.

Liquidity risk

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

At 31 December 2019, the Group had available 87,087 of undrawn uncommitted borrowing facilities (31 December 2018: 47,449), thus being able to respond to any unforeseen higher cash outflow needs.

O a standalone basis, at 31 December 2019, the Company had available 76,417 of undrawn borrowing facility from US Food Network SA (2018: 73,439) and 29,965 (2018: 4,664) from the bank loan facility with Alpha Bank, jointly with other companies from Sphera Group, thus being able to respond to any unforeseen higher cash outflow needs.

Capital management

Capital of the Group includes the equity attributable to the equity holders of the parent.

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

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

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

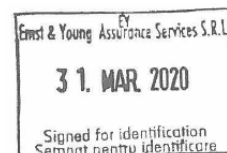
The Group may monitor capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group does not have a target gearing ratio, as the overall gearing is low. The Group includes within net debt, interest bearing loans and borrowings, financial trade and other payables,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

Calculation of consolidated gearing ratio is presented below:

	31 December 2019 consolidated	31 December 2018 consolidated
Interest-bearing loans and borrowings (including finance lease as per IAS 17 as of 31 December 2018)	108,044	124,456
Leases in relation to IFRS 16	235,212	-
Financial trade and other payables	68,257	57,615
Less: cash and short-term deposits	57,272	90,665
Net debt	354,241	91,406
Equity	172,251	128,826
Capital and net debt	526,492	220,232
Gearing ratio:	67%	42%

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	31 December 2019 standalone	31 December 2018 standalone
Interest-bearing loans and borrowings	37,109	38,610
Lease liabilities	6,232	-
Trade and other payables	11,566	5,144
Less: cash and short-term deposits	19,233	19,939
Net debt	35,674	23,815
Equity	629,658	611,333
Capital and net debt	665,332	635,148
Gearing ratio:	5%	4%

The Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

Fair values

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

The carrying amount of the interest-bearing loans and borrowings approximate their fair value. Management estimates that the margin applicable over Euribor at the balance sheet date would be similar to the ones at the dates of each previous withdrawal, due to the fact that the Group maintained over the past years a low gearing ratio and a stable financial condition, and also based on statistics published by the National Bank of Romania.

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

The carrying amounts of these financial instruments are considered to approximate their fair values, due to their short-term nature (in majority) and low transaction costs of these instruments.

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

11. INTERNAL CONTROL

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

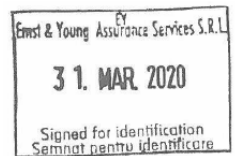
The existence of a control environment forms the basis for an effective internal control system. It consists of the definition and adherence to group-wide values and principles (e.g. business ethics) and of organizational measures (e.g. clear assignment of responsibility and authority, commitment to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

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

- Compliance with the applicable laws and internal regulations;
- Reliability of financial reporting (accuracy, completeness and correctness of the information);

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- Prevention and detection of fraud and error;
- Protection of the Group's resources against losses due to waste;
- Effective and efficient business operations.

In order to achieve these goals, the management of the Group follows, inter alia, the below principles and approaches:

- Ensures a commitment to integrity and ethical values by demonstrating through the Board of Directors' and management's directives, actions and behaviour the importance of integrity and ethical values to support the functioning of the system of internal control;
- The Board of Directors demonstrates independence from management and exercises oversight for the development and performance of internal control;
- Establishes, with Board of Directors oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of the objectives by maintaining job descriptions, defining roles and reporting lines, defining the role of internal audit;
- Ensures and demonstrates a commitment to attract, develop and retain competent individuals in alignment with the objectives of the Group by establishing required knowledge, skills and expertise, selecting appropriate outsourced service providers when needed, evaluating competence and behaviour, evaluating the capacity of finance personnel;
- Holds individuals accountable for their responsibilities in the pursuit of the objectives of the Group by developing balanced performance measures, incentives and rewards and linking compensation and other rewards to performance;
- Specifies objectives with clarity to enable the identification and assessment of risks related to objectives by identifying financial statement accounts, disclosures and assertions, reviewing and updating understanding of applicable standards, considering the range of Group's activities;
- Identifies risks to the achievement of the Group's objectives and analyzes risks as a basis for determining how the risks should be managed;
- Considers the potential for fraud in assessing risks to the achievement of objectives by considering fraud risk in the internal audit plan;
- Identifies and assesses changes that could significantly impact the system of internal control by assessing change in the external environment, CEO and senior executive changes;
- Selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives at acceptable levels by considering processes, risks and controls in the internal audit plan, identifying incompatible functions, considering alternative control activities to the segregation of duties;
- Selects and develops general control activities over technology to support the achievement of objectives by considering ERP implementation, administering security and access, configuring IT to support the complete, accurate and valid processing of transactions and data;
- Develops control activities through policies and procedures that establish what is expected by developing and documenting policies and procedures;
- Obtains or generates and uses relevant, quality information to support the functioning of internal control.

Policies and practices that represent the Group's competence standards for financial reporting positions are used as a basis for human resources and employee compliance activities, which include:

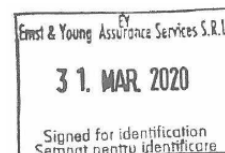
- Selecting and interviewing candidates;
- Performing background/reference checks;
- Setting certification expectations.

Senior management evaluates the capacity of personnel who are involved in recording and reporting financial information, and in designing and developing financial reporting systems including underlying IT systems. Senior management assesses the department's ability to identify issues and stay abreast of technical financial reporting developments. Considerations when assessing the adequacy of staffing levels and competence of financial reporting personnel include the extent of technical skills and nature required and the number of personnel dedicated to financial reporting.

The Board of Directors including the Audit Committee ("the board") oversees management's performance of internal control and retain objectivity in relation to management. The board monitors the functioning of internal controls by performing periodical analysis on the profit and loss accounts, execution of the budget,

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internal and external audit reports. The board demonstrates an appropriate level of skepticism of management's assertions and judgments that affect financial reporting. In particular, the Audit Committee seeks clarification and justification of the Group's process for:

- Selecting and implementing accounting policies;
- Determining critical accounting estimates;
- Making key assumptions used in the application of technical accounting and reporting matters;
- Evaluating other risks facing the Group, with the potential impact on financial reporting.

Deficiencies in the implementation or functioning of internal controls are noted in the internal audit reports and are presented to the management, with the purpose of issuing the corrective actions. The internal audit assessments includes the evaluation of the internal control systems, and evaluation whether:

- Risks relating to the achievement of the Group's strategic objectives and also the risks related to day to day operations are appropriately identified and managed;
- The actions of the Group's directors, employees, and contractors are in compliance with the Group's policies, procedures, and applicable laws, regulations, and governance standards;
- The results of operations are consistent with established goals;
- Operations are being carried out efficiently;
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Group;
- Resources and assets are acquired economically, used efficiently, and protected adequately.

Internal control process is carried out by personnel at all levels.

12. NON-FINANCIAL TOPICS AND DIVERSITY POLICY

Corporate Social Responsibility

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

Environmental protection

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

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

Training and career development for own employees

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

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

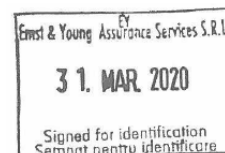
There is an actively sought to create training programs that address not only the job skill set necessary to perform day-to-day tasks within restaurants, but also extended skills such as active responsibility, accountability, time keeping, customer service, communication skills and team work. The training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

Diversity policy

Company has developed an internal culture which promotes equal opportunities and diversity in all its processes and functions. Management is guided by the following principles:

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

In 2019 Sphera Franchise Group signed Romanian Diversity Charter, which is a proof of commitment to promote diversity and equal opportunities for its staff.

Performance evaluation

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

Extensive information on the Group's sustainability strategy, products, environment, products, people and community may be found in the annual Sustainability Report which is available on the Company's website www.spheragroup.com. The report for the year ended 31 December 2019 will be issued by the Company by 30 June 2020, as per legal requirements.

13. OTHER INFORMATION

a) Predictable development of the Group

Network rollout

In order to attract new customers and consolidate the brand's market share, the Group plans to continue the expansion of the restaurant network. Over the medium term, the Group intends to keep the rollout of new stores to an annual average of approximately 25 stores. As a result, new store openings have been a significant driver of the Group's revenue growth and will continue to materially affect the results of operations for the foreseeable future.

A significant component of future network rollout will be the development of the restaurant network in the North-Eastern part of Italy. During the end of the year 2016 and the first half of the year 2017, the Group have signed two development agreements with Yum! for opening at least 25 KFC stores within five years. During 2019, the Group has opened 5 new stores in Italy consolidating the brand position on the Italian market to 15 operating stores as at 31 December 2019. At the beginning of 2020, the Group agreed with Yum Italy to terminate existing development agreements for the two regions signed (Tri Veneto and Piemonte) and entered into negotiations for new development agreements for other regions in Italy, that would apply for 2021 onwards as the development plan for 2020 is already approved and ongoing.

In 2017 the Group signed a new franchise agreement with Yum! and brought on the Romanian market the Taco Bell brand with the commitment to open 10 Taco Bell restaurants within the following three years. In 2019, the Group opened 5 Taco Bell stores, reaching a total of 10 stores. The Group is planning to continue the expansion of the Taco Bell brand on the local market.

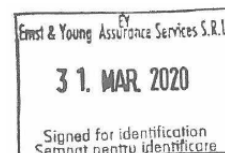
Performance of existing restaurants

The growth of our revenues over the past period was driven almost equally by opening of new restaurants and the strong like-for-like performance of our existing restaurants. KFC was the main contributor to this performance, both in terms of store count and year-on-year growth rates.

In the following years, we expect the like-for-like performance to be influenced positively by the continuous improvement in the purchasing power of the population, higher propensity for dining-out or delivery ordering, increased awareness of our brands across the territories we operate and negatively by the

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number and speed with which we open new units in cities where we are already present, as well as by the increased competition

b) Environmental matters

As of 31 December 2019, the Group incurs no debts relating to anticipated costs for environmental aspects. The Group does not consider that costs relating to environmental aspects are significant.

14. NON-FINANCIAL STATEMENT

In accordance with legal requirements, the Company will publish the Non-financial Statement no later than six months after the reporting date, 31 December 2019, as part of Annual Report.

15. COMMITMENTS AND CONTINGENCIES

Lease commitments — Group as lessee

The Group has entered into operating lease agreements for the premises of most of its restaurants and several vehicles and equipment. The lease terms are between five and ten years, with very few agreements exceeding ten years period. The contract period of the operating lease agreements for vehicles and equipment does not exceed five years term.

Starting 1 January 2019, the Group applied IFRS 16 Leases, using the modified retrospective approach for transition. 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, unless practical expedients are applicable. As at 31 December 2018, future minimum rentals payable under non-cancellable operating leases are disclosed in the financial statements. A reconciliation between future operating lease commitments as at 31 December 2018 to lease liability as at 1 January 2019 is disclosed in the financial statements.

The Group has also finance leases for vehicles. The Group's obligations under finance leases are secured by the lessor's title to the leased assets as disclosed in the consolidated financial statements.

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, as presented in the consolidated and individual financial statements.

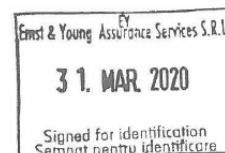
Other commitments

Per the Romania new network development plan signed in October 2017, the Group has agreed with KFC Europe to open a minimum of 39 new KFC locations (out of which 29 standard format restaurants and 10 smaller format restaurants meaning rural drive-thru or an agreed small box design) during the years 2018-2022 (out of which 7 units in 2019). Should the Group fail to achieve these targets, the Group will pay KFC Europe a penalty for each such location; the Group has not paid such penalties to date, being in line with the committed development plan.

Per the Romania new network development plan concluded with Pizza Hut Europe (Master Franchisor) in October 2017, the Group has agreed to open a minimum of 34 outlets (restaurants and pizza delivery) during the years 2017- 2021 (out of which 6 locations in 2019). Should the Group fail to achieve these targets, the Group will pay PH Europe Sarl a penalty for each such location. For the year ended 31 December 2019, the Group has postponed the committed openings for the next years and recognised in the consolidated financial statements a liability for the initial fees due to YUM related to the committed stores not yet realised as at 31 December 2019. Starting 2020, the assumed continuing fees for the restaurants which should have been opened in 2019 will be monthly accrued according to the development plan agreement.

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Per the Romania network development plan concluded with TB International Holdings II SARL (the Franchisor) in April 2017, the Group has agreed to open a minimum of 10 Taco Bell restaurants during the years 2017- 2019 (2 restaurants in 2017, 3 restaurants in 2018 and 5 restaurants in 2019).

If the Group exceeds the minimum annual target, the Franchisor grants incentives for the franchise fees. In 2019, the Group increased Taco Bell network by 5 new stores, in line with the committed development plan.

Per the Italy network development plan, the Group has agreed in October 2016 (Tri Veneto region) and August 2017 (Piemonte region) with KFC Europe to open a minimum of 25 KFC locations during the years 2016- 2022 in the Northern part of Italy. Should the Group fail to achieve these targets, the Group might lose the exclusive franchise rights over the franchised regions. In 2019, the Group extended the Italian network with 5 restaurants. As presented in the financial statements, at the beginning of 2020, the Group agreed with Yum Italy to terminate existing development agreements for these two regions signed (Tri Veneto and Piemonte) and entered into negotiations for new development agreements for other regions in Italy, that would apply for 2021 onwards as the development plan for 2020 is already approved and ongoing.

Bank letter of guarantees

The Group has issued bank letters of guarantee in favour of suppliers as at 31 December 2019 in amount of 15,595 (31 December 2018: 10,449). Letters of guarantee as at 31 December 2019 include a 3,495 bank letter of guarantee issued in favour of tax authorities.

The company has not issued any letters of guarantees as of 31 December 2019 and 31 December 2018.

Other contingencies

Taxation

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

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

Contingent liabilities may arise in relation to additional tax assessments that may be imposed by the tax authorities as a result of reviews performed. Corporate tax returns can be subject to review by tax authorities within a 5-year period in Romania and Italy and a 4-years period in Republic of Moldova. Recently, there has been an increase in audits carried out by the tax authorities.

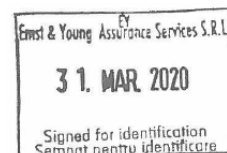
Transfer pricing

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

The Group has prepared transfer pricing files.

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Legal proceedings

During the period, the Group was involved in a small number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of Management, based on legal advice, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

In 2019, USFN, alongside the owner of the building where one of the KFC drive-through restaurant is operating, has been sued by a third party acting as plaintiff in connection with utilities pipes (electrical, gas and water) [sub]crossing plaintiff's plot in absence of a pre-agreement. Plaintiff requests from USFN and the landlord, inter alia, payment of liquidated damages in amount of approximately 705. Given the court proceedings is still incipient (not even the first hearing took place), a result cannot be fully anticipated.

16. EVENTS AFTER THE REPORTING PERIOD

Proposed profit distribution for the financial year 2019

For the year ended 31 December 2019, the Board of Directors has proposed to the shareholders' approval, the following allocation 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 2019:

- Setting up the legal reserves in accordance with the statutory regulations in amount of 1,617.
- Profit not distributed of 30,382.

New openings

On 17 January 2020, the Group opened the 100th KFC restaurant of the portfolio in Rome Tiburtina train station, Italy.

Increase of share capital of American Restaurant System SA

On 27 February 2020, the Extraordinary General Shareholders Meeting of American Restaurant System SA approved the increase of share capital of the Company with the value of 20,000 (from 95 to 20,095) by converting a part of the loan granted by Sphera Franchise Group SA (20,000) and cash contribution from Lunic Franchising and Consulting LTD (0.006), the shareholding structure remaining unchanged.

Payment of dividends for 2018

On 2 March 2020, the General Shareholders Meeting of Sphera Franchise Group SA has approved the distribution of dividends in total gross amount of 13,679 (0.3525 RON/ordinary share) from the undistributed net profit of Sphera Franchise Group SA for the financial year 2018.

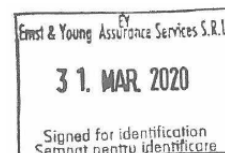
Development commitments – USFN Italy

At the beginning of 2020, USFN Italy was operating a total of 16 stores, higher than the target. However, 4 stores were opened in areas other than those with exclusive franchise rights. Hence, Yum Italy and USFN Italy agreed to terminate the existing development agreements for the two regions signed in 2016-2017 (Triveneto and Piemonte) and entered into negotiations for new development agreements that would apply for 2021 onwards as the development plan for 2020 is already approved and ongoing.

The emergency state that the Italian government has applied in the country due to the coronavirus epidemic and the consecutive measures which directly affect restaurant operations do not allow for the time being these negotiations to be concluded. Both parties are monitoring the evolutions and will resume when a clear picture of the market will be in place.

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Coronavirus impact on business

The coronavirus outbreak occurred at a time close to reporting date and the condition has continued to evolve throughout the period to the consolidated financial statements approval date.

Management assessment is that the measures taken by various authorities in 2020, in the countries where Group operations are located, represent a non-adjusting event and should not be reflected in the valuation of assets and liabilities of the Group as at 31 December 2019. Being in the early stages of the outbreak, the high level of uncertainties due to the unpredictable outcome of this disease make it difficult to estimate the financial effects of the outbreak.

The Group operates 16 KFC Franchise restaurants in the Northern part of Italy, which account about 10% of the Group sales. During March 2020, the Italian government announced special measures to mitigate the spread of the coronavirus epidemic in the country.

Under the current circumstances, based on the consecutive measures of the Italian government, the execution of the development plan of 2020 may suffer some delays not being able to guarantee its feasibility in terms of supplies required, human resources mobilization and other logistics or regulatory factors.

The Romanian authorities have also taken several measures to combat the spread of the epidemic, including the declaration of a state of emergency, starting on 16 March 2020. The measures included the closure, among other things, of restaurants and bars.

Starting 20 March 2020, the restaurants are closed, with the temporary closure estimated to last until 21 April 2020. However, the order also provides the permission to commercialize food and alcoholic and non-alcoholic beverages that do not require clients to remain in the spaces designated to consumption, as „drive-in”, „room-service” or customer delivery services. Therefore, KFC and Pizza Hut Delivery will continue to serve products to its customers only through the delivery service for both brands, as well as the dedicated car lines in Drive Thru in KFC, available both in Bucharest and around the country. Pizza Hut Dine-in and Taco Bell restaurants will remain closed until further decisions of the Romanian authorities.

The high level of uncertainty caused by the coronavirus outbreak will lead to a highly volatile market environment in the following months and the subsequent measures imposed by the various authorities, if any, in the countries where Group operations are located will potentially further adversely impact the overall current operations and the Group's results for the next period.

Actions taken or in progress to be taken by the Group in order to maintain the viability of the group and its business lines include, without being limited to, reducing expenses in the context of the support measures announced by the Romanian Government (salaries for staff in technical unemployment, renegotiation or suspension of rent by obtaining certificates of force majeure), reducing the working schedule of the non-critical headquarter employees, ongoing negotiations with suppliers of services in order to suspend or significantly reduce the fees for their services rendered to Sphera Group. Ongoing discussion are initiated with banks for increasing available liquidity to the Group, in the event the current crisis will extend for a longer period.

The Management's position is that the currently taken measures will ensure the business continuity and thus the going concern principle remains applicable for these financial statements.

31 March 2020

On behalf of Board of Directors,


Georgios Argentopoulos

Chairman of the Board

SPHERA FRANCHISE GROUP SA

SEPARATE FINANCIAL STATEMENTS

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

31 December 2019

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sphera Franchise Group S.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sphera Franchise Group S.A. (the Company) with official head office in Bucharest, 239 Calea Dorobanti Street, identified by sole fiscal registration number 37586457, which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

Basis for opinion

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

Emphasis of matter relating to Corona virus developments

The developments surrounding the Corona (Covid-19) virus have a profound impact on people's health and on our society as a whole, as well as on the operational and financial performance of organizations and the assessment of the ability to continue as a Going Concern. The situation changes on a daily basis giving rise to inherent uncertainty. The impact of these developments on the Company is disclosed in Note 22 to the financial statements. Our opinion is not qualified in respect of matter.

Key audit matters

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

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

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

Key audit matter

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

The carrying value of the investments in subsidiaries and of loans granted to subsidiaries amounted to RON 677 million as at 31 December 2019.

Under the International Financial Reporting Standards, an entity is required to assess whether triggers for potential impairment of its assets exist.

The assessment of whether there is an indication that an asset may be impaired and the determination of recoverable amounts of the Company investments in subsidiaries and of the loans granted to them relies on management's estimates of future cash flows and their judgment with respect to the subsidiaries' performance including future restaurants opening, growth rates, gross and net operating margins, working capital needs, capital expenditure and discount rates, as well as economic assumptions such as the evolution of salaries in the economy and inflation.

An impairment test was performed for American Restaurant System SA subsidiary where triggers for impairment were identified which resulted in an additional impairment adjustment of RON 15.4 million recorded as at 31 December 2019.

Due to the uncertainty of forecasting and discounting future cash flows, the level of management's judgement involved and the significance of the Company's investment in subsidiaries and loans granted as at 31 December 2019, this audit area is considered a key audit matter.

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

How our audit addressed the key audit matter

Our work was focused on, but was not limited to, the following procedures:

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

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

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

Other information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

- a) in the Administrators' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying financial statements as at December 31, 2019;
- b) the Administrators' Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 - 19;
- c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the financial statements as at December 31, 2019, we have not identified information included in the Administrators' Report that contains a material misstatement of fact.

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

Appointment and Approval of Auditor

We were appointed as auditors of the Company by Articles of Association on 4th May 2017 to audit the financial statements for the financial year end December 31, 2019. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 3 years, covering the financial periods end December 31, 2017 till December 31, 2019.

Consistency with Additional Report to the Audit Committee

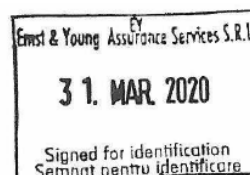
Our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 27 March 2020.

Provision of Non-audit Services

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

On behalf of,

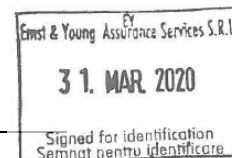
Ernst & Young Assurance Services SRL
15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania
Registered in the electronic Public Register under No. FA77



Name of the Auditor/ Partner: Alina Dimitriu
Registered in the electronic Public Register under No. AF1272
Bucharest, Romania

31 March 2020

SPHERA FRANCHISE GROUP SA
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019
All amounts in RON thousand, unless specified otherwise



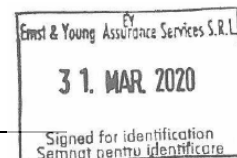
	Note	2019	2018
Revenues			
Dividend revenues	19	51,239	61,798
Revenue from service contracts	19	30,360	26,514
Total revenues		81,599	88,312
Expenses			
Payroll and employee benefits		25,717	21,598
Impairment loss of investments in subsidiaries	10	15,457	19,804
Other expenses	5	8,297	6,805
Total expenses		49,471	48,207
Operating profit		32,128	40,105
Finance costs	6.1	1,797	1,268
Finance income	6.2	2,004	965
Profit before tax		32,335	39,802
Income tax expense	7	337	264
Profit for the period		31,998	39,538
Total comprehensive income for the period, net of tax		31,998	39,538

These separate financial statements from page 2 to page 45 were approved by the Board of Directors and were authorised for issue on 31 March 2020.

Chief Executive Officer & Chairman of the Board of Directors
 Georgios Argentopoulos

Chief Financial Officer
 Valentin Budes

SPHERA FRANCHISE GROUP SA
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
All amounts in RON thousand, unless specified otherwise

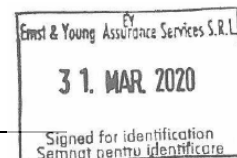


	Note	31 December 2019	31 December 2018
Assets			
Non-current assets			
Property, plant and equipment	8	2,521	2,394
Right-of-use assets	12	5,963	-
Intangible assets	9	138	172
Investments in subsidiaries	10	576,704	576,309
Trade and other receivables	14	7,043	3,622
Deferred tax asset	7	999	1,336
		593,368	583,833
Current assets			
Trade and other receivables (including short term loans)	14	71,566	50,979
Prepayments		398	336
Cash and cash equivalents	15	19,233	19,939
		91,197	71,254
Total assets		684,565	655,087
Equity and liabilities			
Equity			
Issued capital	16	581,990	581,990
Legal reserve		3,607	1,990
Share premium	17	-	(580)
Retained earnings		44,061	27,933
Total equity		629,658	611,333
Non-current liabilities			
Interest-bearing loans and borrowings	11	33,331	35,992
Lease liabilities	12	5,092	-
		38,423	35,992
Current liabilities			
Interest-bearing loans and borrowings	11	3,778	2,618
Lease liabilities	12	1,140	-
Trade and other payables	18	11,566	5,144
		16,484	7,762
Total liabilities		54,907	43,754
Total equity and liabilities		684,565	655,087

These separate financial statements from page 2 to page 45 were approved by the Board of Directors and were authorised for issue on 31 March 2020

SPHERA FRANCHISE GROUP SA
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

All amounts in RON thousand, unless specified otherwise



	<u>Issued capital</u>	<u>Share premium</u>	<u>Legal reserves</u>	<u>Retained earnings</u>	<u>Total equity</u>
As at 1 January 2019	581,990	(580)	1,990	27,933	611,333
Profit for the period	-	-	-	31,998	31,998
Total comprehensive income	-	-	-	31,998	31,998
Transfer to share premium	-	580	-	(580)	-
Legal reserves	-	-	1,617	(1,617)	-
Cash dividends	-	-	-	(13,673)	(13,673)
At 31 December 2019	581,990	-	3,607	44,061	629,658

	<u>Issued capital</u>	<u>Share premium</u>	<u>Legal reserves</u>	<u>Retained earnings</u>	<u>Total equity</u>
As at 1 January 2018	581,990	(580)	-	(9,615)	571,795
Profit for the period	-	-	-	39,538	39,538
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	39,538	39,538
Legal reserves	-	-	1,990	(1,990)	-
At 31 December 2018	581,990	(580)	1,990	27,933	611,333

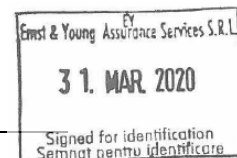
As at 31 December 2018, the statutory legal reserve was presented within Retained earnings, in the financial statements. For presentation purposes, the statutory legal reserve is presented distinctly in the statement of financial position and statement of changes in equity in the current financial statements, including the 2018 figures.

The share capital has not suffered any changes during 2019 and 2018.

These separate financial statements from page 2 to page 45 were approved by the Board of Directors and were authorised for issue on 31 March 2020.

SPHERA FRANCHISE GROUP SA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

All amounts in RON thousand, unless specified otherwise

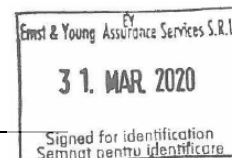


	<u>Note</u>	<u>2019</u>	<u>2018</u>
Operating activities			
Profit before tax		32,335	39,802
Adjustments to reconcile profit before tax to net cash flows:			
Dividend revenue	19	(51,239)	(61,798)
Depreciation and amortization of property, plant and equipment, right-of-use and intangible assets	8, 9, 12	1,740	363
Impairment loss of investments in subsidiaries	10	15,457	19,804
Net foreign exchange differences		215	26
Finance income	6.2	(2,004)	(965)
Finance costs (interest)	6.1	1,650	1,255
Working capital adjustments:			
Decrease in trade and other receivables and prepayments		(4,146)	(231)
Increase/(Decrease) in trade and other payables		6,224	(10,300)
Dividends received		51,239	61,798
Interest paid		(858)	(504)
Net cash flows from operating activities		50,613	49,250
Investing activities			
Purchase of property, plant and equipment and intangible assets	8, 9	(651)	(2,281)
Loans to related parties	14	(33,105)	(38,111)
Investments in subsidiaries, net	10, 14	-	(15,523)
Net cash flows used in investing activities		(33,756)	(55,915)
Financing activities			
Proceeds from borrowings	11	-	24,705
Repayment of borrowings	11	(2,816)	(3,763)
Payment of lease liabilities	2	(1,074)	(85)
Dividends paid		(13,673)	-
Net cash flows used in financing activities		(17,563)	20,857
Net increase in cash and cash equivalents		(706)	14,192
Cash and cash equivalents at 01 January		19,939	5,747
Cash and cash equivalents at 31 December		19,233	19,939

These separate financial statements from page 2 to page 45 were approved by the Board of Directors and were authorised for issue on 31 March 2020.

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

All amounts in RON thousand, unless specified otherwise



1. REPORTING ENTITY

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

As at 31 December 2019 and 31 December 2018, the Company has the following investments in subsidiaries:

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

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

The Group operates quick service and takeaway restaurant concepts (a chain of 99 restaurants) under the Kentucky Fried Chicken ("KFC"), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (23 restaurants as at 31 December 2019) as well as pizza delivery points (22 locations as at 31 December 2019) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (10 restaurants as at 31 December 2019) and one restaurant under Paul brand, in Romania.

As at 31 December 2019, the Company has 165 employees (2018: 154).

The separate financial statements for the year ended 31 December 2019 were authorized for issue in accordance with the resolution of the Board of Directors dated 31 March 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of Compliance

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

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

2.2 Basis of preparation

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2.1 Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

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

2.2.2 Fair value measurement

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2.2.3 Revenue

Rendering of services

The Company is engaged in providing management and other support function services to its operating subsidiaries (i.e. its customers).

Revenue from these contracts is recognised when control of services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

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

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

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

Dividend Income

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

Interest income

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

2.2.4 Foreign currencies

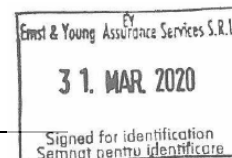
The Company's separate financial statements are presented in Romanian New Lei ("RON"), which is the Company's functional currency.

Transactions and balances

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

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

All amounts in RON thousand, unless specified otherwise



2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
RON – EUR	4.7793	4.6639
RON – USD	4.2608	4.0736

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

2.2.5 Taxes

Current income tax

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

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

Deferred tax

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Sales tax (VAT and similar taxes)

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

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

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

2.2.6 Property, plant and equipment

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

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

The cost of property, plant and equipment also includes the cost of replacing parts of the property, plant and equipment.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2.2.7 Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Right of use of buildings and leasehold improvements	3 to 10 years
Right-of-use assets of plant and machinery (motor vehicles and other equipment)	3 to 5 years

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The lease term was considered to be the non-cancellable period in the contract, without taking into consideration the renewal option

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section Impairment of non-financial assets.

ii) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company performs a remeasurement of 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.

iii) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

The main provisions of the accounting policy applicable to the Company (*as a lessee*) in accordance with the previous standards and based on which the comparative reporting figures have been prepared stated:

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

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

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

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

2.2.8 Intangible assets

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

2.2.9 Impairment of non-financial assets

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

2.2.10 Investments in subsidiaries

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

2.2.11 Financial instruments

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

i) Financial assets

Initial recognition and measurement

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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

The Company's financial assets are represented by loans, trade and other receivables and cash and cash equivalents. For more information on receivables, refer to Note 14. Receivables due in less than 12 months are not discounted.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Impairment of financial assets

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

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

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

- Financial instruments risk management Note 13
- Trade receivables Note 14

ii) Financial liabilities

Initial recognition and measurement

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent measurement

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

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

De-recognition

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

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

iii) Offsetting of financial instruments

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

2.2.12 Cash and cash equivalents

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

2.2.13 Prepayments

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

2.2.14 Equity

Share capital

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

2.2.15 Provisions

General

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

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

Onerous contracts

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

2.2.16 Employee benefits

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

In the process of applying the Company's accounting policies, management has made no judgement with significant effect on the amounts recognised in the financial statements during 2019.

Estimates and assumptions

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

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

Recoverability of investments in subsidiaries and loans to subsidiaries

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

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

4. CHANGES IN ACCOUNTING POLICIES

4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2019

The accounting policies adopted are consistent with those of the previous financial reporting period except for the following amended IFRSs which have been adopted by the Company as of 1 January 2019. These new standards and amendments do not have a material effect on the Company's financial statements. The Company has not early adopted any other standards, interpretations or amendments that have been issued but were not yet effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaced 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 most 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., office equipment, personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

4.1. CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2019 (continued)

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

The Lessee 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 remeasurement of the lease liability as an adjustment to the right-of-use asset.

Transition to IFRS 16 Leases

Leases previously classified as finance leases

For leases previously classified as finance leases the Company 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.

Leases previously accounted for as operating leases

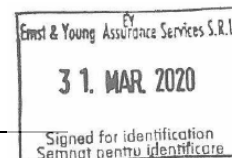
The Company recognized new assets and liabilities for its operating leases under IAS 17 (i.e. lease of office premises, motor vehicles and equipment), unless an exemption from IFRS 16 was applicable. The change in presentation of operating lease expenses resulted in a corresponding improvement in cash flows from operating activities and a decline in cash flows from financing activities.

The 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 Franchise Group applied the following practical expedients for transition:

- The Company elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company did not therefore apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The Company 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 Company has leases of certain office equipment (i.e. printing and photocopying machines) that are considered of low value.
- The Company 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 Company estimated the incremental borrowing rates applicable for its leases portfolios considering the following inputs:
 - yield on most recent loans contracted by the Company entities, and
 - applicable risk-free yields for relevant maturities.The weighted average incremental borrowing rate as at 1 January 2019 was 3.236%.
- The Company 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 Company used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

All amounts in RON thousand, unless specified otherwise



4.1. CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2019 (continued)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018, as follows:

	<u>1 January 2019</u>
Future minimum lease payments under non-cancellable operating leases as at 31 December 2018	7,386
less minimum lease payments for short-term leases and low value assets	(17)
Gross lease liability for previously unrecognized operating lease commitments as at 1 January 2019	7,369
less discounting effect as at 1 January 2019	(726)
Lease liability for previously unrecognized operating lease commitments as at 1 January 2019	6,643
Finance lease liability recognized as at 31 December 2018	115
Lease liability recognized as at 1 January 2019	6,758

As at 31 December 2018, the finance lease liabilities amounting of 115 were presented within Interest-bearing loans and borrowings (short term debt of 53 and long-term debt of 62) in the Statement of financial position. As at 31 December 2019, the lease liabilities were separately presented in the statement of financial position, with no restatement of comparative data.

The effect of adoption of IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	<u>1 January 2019</u>
Assets	
Right-of-use assets	6,748
Property, plant and equipment (carrying value of the leased vehicles – finance leases under IAS 17)	(105)
Total assets	6,643
Equity and liabilities	
Interest-bearing loans and borrowings – non-current	(62)
Lease liabilities – non-current	5,739
Interest-bearing loans and borrowings – current	(53)
Lease liabilities – current	1,019
Total equity and liabilities	6,643

IFRS 9: Prepayment features with negative compensation (Amendment)

The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The Company does not have financial assets with prepayment features.

IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)

The Amendments relate to whether the measurement, in particular impairment requirements, of long-term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28 to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The Company does not hold investments in associates or joint ventures.

4.1. CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2019 (continued)

IFRIC Interpretation 23: Uncertainty over Income Tax Treatments

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. Management has assessed that the application of this interpretation did not have any impact on the financial position or performance of the Company.

IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. Management has assessed that the application of this amendment did not have significant impact on the financial position or performance of the Company.

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs. Management has assessed that the application of these improvements does have no impact on the financial position or performance of the Company.

- **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- **IAS 12 Income Taxes:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- **IAS 23 Borrowing Costs:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

4.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2019 AND NOT EARLY ADOPTED

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

Conceptual Framework in IFRS standards

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

4.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2019 AND NOT EARLY ADOPTED (continued)

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)

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

Interest Rate Benchmark Reform – IFRS 9, IAS 39 and IFRS 7 (Amendments)

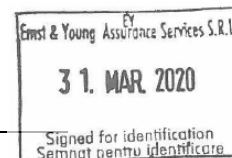
The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The Company does not use hedging accounting.

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. Management has assessed that application of these amendments will have no significant impact on the financial position of the Company.

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5. OTHER EXPENSES

	<u>2019</u>	<u>2018</u>
Third-party services	3,615	2,882
Advertising	641	183
Other taxes	240	210
Rent	88	989
Banking charges	53	81
Travel expenses	816	1,016
Office supplies	347	478
Depreciation	1,740	363
Insurance	333	259
Maintenance and repairs	89	61
Utilities	57	38
Miscellaneous expenses	278	245
Total	<u>8,297</u>	<u>6,805</u>

6. FINANCE COSTS AND INCOME

6.1 Finance costs

	<u>2019</u>	<u>2018</u>
Interest on debts and borrowings	644	506
Interest on lease liabilities	218	-
Interest on related parties loans (Note 19)	788	749
Foreign exchange loss	147	13
Total finance costs	<u>1,797</u>	<u>1,268</u>

6.2 Finance income

	<u>2019</u>	<u>2018</u>
Interest income from loans to related parties (Note 19)	2,004	965
Total finance income	<u>2,004</u>	<u>965</u>

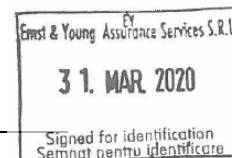
7. INCOME TAX

The major components of income tax for the years ended 31 December 2019 and 31 December 2018 are:

	<u>2019</u>	<u>2018</u>
Deferred tax:		
Relating to fiscal losses carried forward	337	264
Income tax expense reported in the statement of comprehensive income	<u>337</u>	<u>264</u>

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7. INCOME TAX (continued)

A reconciliation between tax expense and the product of accounting result multiplied by Romania's domestic tax rate for the years ended 31 December 2019 and 31 December 2018 is as follows:

	2019	2018
Accounting profit before income tax	32,335	39,802
At statutory income tax rate of 16%	5,174	6,368
Other income exempted from tax (dividend income)	(8,198)	(9,831)
Tax exemption for legal reserves	(259)	(318)
Impairment cost of investment	2,473	3,169
Other non-deductible expenses	1,147	876
At the effective income tax rate	337	264

Deferred tax

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

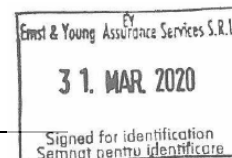
	Statement of financial position 31 December 2019	Statement of comprehensive income 2019
Fiscal losses carried forward	999	337
Deferred tax expense		337
Net deferred tax assets	999	

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

The deferred tax asset of 999 (31 December 2018: 1,336) arose from the tax losses carried forward of the Company which are available for offsetting against the Company's future tax profits within the next five years (i.e. seven years from the recognition, according to the Romanian tax law).

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8. PROPERTY, PLANT AND EQUIPMENT

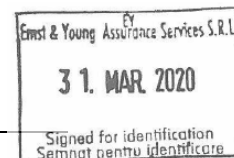
	Freehold buildings and leasehold improvements	Plant and machinery	Other equipment	Construction in progress	Total
Cost					
At 1 January 2018	32	83	372	-	487
Additions	1,776	171	320	1,794	4,061
Transfers				1,794	1,794
At 31 December 2018	1,808	254	692	-	2,754
Additions	353	68	278	333	1,032
Transfers	-	-	-	311	311
Transfer to ROUA	-	168	-	-	168
At 31 December 2019	2,161	154	970	22	3,307
Depreciation					
At 1 January 2018	1	1	19	-	21
Depreciation charge for the period	80	72	187	-	339
At 31 December 2018	81	73	206	-	360
Depreciation charge for the period	190	9	291	-	490
Accumulated depreciation of transfers to ROUA	-	64	-	-	64
At 31 December 2019	271	18	497	-	786
Net Book Value					
At 1 January 2018	31	82	353	-	466
At 31 December 2018	1,727	181	486	-	2,394
At 31 December 2019	1,890	136	473	22	2,521

The additions during the year ended 31 December 2019 consisted mainly in office leasehold improvements, as well as vehicles, office computers and other office equipment.

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

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9. INTANGIBLE ASSETS

	Software licenses	Total
Cost		
At 1 January 2018	13	13
Additions	185	185
At 31 December 2018	198	198
Additions	57	57
At 31 December 2019	255	255
Amortisation		
At 1 January 2018	1	1
Amortisation	25	25
At 31 December 2018	26	26
Amortisation	91	91
At 31 December 2019	117	117
Net book value		
At 1 January 2018	12	12
At 31 December 2018	172	172
At 31 December 2019	138	138

10. INVESTMENTS IN SUBSIDIARIES

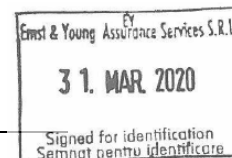
Details of the investments in subsidiaries at 31 December 2019 are as follows:

Company name	Country of incorporation	Field of activity	Share interest percent	Investment at cost	Impairment loss	Carrying value
US Food Network SA	Romania	Restaurants	99.9997%	519,704	-	519,704
American Restaurant System SA	Romania	Restaurants	99.9997%	60,786	35,262	25,524
California Fresh Flavors SRL	Romania	Restaurants	99.9900%	100	-	100
US Food Network SRL	Moldova	Restaurants	80.0000%	1,735	-	1,735
US Food Network SRL	Italy	Restaurants	100.0000%	29,641	-	29,641
Total				611,966	35,262	576,704

In 2019, the Company increased the value of the investment in the Italian subsidiary, US Food Network Srl, with the amount of 15,853 by converting a part of the existing shareholder's loan to equity reserve to maintain a positive net equity of the subsidiary, as requested by the Italian regulations.

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10. INVESTMENTS IN SUBSIDIARIES (continued)

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

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

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

As of 31 December 2019, the Company assessed whether there are indicators of impairment for its cost of investment in subsidiaries, as follows:

- USFN and USFN Moldova's activities in 2019 have continued in line or at better performance than anticipated through the cash flow projections based on which their fair value (cost in the above table) was determined in May 2017, therefore no impairment indicator was identified;
- USFN Italy, that started activity during 2017, has performed in 2019 as anticipated through the cash flow projections based on which its fair value (cost in the above table) was determined, therefore no impairment indicator was identified;
- Taco Bell has performed in 2019 in accordance with management's expectation, therefore no impairment indicator was identified.
- Pizza Hut's performance in 2018 and 2019 was below the cash flow projections based on which their fair value (cost in the above table) was determined in May 2017. Management estimated the recoverable amount of the investment at 57,274 (2018: 63,483) based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2020-2024). The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor. (This fair value measurement is on level 3 of the fair value hierarchy).

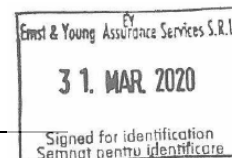
The cashflow projections are based on financial budgets approved by senior management covering the above referred period.

The key assumptions used in the calculation of the recoverable amounts are sales growth rates, EBITDA margins, discount rates net working capital and terminal value growth rates. Capital expenditure/restaurant is also a key assumption. The values assigned to these key assumptions reflect past experience and a number of actions that the management intends to pursue, such as a temporary slowdown of the new store development plan, a new type of sales channel which will be implemented starting 2020 and a tighter control of certain expenses (restaurant payroll, marketing, general & administrative expenses).

Discount rate (post tax) used is 10% (2018: 11%). The discount rate reflects the current market assessment of the risks specific to ARS and was estimated based on the weighted average cost of capital for the industry. This rate was further adjusted to reflect the market assessment of any risk specific to ARS for which further estimates of cash-flows have not been adjusted. The WACC was determined by taking into account the debt equity structure of the peers.

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10. INVESTMENTS IN SUBSIDIARIES (continued)

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

Budget EBITDA margins are based on the following assumptions:

- Maintaining the current profitability for the existing restaurants through price increases with improvements on cost of goods sold due to increasing capacity of negotiation of Sphera Group, in order to compensate the increasing pressure on labour costs. The rest of the main expense categories trend will be relatively constant as percentage of sales.
- Opening of new restaurants with a new concept (Pizza Hut Express) with smaller costs for investment and smaller crew to operate. Part of them will be sub-franchised in order to meet the number of restaurants to be opened agreed with the franchisor.

As a result of the analysis, as compared to the investment carrying value of 60,786 and also considering the loan granted to ARS of 31,750 (2018: 22,500) and the impairment loss already recognized in the financial statements as at and for the year ended 31 December 2018 of 19,804, there was a decrease of the investment's recoverable amount of additional 15,457 for which the Company recognized an impairment loss in the financial statements as at and for the year ended 31 December 2019. This impairment loss may be reversed in the future financial years, subject to improving performance of the subsidiary.

With regard to the assessment of impairment, management believes that the model is most sensitive to:

- cost of capital (WACC)
- terminal growth assumptions
- EBITDA margin
- NWC

EBITDA margin reflects management's estimates regarding the operational profitability of ARS, in line with historical levels and market evolution (and is not disclosed due to the strategic nature of this information). If EBITDA margin would decrease by 0.50% the recoverable amount of the investment would be 43,383 and the impairment loss as at and for the year ended 31 December 2019 would be 29,349, while if the EBITDA margin would increase by 0.50% the recoverable amount of the investment would be 71,165 and the impairment loss as at and for the year ended 31 December 2019 would be 1,567.

Key drivers	Key drivers (%)	Fair value less cost to sell	Impairment
	10.00%	57,274	(15,457)
Cost of capital	+0.50%	51,982	(20,750)
	-0.50%	63,408	(9,324)
	3.00%	57,274	(15,457)
Perpetuity growth factor	2.50%	51,822	(20,909)
	3.50%	63,565	(9,167)
	0%	57,274	(15,457)
Net working capital (%/sales)	-0.5%	48,193	(24,539)
	0.5%	66,355	(6,377)

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11. INTEREST-BEARING LOANS AND BORROWINGS

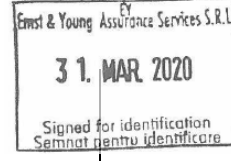
	Interest rate, %	Maturity	31 December 2019	31 December 2018
Current interest-bearing loans and borrowings				
Obligations under finance leases			-	53
Bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	3,778	2,565
Total current interest-bearing loans and borrowings			3,778	2,618
Non-current interest-bearing loans and borrowings				
Obligations under finance leases			-	62
Bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	12,506	16,091
Loan from related parties (including accrued interest) (Note 19)	4% fixed interest rate	Within 5 years from contract signing date	20,825	19,839
Total non-current interest-bearing loans and borrowings			33,331	35,992
Total interest-bearing loans and borrowings			37,109	38,610

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

The Company is part of a credit facility from Alpha Bank Romania signed jointly by the Company and its Romanian subsidiaries. As at 31 December 2019, the Company may, jointly with other companies from Sphera Group, draw from one sub-limit dedicated to financing of Italian subsidiary. The loan is secured with pledge on current accounts opened with the bank, promissory notes issued, pledge on receivables from and shares owned by the Group in its Moldova and Italia subsidiary as well as on future dividends from these subsidiaries.

Covenants

The Group's borrowing arrangement with the Bank contains several covenants, mainly of quantitative nature, out of which the most important relates to the ratio bank net debt/EBITDA at a consolidated level, excluding the impact of IFRS 16, which should not exceed at any point in time 2.5. There are also covenants defined for each borrower, at company level, which are analysed by the Bank each time a borrower submits a request for disbursement.



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11. INTEREST-BEARING LOANS AND BORROWINGS (continued)

Breaches in meeting the financial covenant at Group consolidated level would permit the bank to immediately call the loan. There have been no breaches of the consolidated financial covenant for the years ended 31 December 2019 and 31 December 2018.

Breaches in meeting standalone financial covenants allow the bank to cease any loan disbursement to the affected company and to immediately call the loan. There have been no breaches of the standalone financial covenant of the Company for the year ended 31 December 2019.

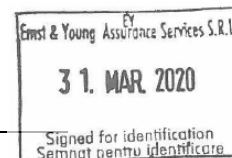
Information related to cash flows from financing

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

	31 December 2018	Non-cash changes			Cash changes			31 December 2019
		Transfer of finance lease (IAS 17) to Lease liabilities (Note 4.1)	Interest accrual	Foreign exchange gains/losses	Drawings	Repayments	Interest paid	
Interest-bearing loans and borrowings	38,610	(115)	1,462	609	-	(2,817)	(640)	37,109
Bank loans	18,656	-	640	445	-	(2,817)	(640)	16,284
Financial leases	115	(115)						-
Loans from related parties	19,839		822	164	-	-	-	20,825

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12. LEASES

The Company has lease contracts for administrative premises, motor vehicles and equipment used in its operations. Leases for administrative premises have a lease terms between 3 and 10 years, while motor vehicles and other equipment generally have lease terms between 3 and 5 years.

The Company has leases of certain office equipment (i.e. printing and photocopying machines) that are considered of low value. The Group applies the “short-term leases” and “lease of low-value assets” recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	Freehold buildings and leasehold improvements	Motor and other equipment vehicles	Total
As at 1 January 2019	5,257	1,491	6,748
Additions	86	282	368
Depreciation expense	594	559	1,153
Exchange difference	-	-	-
As at 31 December 2019	4,749	1,214	5,963

Set out below are the carrying amounts of lease liabilities and the movements during the period:

As at 1 January 2019	6,758
Additions	368
Accretion of interest	218
Payments	1,292
(Unrealized) forex exchange loss	180
As at 31 December 2019	6,232
Current	1,140
Non-current	5,092

The following are the amounts recognized in profit or loss:

	2019
Depreciation expense of right-of-use assets	1,153
Interest expense on lease liabilities	218
Forex exchange differences, net	180
Expense relating to leases of low value assets	88
Total amount recognized in profit or loss	1,639

13. FINANCIAL INSTRUMENTS RISK MANAGEMENT

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

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

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

Interest rate risk

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

Interest rate sensitivity

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

	<u>Increase in basis points</u>	<u>Effect on loss before tax</u>
31 December 2019 EUR	1%	(163)
31 December 2018 EUR	1%	(187)

The Company does not hedge its interest rate risk.

Foreign currency risk

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

13. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

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

Foreign currency sensitivity

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

	<u>Increase in EUR rate</u>	<u>Effect on loss before tax</u>
31 December 2019	1%	(443)
31 December 2018	1%	(192)

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

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The carrying amount of trade and other receivables, plus balances with banks, plus the loans and receivables from related parties (Note 14), represent the maximum amount exposed to credit risk.

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

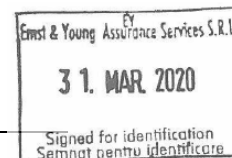
Liquidity risk

The Company has adopted a prudent financial liquidity management approach, assuming that sufficient cash and cash equivalents are maintained, and that further financing is available from guaranteed funds from credit lines. The tables below summarize the maturity profile of the Company's financial liabilities, including principal amounts and interests according to contractual terms, at 31 December 2019 based on contractual undiscounted payments.

31 December 2019	<u>On demand</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>> 5 years</u>	<u>Total</u>
Interest-bearing loans and borrowings	-	1,086	3,211	36,129	-	40,426
Lease liabilities	-	285	855	3,081	2,011	6,232
Trade and other payables	151	5,362	46	9	-	5,568
Total:	151	6,732	4,112	39,219	2,011	52,226

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13. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

At 31 December 2019, the Company had available 76,417 of undrawn borrowing facility from US Food Network SA (2018: 73,439) and 29,965 (2018: 4,664) from the bank loan facility with Alpha Bank, in common with other companies from Sphera Group, thus being able to respond to any unforeseen higher cash outflow needs.

Capital management

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

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

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

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

Note: For 2019, gearing ratio calculation includes IFRS 16 lease liability.

	31 December 2019	31 December 2018
Interest-bearing loans and borrowings	37,109	38,610
Lease liabilities	6,232	-
Trade and other payables	11,566	5,144
Less: cash and short-term deposits	19,233	19,939
Net debt	35,674	23,815
Equity	629,658	611,333
Capital and net debt	665,332	635,148
Gearing ratio:	5%	4%

Fair values

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

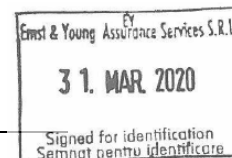
The carrying amount of the interest bearing loans and borrowings and receivables from loans granted to related parties approximates their fair value (level 3 measurement).

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

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

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14. TRADE AND OTHER RECEIVABLES

	31 December 2019	31 December 2018
Trade receivables from related parties (Note 19)	8,750	8,925
Loans to related parties (note 19)	62,441	44,555
Interest accrual from loans to related parties (note 19)	2,988	950
Tax receivables (VAT)	4,044	-
Other receivables	386	171
Total	78,609	54,601
Less non-current portion:		
Loans to related parties	6,651	3,399
Interest accrual from loans to related parties	353	184
Other receivables	39	39
Total	7,043	3,622
Trade and other receivables, current	71,566	50,979

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

Tax receivables refer to the unsettled VAT as at 31 December 2019 in relation with the VAT receivable taken over from American Restaurant System SA, once with the registration as a tax group for VAT purpose (effective since 1 July 2019). Upon the registration as a tax group, the Company has also recognised a liability towards ARS regarding the VAT to be settled in the future periods.

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

As at 31 December 2019 and 31 December 2018, the ageing analysis of trade receivables from related parties, net of allowances, is, as follows:

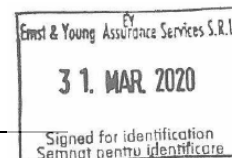
	Trade receivables					
	Total	Current	Days past due			
			< 30 days	30-60 days	61-90 days	>91 days
31 December 2019						
Expected credit loss rate		0%	0%	0%	0%	0%
Estimated total gross carrying amount at default	8,750	5,082	953	1,089	667	959
Expected credit loss	-	-	-	-	-	-
31 December 2018						
Expected credit loss rate		0%	0%	0%	0%	0%
Estimated total gross carrying amount at default	8,925	2,570	2,368	1,000	901	2,086
Expected credit loss	-	-	-	-	-	-

The balance of 2,086 as at 31 December 2018, older than 91 days, was fully collected during 2019.

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

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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15. CASH

	31 December 2019	31 December 2018
Cash at banks and on hand	19,233	19,939
Total	19,233	19,939

As part of the financing agreement with Alpha Bank the Company has pledged the cash available in the accounts opened with the bank. The balance of the pledged bank accounts as at 31 December 2019 is of 19,178 (31 December 2018: 19,478).

16. ISSUED CAPITAL

	31 December 2019	31 December 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 December 2019 are: Tatika Investments Ltd. (27.33%), Computerland Romania SRL (21.44%), Wellkept Group SA (16.34%), Lunic Franchising and Consulting LTD (10.99%) and free float (23.90%).

As of 31 December 2018, the shareholders of Sphera Franchise Group SA were: Tatika Investments Ltd. (27.33%), Computerland Romania SRL (20%), Wellkept Group SA (16.34%), Anasa Properties SRL (10.99%) and free float (25.34%).

On 22 November 2019, Anasa Properties SRL transferred its shares hold with Sphera Franchise Group SA, representing 10.99% of the Company's shareholding, to Lunic Franchising and Consulting Ltd.

17. PROFIT DISTRIBUTION

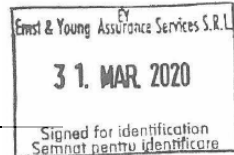
	2019	2018
Dividends declared and paid during the period:	13,673	-
Total dividends for the period	13,673	-
Dividends per share (RON/share)	0.3524	-

For the year ended 31 December 2019, the Board of Directors has proposed to the shareholders' approval, 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 2019:

- Setting up the legal reserves in accordance with the statutory regulations in amount of 1,617;
- Profit not distributed of 30,382.

SPHERA FRANCHISE GROUP SA
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17. PROFIT DISTRIBUTION

For the year ended 2018, 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.

On 2 March 2020, the General Shareholders Meeting of Sphera Franchise Group SA approved the distribution of dividends of 13,679 (0.3525 RON/ordinary share) from the undistributed net profit of Sphera Franchise Group SA for the financial year 2018 ((Note 22).

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

18. TRADE AND OTHER PAYABLES

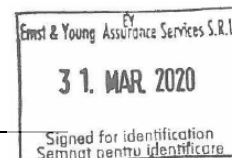
	<u>31 December 2019</u>	<u>31 December 2018</u>
Trade payables	1,176	322
Other payables to related parties	4,347	2
Salary liability	5,143	3,712
Social contribution liability	707	572
Other employee related liabilities	145	112
VAT payable	-	306
Other payables	48	118
Total	<u>11,566</u>	<u>5,144</u>

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 15-day terms
- For terms and conditions relating to related parties, refer to Note 19.

SPHERA FRANCHISE GROUP SA
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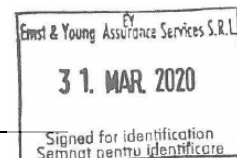
19. RELATED PARTY DISCLOSURES

During the year ended 31 December 2019 and 31 December 2018, respectively, the Company has carried out transactions with the following related parties:

Related party	Nature of the relationship	Country of incorporation	Nature of transactions
US Food Network SA	Subsidiary	Romania	Dividends received, loan obtained, sale of services, acquisition of goods and services,
American Restaurant System SA	Subsidiary	Romania	Sale of services, loan provided, acquisition of goods and services, VAT tax group
California Fresh Flavors SRL	Subsidiary	Romania	Loan provided, sale of services
US Food Network SRL	Subsidiary	Republic of Moldova	Dividends received
US Food Network SRL	Subsidiary	Italy	Sale of services
Cinnamon Bake&Roll SRL	Entity with several common members of key management personnel	Romania	Acquisition of goods
Midi Development SRL	Entity with several common members of key management personnel	Romania	Services
Moulin D'Or SRL	Entity with several common members of key management personnel	Romania	Sale of services, acquisition of goods
Wellkept Group SA	Shareholder	Romania	Rent training center Payment of dividends
Lunic Franchising and Consulting Ltd.	Shareholder (from 22 November 2019)	Cyprus	-
Computerland Romania SRL,	Shareholder	Romania	Payments of dividends
Anasa Properties SA	Shareholder (until 22 November 2019)	Romania	Payments of dividends

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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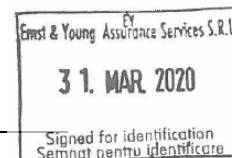
19. RELATED PARTY DISCLOSURES (continued)

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

31 December 2019	Dividends revenues	Revenues from service contracts to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Related party					
US Food Network SA	50,419	21,660	8	4,494	-
US Food Network SRL (Republic of Moldova)	820	-	-	-	-
American Restaurant System SA	-	5,174	145	2,065	4,174
California Fresh Flavors SRL	-	1,820	118	1,690	120
US Food Network SRL (Italy)	-	735	-	343	-
Moulin D'Or SRL	-	939	25	157	-
Midi Development SRL	-	15	51	1	53
Wellkept Group SA	-	-	462	-	-
Grand Plaza Hotel SA	-	-	17	-	-
Arggo Software Development and Consulting SRL	-	-	95	-	-
Loans and interest from related parties	-	-	-	-	20,826
Loans and interest to related parties (please see below)	-	-	-	65,429	-
	51,239	30,343	921	74,179	25,173
31 December 2018					
Related party					
US Food Network SA	61,446	16,798	83	3,883	1
US Food Network SRL (Republic of Moldova)	352	-	-	-	-
American Restaurant System SA	-	5,995	207	3,266	-
California Fresh Flavors SRL	-	1,578	-	887	1
US Food Network SRL (Italy)	-	634	-	35	-
Moulin D'Or SRL	-	1,487	29	849	-
Midi Development SRL	-	15	68	5	-
Wellkept Group SA	-	-	280	-	-
Grand Plaza Hotel SA	-	-	11	-	-
Arggo Software Development and Consulting SRL	-	-	74	-	-
Loans and interest from related parties	-	-	-	-	19,839
Loans and interest to related parties (please see below)	-	-	-	45,505	-
	61,798	26,507	752	54,430	19,841

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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19. RELATED PARTY DISCLOSURES (continued)

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding trade balances at the period end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables.

For the year ended 31 December 2019, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Starting 1 July 2019, Sphera Franchise Group SA and American Restaurant System have registered as a tax group for VAT purpose. The amounts owed to American Restaurant System SA as at 31 December 2019 are in relation with the VAT receivables taken over from ARS that are going to be settled in the future periods (Note 14).

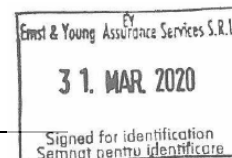
The balances with related parties comprise also loans receivables and payables, included in the Statement of financial position under "Trade and other receivables" (Note 14) and "Interest-bearing loans and borrowings" respectively (Note 11).

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

	Interest expense 2019	Interest payable 31 December 2019	Loan payable 31 December 2019
Related party			
US Food Network SA	788	1,657	19,169
Total	788	1,657	19,169
	Interest income 2019	Interest receivable 31 December 2019	Loan receivable 31 December 2019
California Fresh Flavors SRL	163	354	11,072
US Food Network SRL (Italy)	852	1,335	20,918
American Restaurant System SA	989	1,299	30,451
	2,004	2,988	62,441
	Interest expense 2018	Interest payable 31 December 2018	Loan payable 31 December 2018
Related party			
US Food Network SA	749	843	18,996
Total	749	843	18,996
	Interest income 2018	Interest receivable 31 December 2018	Loan receivable 31 December 2018
California Fresh Flavors SRL	202	185	3,399
US Food Network SRL (Italy)	466	467	18,656
American Restaurant System SA	297	298	22,500
Total	965	950	44,555

SPHERA FRANCHISE GROUP SA
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19. RELATED PARTY DISCLOSURES (continued)

The intercompany loans granted by the Company to California Fresh Flavors is payable within a period of one to five years from the contract date and the loans granted to US Food Network Srl (Italy) and American Restaurant System SA are payable within one-year period. In 2019, the contracts were extended for another one-year period.

In 2019, the Company increased the value of the investment in the Italian subsidiary, US Food Network Srl, with the amount of 15,853 by converting a part of the existing shareholder's loan to equity reserve to maintain a positive net equity of the subsidiary, as requested by the Italian regulations.

In 2019, Sphera Franchise Group SA paid dividends to its shareholders of a total gross amount of 13,673, (representing 0.3524 RON/ordinary share), as approved by the Annual General Shareholders Meeting held on 25 April 2019.

Compensation of key management personnel of the Company:

	<u>2019</u>	<u>2018</u>
Short-term employee benefits	8,604	8,610
Total compensation paid to key management personnel	<u>8,604</u>	<u>8,610</u>

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

There were no contributions paid to the State pension plan in 2019 and 2018 for the key management personnel following the changes imposed by the Romanian legislation since 1 January 2018 which transferred the obligation to pay the social contributions from the employer to the employee's duty.

20. COMMITMENTS AND CONTINGENCIES

Operating lease commitments — Company as lessee

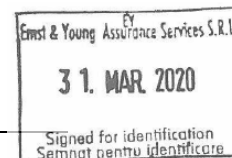
The Company has entered into operating lease agreements for the headquarters premises and other administrative areas and several vehicles and equipment. The contract period of the operating lease agreements for vehicles and office equipment does not exceed five years term. Future minimum rentals payable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

Starting 1 January 2019, the Company applied IFRS 16 Leases, using the modified retrospective approach for transition. 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, unless practical expedients are applicable. A reconciliation between future operating lease commitments as at 31 December 2018 to lease liability as at 1 January 2019 is presented in the Note 4.1 Leases.

	<u>31 December 2018</u>
Within one year	1,105
After one year but not more than five years	4,234
More than five years	<u>2,047</u>
Total:	<u>7,386</u>

SPHERA FRANCHISE GROUP SA
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20. COMMITMENTS AND CONTINGENCIES (continued)

Finance leases

The Company has finance leases for vehicles. The Company's obligations under finance leases are secured by the lessor's title to the leased assets. Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments as at 31 December 2018 are, as presented below.

For leases previously classified as finance leases the Company 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.

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

At 31 December 2019, the value of the undrawn borrowing facilities granted to related parties was of 104,229.

Contingencies

Taxation

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

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

Contingent liabilities may arise in relation to additional tax assessments that may be imposed by the tax authorities as a result of reviews performed. Corporate tax returns can be subject to review by tax authorities within a 5-year period in Romania.

Recently, there has been an increase in audits carried out by the tax authorities.

20. COMMITMENTS AND CONTINGENCIES (continued)

Transfer pricing

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

The Company has prepared transfer pricing files.

21. AUDITOR'S FEES

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

The fee for the statutory audit of the consolidated and standalone financial statements as of 31 December 2019 of Sphera Franchise Group SA prepared in accordance with MOF 2844/2016 and of the statutory audit of the financial statements as of 31 December 2018 of US Food Network SA and American Restaurant System SA in accordance cu MOF 1802/2014 and of the statutory audit of US Food Network Srl Italy was of 561 (excluding VAT).

Other non-assurance services amounted 47 (excluding VAT) in connection with the procedures performed by the audit company for the Group's half-yearly related parties' reports, prepared in accordance with the stock exchange regulations.

22. EVENTS AFTER THE REPORTING PERIOD

Proposed profit distribution for the financial year 2019

For the year ended 31 December 2019, the Board of Directors has proposed to the shareholders' approval, the following allocation 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 2019:

- Setting up the legal reserves in accordance with the statutory regulations in amount of 1,617.
- Profit not distributed of 30,382.

New openings

On 17 January 2020, the Group opened the 100th KFC restaurant of the portfolio in Rome Tiburtina train station, Italy.

Increase of share capital of American Restaurant System SA

On 27 February 2020, the Extraordinary General Shareholders Meeting of American Restaurant System SA approved the increase of share capital of the Company with the value of 20,000 (from 95 to 20,095) by converting a part of the loan granted by Sphera Franchise Group SA (20,000) and cash contribution from Lunic Franchising and Consulting LTD (0.006), the shareholding structure remaining unchanged.

Payment of dividends for 2018

On 2 March 2020, the General Shareholders Meeting of Sphera Franchise Group SA has approved the distribution of dividends in total gross amount of 13,679 (0.3525 RON/ordinary share) from the undistributed net profit of Sphera Franchise Group SA for the financial year 2018.

22. EVENTS AFTER THE REPORTING PERIOD (continued)

Development commitments – USFN Italy

At the beginning of 2020, USFN Italy was operating a total of 16 stores, higher than the target. However, 4 stores were opened in areas other than those with exclusive franchise rights. Hence, Yum Italy and USFN Italy agreed to terminate the existing development agreements for the two regions signed in 2016-2017 (Triveneto and Piemonte) and entered into negotiations for new development agreements that would apply for 2021 onwards as the development plan for 2020 is already approved and ongoing.

The emergency state that the Italian government has applied in the country due to the coronavirus epidemic and the consecutive measures which directly affect restaurant operations do not allow for the time being these negotiations to be concluded. Both parties are monitoring the evolutions and will resume when a clear picture of the market will be in place.

Coronavirus impact on business

The coronavirus outbreak occurred at a time close to reporting date and the condition has continued to evolve throughout the period to the consolidated financial statements approval date.

Management assessment is that the measures taken by various authorities in 2020, in the countries where Group operations are located, represent a non-adjusting event and should not be reflected in the valuation of assets and liabilities of the Group as at 31 December 2019. Being in the early stages of the outbreak, the high level of uncertainties due to the unpredictable outcome of this disease make it difficult to estimate the financial effects of the outbreak.

The Group operates 16 KFC Franchise restaurants in the Northern part of Italy, which account about 10% of the Group sales. During March 2020, the Italian government announced special measures to mitigate the spread of the coronavirus epidemic in the country.

Under the current circumstances, based on the consecutive measures of the Italian government, the execution of the development plan of 2020 may suffer some delays not being able to guarantee its feasibility in terms of supplies required, human resources mobilization and other logistics or regulatory factors.

The Romanian authorities have also taken a number of measures to combat the spread of the epidemic, including the declaration of a state of emergency, starting on 16 March 2020. The measures included the closure, among other things, of restaurants and bars.

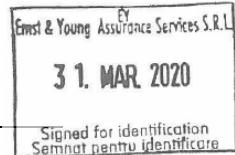
Starting 20 March 2020, the restaurants are closed, with the temporary closure estimated to last until 21 April 2020. However, the order also provides the permission to commercialize food and alcoholic and non-alcoholic beverages that do not require clients to remain in the spaces designated to consumption, as „drive-in”, „room-service” or customer delivery services. Therefore, KFC and Pizza Hut Delivery will continue to serve products to its customers only through the delivery service for both brands, as well as the dedicated car lines in Drive Thru in KFC, available both in Bucharest and around the country. Pizza Hut Dine-in and Taco Bell restaurants will remain closed until further decisions of the Romanian authorities.

The high level of uncertainty caused by the coronavirus outbreak will lead to a highly volatile market environment in the following months and the subsequent measures imposed by the various authorities, if any, in the countries where Group operations are located will potentially further adversely impact the overall current operations and the Group’s results for the next period.

Actions taken or in progress to be taken by the Group in order to maintain the viability of the group and its business lines include, without being limited to, reducing expenses in the context of the support measures announced by the Romanian Government (salaries for staff in technical unemployment, renegotiation or suspension of rent by obtaining certificates of force majeure), reducing the working schedule of the non-critical headquarter employees, ongoing negotiations with suppliers of services in order to suspend or significantly reduce the fees for their services rendered to Sphera Group. Ongoing discussion are initiated with banks for increasing available liquidity to the Group, in the event the current crisis will extend for a longer period.

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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All amounts in RON thousand, unless specified otherwise



22. EVENTS AFTER THE REPORTING PERIOD (continued)

The Management's position is that the currently taken measures will ensure the business continuity and thus the going concern principle remains applicable for these financial statements.

Chief Executive Officer / Chairman of the Board of Directors
Georgios Argentopoulos

Chief Financial Officer
Valentin Budes

SPHERA FRANCHISE GROUP SA

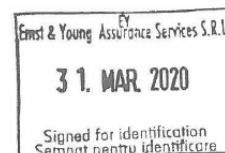
CONSOLIDATED AND STANDALONE DIRECTORS' REPORT

Prepared in accordance with Ministry of Public Finance Order no. 2844/2016

Year ended 31 December 2019

**SPHERA FRANCHISE GROUP SA
CONSOLIDATED AND STANDALONE DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

All amounts in RON thousand, unless specified otherwise



1. CORPORATE INFORMATION

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

Sphera Franchise Group SA together with its subsidiaries: US Food Network SA (“USFN”), US Food Network SRL Italy (“USFN Italy”), US Food Network SRL Moldova (“USFN Moldova), California Fresh Flavors SRL (“Taco Bell”) and American Restaurant System SA (“ARS”) form “the Group” (or “SFG”).

Sphera Group is the leading food service operator in Romania and operates quick service and takeaway restaurant concepts (a chain of 99 restaurants) under the Kentucky Fried Chicken (“KFC”), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (23 restaurants as at 31 December 2019) as well as pizza delivery points (22 locations as at 31 December 2019) under the Pizza Hut (“PH”) and Pizza Hut Delivery (“PHD”) brands, spread across Romania, one chain of restaurants under the “Taco Bell” brand (10 restaurants as at 31 December 2019) and one restaurant under Paul brand, in Romania. The Group’s number of employees at 31 December 2019 was 6,084 (31 December 2018: 5,514).

Sphera Franchise Group SA has prepared separate financial statements for the year ended 31 December 2019 in accordance with Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards (IFRS) and annual consolidated financial statements for the year ended 31 December 2019 in accordance with IFRS, as endorsed by the EU. Separate financial statements and consolidated financial statements of Sphera Franchise Group SA are public and may be obtained from the company’s website, www.spheragroup.com.

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

2. GROUP STRUCTURE

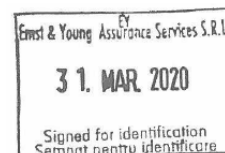
Details of the Sphera’s investments in controlled companies representing also the Group’s consolidated subsidiaries as at 31 December 2019 and 31 December 2018 are as follows:

Company name	Country of incorporation	Field of activity	Control 31 December 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 Flavors SRL	Romania	Restaurants	99.9900%	99.9900%
US Food Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%	100.0000%

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). In June 2017, Sphera set up the newest subsidiary of the Group, California Fresh Flavors, bringing in its portfolio the Taco Bell brand.

**SPHERA FRANCHISE GROUP SA
CONSOLIDATED AND STANDALONE DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

All amounts in RON thousand, unless specified otherwise



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 which operates the KFC franchise in Moldova, 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 operating 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.

California Fresh Flavors SRL ("Taco Bell") was set up on 19 June 2017 and operates Taco Bell franchise in Romania. Sphera owns 99.99% of the company's shares. The company operates as a limited liability company and is registered at No. 239 Calea Dorobanti, Bucharest, Romania.

3. SHAREHOLDERS AND ISSUED CAPITAL

The shareholders of Sphera Franchise Group SA at 31 December 2019 are: Tatika Investments Ltd. (27.33%), Computerland Romania SRL (21.44%), Wellkept Group SA (16.34%), Lunic Franchising and Consulting LTD (10.99%) and free float (23.90%).

As of 31 December 2018, the shareholders of Sphera Franchise Group SA were: Tatika Investments Ltd. (27.33%), Computerland Romania SRL (20%), Wellkept Group SA (16.34%), Anasa Properties SRL (10.99%) and free float (25.34%).

On 22 November 2019, Anasa Properties SRL transferred its shares hold with Sphera Franchise Group SA, representing 10.99% of the Company's shareholding, to Lunic Franchising and Consulting Ltd.

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

4. CORPORATE GOVERNANCE

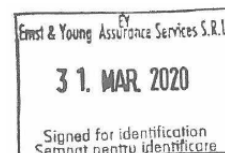
The Group adhered to the Corporate Governance Code issued by the Bucharest Stock Exchange and applies the principles of corporate governance provided by the Code.

The Group has taken and will continue to take the professional, legal and administrative steps necessary for ensuring compliance with the provisions of the Code.

More details about the compliance with the principles and recommendations stipulated under the Corporate Governance Code issued by the Bucharest Stock Exchange will be presented in the Group's Annual Report.

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5. MANAGEMENT OF THE COMPANY AND OF THE GROUP

Company is managed by the Board of Directors. Its members are appointed for a mandate of 4 years.

The structure of the Board of Directors as of 31 December 2019 was the following:

Name	Date of appointment	Title	Role
Georgios Argentopoulos	25 April 2019	Chairman of the BoD	Executive member
Anastasios Tzoulas	25 April 2019	Vice-Chairman of the BoD	Independent member
Lucian Hoanca	25 April 2019	Member of the BoD	Non-executive member
Silviu Gabriel Cârmaciu	25 April 2019	Member of the BoD	Non-executive member
Georgios Vassilios Repidonis	25 April 2019	Member of the BoD	Non-executive member
Valentin Arnaoutou	25 April 2019	Member of the BoD	Non-executive member
Razvan Stefan Lefter	25 April 2019	Member of the BoD	Independent member

On April 08th, 2019, Mr. Mark Nicholas Hilton announced his resignation from the position of Director of the Company, starting April 30th 2019, as the last mandate day.

On April 08th Mr. Georgios Argentopoulos is appointed as Director of the Company, for a mandate of 4 years, starting with May 01st, 2019.

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

Name	Title	Date of Appointment
Georgios Argentopoulos	Chief Executive Officer (CEO)	April 8 th , 2019 (effective May 1 st , 2019)
Valentin-Ionut Budes	Chief Financial Officer (CFO)	March 7 th , 2019 (effective May 9 th , 2019)
Cristian Osic	Chief Development Officer (CDO)	July 8 th , 2019 (effective September 1 st , 2019 - new mandate)
Călin Viorel Ionescu	Chief Operating Officer (COO)	July 8 th , 2019 (effective September 1 st , 2019 - new mandate)
Oana Monica Eftimie	Chief Marketing Officer (CMO)	July 8 th , 2019 (effective September 1 st , 2019 - new mandate)

On March 7th, 2019, the Board of Directors of the Company has appointed Mr. Valentin- Ionut Budes as Chief Financial Officer, for a mandate of 4 years, starting with May 9th, 2019.

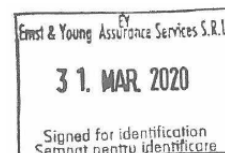
On July 8th, 2019, the Board of Directors approved the mandate extension for a 4-year duration for the executive directors in office, respectively, Mr. Cristian Osic – CDO, Mr. Calin Ionescu - COO and Mrs. Oana Monica Eftimie - CMO, effective as of September 1st, 2019, as per the scheme above.

Consultative committees

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

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6. PRINCIPAL SCOPE OF BUSINESS

The Group's franchised foodservice business was launched in 1994 with the opening of the first Pizza Hut location, which was followed by the opening in 1997 of the first KFC location, both in Bucharest. As at 31 December 2019, the Group operates 155 restaurants, of which 99 KFC restaurants (82 restaurants located in Romania, 2 restaurants located in the Republic of Moldova and 15 restaurants in Italy), 45 Pizza Hut units (of which 22 are delivery units), 10 Taco Bell units and one restaurant under Paul brand. Through USFN (Romania), with restaurant sales of RON 680 million in 2019, we are the second largest restaurant group in the quick-service restaurant sector in Romania and, through ARS (Romania), with restaurant sales of RON 132 million in 2019, we are the largest restaurant group in the full-service restaurant sector in Romania.

Our business is conducted through the following segments:

- Quick-service restaurants - through our KFC restaurants (in Romania, the Republic of Moldova and Italy) and Taco Bell restaurants (in Romania);
- Full-service restaurants - through our Pizza Hut Dine-In restaurants in Romania;
- Delivery restaurants - through our Pizza Hut delivery units in Romania.

KFC is the leading chicken restaurant chain in Romania in terms of both total sales and number of restaurants. The first KFC restaurant in Romania opened in 1997 in Bucharest and, at the end of 2019, there were 82 KFC restaurants in Romania. In 2008, we opened the first KFC restaurant in the Republic of Moldova, where we currently operate two restaurants (both in Chisinau), while in 2017 we opened our first two restaurants in Italy, where we currently operate 15 restaurants spread across the northern region of Italy.

Of the 82 KFC restaurants operating in Romania as at 31 December 2019, 52 are food court locations (in malls or commercial centres), 14 are inline (street locations), while another 16 are Drive-Thru locations. In 2018, KFC Romania has also launched the delivery activity, which now carried out from 30 stores in Bucharest and another 11 cities.

In our KFC restaurants, we sell food and beverages products either individually or part of a price-attractive bundle labelled "menu". Generally, the menus include three main components: a portion of a chicken-based product (sandwiches, wrappers or pieces of chicken meat), a medium-sized portion of French fries and a medium-sized non-alcoholic drink. For an additional price, our customers can choose to opt for the "Go Large" version of the menu, which consists of large-sized portions of French fries and non-alcoholic drink. A dipping sauce is also offered in some menu offers. Whereas menus are normally sized for one person, we also offer products, called Buckets, that are targeted for group consumption (normally, up to four persons). Buckets generally consist of higher number of chicken meat pieces and some include portions of French fries and non-alcoholic drinks.

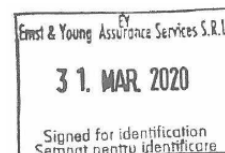
Pizza Hut is the largest casual dine-in restaurant chain in Romania in terms of both total sales and number of restaurants. The first Pizza Hut Dine-In restaurant opened in 1994 in Bucharest and, as at 31 December 2019, there were 23 Pizza Hut Dine-In restaurants across the major cities of Romania. In 2008, we opened the first delivery restaurant, and by the end of the year 2019, our Pizza Hut Delivery network totalled 22 restaurants.

Of the 23 Pizza Hut Dine-In restaurants operating in Romania as at 31 December 2019, 20 are located near food courts with our dedicated seating (in malls or commercial centres) and 3 are inline (street locations). At the same time, 12 out of the 22 Pizza Hut Delivery restaurants were located within commercial centres, while the remaining 10 were inline locations.

In our Pizza Hut restaurants, we primarily sell pizza (a wide range of traditional and proprietary recipes, on a variety of dough types, such as pan, classic, thin, Italian, cheesy bites, crown crust) and pasta, other main-course products (such as burgers and ribs) as well as beverages (primarily non-alcoholic) and deserts.

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7. OVERVIEW ON FINANCIAL RESULTS

7.1 Consolidated financial results

Consolidated results for the years ended 31 December 2019 and 31 December 2018 are presented below:

	2019 (1)	2019 (2) (unaudited)	2018
Restaurant sales	954,728	954,728	771,197
Restaurant expenses	828,333	830,448	668,019
Restaurant operating profit	126,395	124,281	103,178
General and administration expenses, net	50,023	50,519	73,048
Operating profit	76,372	73,761	30,130
Finance result	(17,372)	(5,815)	(2,994)
Profit before tax	59,000	67,946	27,136
Income tax expense	3,538	3,779	2,874
Profit for the period	55,462	64,167	24,262
EBITDA	152,619	103,926	51,637
Normalized EBITDA	144,682	95,989	72,359

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

Starting 1 January 2019, Sphera Group applied *IFRS 16 Leases* that sets out the principles for the recognition, measurement, presentation and disclosure of leases, as extensively presented in the financial statements, separate and consolidated. IFRS 16 requires lessees to account for most leases under a single on-balance sheet model like the accounting for finance leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

In order to ensure comparability with the previous year financial results, the management financial analysis of the Group's performance has not considered the impact of adoption of this new standard.

Consolidated sales of Sphera reached RON 954.7million for the year 2019, representing an increase of 23.8% compared to the previous year. The main drivers for this performance were the growth in the sales of USFN Romania (KFC restaurants) (+15.9% Y/Y), which had a contribution of 16.9 pp in the consolidated sales growth rate. ARS (Pizza Hut restaurants) contributed with 3.3 pp in the consolidated sales growth rate. Our KFC operations in Italy contributed 2.5 pp in the consolidated sales growth rate (the Y/Y increase being of 154.9% as effect of new restaurants openings and maturity reaching for those opened a year before). Taco Bell operations in Romania contributed another 0.8 pp in the consolidated sales growth rate (Y/Y increase of 171.2%).

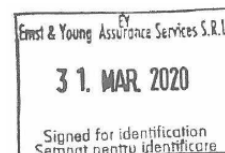
Consolidated operational expenses reached RON 830.5 million in the year 2019, representing an increase of 24.3% compared to the previous year. As percentage of sales, operational expenses increased by 0.4 pp year-on-year to 87.0% in the year 2019 from 86.6% in 2018. The stable evolution of this percentage is the effect of the control of cost of goods sold (-2.3 pp decrease versus 2018 as percentage from sales) which compensated the necessary increase in labour cost (+1.6 increase versus 2018 as percentage from sales).

General and administration (G&A) expenses decreased to RON 50.5 million in the year 2019 (5.3% of sales), lower with 30.8% compared to previous year (9.5% of sales). Excluding non-recurring expenses from the results of both years, G&A expense reached 58.5 million in the year 2019 (6.1% of sales), up 11.7% compared to the previous year 6.8% of sales).

As a reminder, for the 2018 non-recurring expenses included in the G&A category amount to RON 20.7 million, of which RON 11.5m represents a provision for potential liabilities (VAT and late penalties) that Sphera recognised upon receiving the draft report issued by the tax authorities on 27 February 2019, following the tax audit performed at USFN RO by the fiscal authorities for the periods 2013-2017 (VAT) and

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2012-2016 (income tax), RON 8.31 million represents an impairment loss in relation with the goodwill recorded on the acquisition of ARS, while another RON 0.95 million refer to the compensations claimed in court and paid to a former employee who has suffered injuries in a work accident.

For the year 2019 non-recurring expenses included in the G&A category is in amount of -7.9 million. The amount includes the reversal of the tax provision made in 2018 in amount of RON 10.3 million and a further impairment loss in relation with the goodwill recorded on the acquisition of ARS of RON 2.4 million.

On a stand-alone basis, G&A expenses of the Parent company include an impairment loss of investment in ARS in amount of RON 15.5 million (2018: RON 19,8 million); this impairment loss may be reversed in the future financial years, subject to a better performance of the subsidiary.

Net consolidated profit reached RON 64.2 million in the year 2019, being 164.5% higher than in the previous year. The net profit margin decreased 3.6 pp to 6.7% of sales in the year 2019.

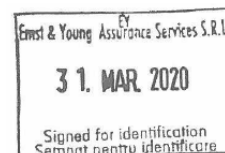
	2019 (1)	2019 (2) (unaudited)	2018
Operating profit	<u>76,372</u>	<u>73,761</u>	<u>30,130</u>
Adjustments to bridge operating profit to EBITDA:			
Depreciation and amortization included in restaurant expenses	71,917	28,640	20,458
Depreciation and amortization included in general and administration expenses	4,330	1,525	1,049
EBITDA	<u>152,619</u>	<u>103,926</u>	<u>51,637</u>
Non-recurring general and administration expenses	(7,937)	(7,937)	20,722
Normalised EBITDA	<u>144,682</u>	<u>95,989</u>	<u>72,359</u>

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

Normalized EBITDA advanced 32.7% Y/Y to RON 96.0 million in the year 2019, while EBITDA increased 101.3% Y/Y to RON 103.9 million. Normalized EBITDA margin is higher with 0.7 pp to 10.1% in the year 2019, mainly as a result of a 0.7 pp improvement in the normalized G&A expenses (as percentage of sales).

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A summary of consolidated financial position as of ended 31 December 2019 and 31 December 2018, respectively is presented below:

	31 December 2019 (1)	31 December 2019 (2) (unaudited)	%	31 December 2018	%
Non-current assets					
Total	508,147	281,009	71%	229,173	65%
Non-current assets	279,026	281,009	71%	229,173	65%
Right-of-use assets	229,121	-		-	
Current assets Total	112,082	114,974	29%	122,979	35%
Total assets	620,229	395,983	100%	352,152	100%
Total equity	172,251	177,723	45%	128,826	37%
Non-current liabilities					
Total	265,596	76,184	19%	91,536	26%
Non-current liabilities	75,523	76,184	19%	91,536	26%
Lease liabilities (IFRS 16)	190,073	-		-	
Current liabilities Total	182,381	142,076	36%	131,790	37%
Current liabilities	137,242	142,076	36%	131,790	37%
Lease liabilities (IFRS 16)	45,139	-		-	
Total liabilities	447,978	218,261	55%	223,326	63%
Total equity and liabilities	620,229	395,983	100%	352,152	100%

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

In order to ensure comparability with the previous year financial results, the management financial analysis of the Group's financial position has not considered the impact of adoption of this new standard.

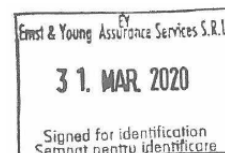
Consolidated total assets increased with 22.6% Y/Y to RON 396.0 million as of 31 December 2019, driven mainly by a 22.6% Y/Y increase in non-current assets (as a result of the opening of new stores).

Total liabilities decreased slightly with 2.3% Y/Y to RON 218.3 million as of 31 December 2019, of which 49.5% were accounted for interest-bearing loans (having a descend of -13.2% Y/Y to RON 108.0 million, as effect of loan repayment) and another 48.8% were accounted for by trade and other payables (up with 21.8% Y/Y to RON 106.5 million).

Consolidated total equity grew by 38% Y/Y to RON 177.7 million, as a result of the net profit achieved by the Group during the year 2019.

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Main consolidated financial ratios as at 31 December 2019

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

	<u>2019(1)</u>		<u>2019(2)</u>		<u>2018</u>
Current ratio					
<u>Current assets</u>	112,082	= 0.61	114,974	= 0.81	122,979
<u>Current liabilities</u>	182,381		142,076		131,790
Debt to Equity ratio					
<u>Interest-bearing debt</u>	263,690	= 153.08%	73,617	= 41.42%	86,787
<u>Equity</u>	172,251		177,724		128,826
<u>Interest-bearing debt</u>	263,690	= 60.49%	73,617	= 29.29%	86,787
<u>Capital employed</u>	435,941		251,341		215,613
Trade receivables turnover (days)					
<u>Average receivables</u>	27,867	= 10.51	27,867	= 10.51	12,449
<u>Sales</u>	954,728		954,728		771,197
Fixed asset turnover					
<u>Sales</u>	954,728	= 1.94	954,728	= 3.58	771,197
<u>Net fixed assets</u>	493,371		266,476		220,272

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

7.2 Standalone financial results of Sphera Franchise Group SA

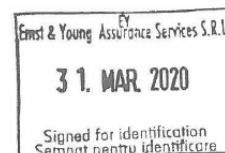
	<u>2019</u>	<u>2018</u>
Dividend revenue	51,239	61,798
Revenue from services	30,360	26,514
Payroll and employee benefits	25,717	21,598
Impairment loss of investments in subsidiaries	15,457	19,804
Other expenses	8,297	6,805
Operating profit	32,128	40,105
Financial result	207	(303)
Profit before tax	32,335	39,802
Income tax	337	264
Net profit for the period	31,998	39,538

The Company's revenues include dividend income from subsidiaries (US Food Network SA and US Food Network SRL – Republic of Moldova) and revenues from services rendered. Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established which is generally when shareholders approve the dividend.

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

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At each reporting date, management assesses whether there is any indication of impairment investments in subsidiaries. As of 31 December 2019, the assessment whether there are indicators of impairment for its cost of investment in subsidiaries, was as follows:

- USFN and USFN Moldova's activities in 2019 have continued in line or at better performance than anticipated through the cash flow projections based on which their fair value (USFN 519,704 and USFN Moldova: 1,735) was determined in May 2017, therefore no impairment indicator was identified;
- USFN Italy, that started activity during 2017, has performed in 2019 as anticipated through the cash flow projections and no impairment indicator was identified;
- Taco Bell has performed in 2019 in accordance with management's expectation, therefore no impairment indicator was identified to adjust its actual carrying value (100);
- Pizza Hut's performance in 2018 and 2019 was below the cash flow projections based on which their fair value was determined in May 2017. Management estimated the recoverable amount of the investment at 57,274 (2018: 63,483) based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2020-2024). The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor. As a result of the analysis, as compared to the investment carrying value of 60,786 and also considering the loan granted to ARS of 31,750 (2018: 22,500) and the impairment loss already recognized in the financial statements as at and for the year ended 31 December 2018 of 19,804, there was a decrease of the investment's recoverable amount of additional 15,457 for which the Company recognized an impairment loss in the financial statements as at and for the year ended 31 December 2019. This impairment loss may be reversed in the future financial years, subject to improving performance of the subsidiary.

Net profit for the year was 31,998 (2018:39,538), decrease determined by the lower dividends received from its subsidiaries in 2019.

In what regards the financial position, the main elements of the balance sheet as of 31 December 2019 are detailed below:

	31 December 2019	%	31 December 2018	%
Assets				
Non-current assets	593,368	87%	583,833	89%
Current assets	91,197	13%	71,254	11%
Total assets	684,565	100%	655,087	100%
Equity and liabilities				
Total equity	629,658	92%	611,333	93%
Non-current liabilities	38,423	6%	35,992	5%
Current liabilities	16,484	2%	7,762	1%
Total liabilities	54,907	8%	43,754	7%
Total equity and liabilities	684,565	100%	655,087	100%

Besides cash, current assets refer to loans granted to the subsidiaries of 58,425 (31 December 2018: 41,922), amounts invoiced to related parties for management and support services of 8,750 (31 December 2018: 8,925) and tax receivables of 4,044 (31 December 2018: 0).

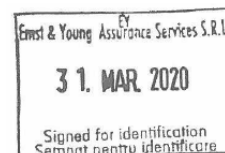
Non-current assets comprise mainly net investments in subsidiaries of 576,704 (31 December 2018: 576,309).

Current and non-current liabilities are mainly in relation to the lease liabilities from lease of office premises and administrative vehicles and the bank loan and one of its subsidiaries, US Food Network SA.

Other non-current assets refer to receivables from third parties 7,004 (31 December 2018 3,583), property, plant and equipment and intangible assets 2,659 (31 December 2018: 2,566), right-of-use assets resulting from adoption of IFRS 16 of 5,963 and deferred tax asset recognized for the fiscal loss carried forward 999 (31 December: 1,336).

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8. DIVIDEND DISTRIBUTION

	<u>2019</u>	<u>2018</u>
Dividends declared and paid during the period:		
To shareholders of Sphera Franchise Group SA	13,673	-
To non-controlling interests	216	93
Total dividends for the period	<u>13,889</u>	<u>93</u>
Dividends per share (RON/share) – Sphera’s shares	0.3524	-

On 25 April 2019, the General Shareholders Meeting approved the proposal of the Board of Directors to distribute dividends in total amount of 13,673 (0.3524 RON/ordinary share), based on the Sphera’s net profit attributable to stockholders. The payment of the dividends started on 25 October 2019.

On 2 March 2020, the General Shareholders Meeting of Sphera Franchise Group SA approved the second distribution of dividends in total gross amount of 13,679 (0.3525 RON/ordinary share) from the undistributed net profit of Sphera Franchise Group SA for the financial year 2018. The payment of the dividends will start on 31 March 2020.

For the year ended 31 December 2019, the Board of Directors has proposed to the shareholders’ approval, the following allocation 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 2019:

- Setting up the legal reserves in accordance with the statutory regulations in amount of 1,617;
- Profit not distributed of 30,382

9. KEY FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATIONS

The Group’s results of operations have been and are expected to continue to be affected by a number of key factors.

General economic environment in the markets

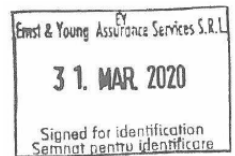
The Group’s results of operations are affected by specific local economic conditions in the markets and geographic areas in which it operates. Such conditions include levels of employment, commodity inflation, real disposable income, private consumption, the availability of consumer credit, consumer confidence, applicable taxes, and consumer willingness to spend. In an unfavourable economic environment with a decrease in disposable income, the Group’s customers may reduce the frequency with which they dine out or order-in or may choose more inexpensive dining options. This trend is however offset by the general affordability of our products, as customers may substitute the Group’s products for other, more expensive, options. Positive economic conditions, in contrast, tend to increase consumer demand for the Group’s products. Changes in general economic conditions therefore affect customer traffic, average ticket price and the Group’s ability to pass through cost increases to customers.

Competitive environment

The Group operates in a highly competitive market, particularly with respect to food quality, price, service, convenience and concept, which in turn may be affected by considerations such as changes in consumer preferences. The Group competes against international chains, as well as many national, regional and local businesses in the quick-service, casual dine-in and delivery/takeaway restaurant sectors not only for customers, but also for management and store employees, suitable real estate sites and qualified sub-franchisees. This competition can put downward pressure on product prices and demand for the Group’s products as well as upward pressure on wages and rents, resulting in reduced profitability. The presence of food-aggregators contributes also to the increase of the competition on a segment where the Group had a relatively safe position.

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Price risk

Cost of sales represents the most significant expense of the Group. Gross margin is affected by a number of factors, including movements in the cost of sales (including with respect to the prices of raw materials), the extent to which the Group can negotiate favourable prices and rebates from suppliers as well as the mix of products that it sells from time to time.

The Group seeks to procure its principal inputs from multiple suppliers, in the event that the Group's primary suppliers cannot deliver the components in the contracted amounts and specifications, the Group's requirements exceed the Group's minimum contracted amounts or the Group is subjected to unanticipated price increases. Prices of the Group's raw materials are generally set by market conditions and the Group is not always able to pass these changes along to the Group's customers, particularly in the short term. The Group seeks to manage factors which put pressure on the Group's gross margin. For example, the Group maintains relationships with additional suppliers.

Payroll

Cost of labour represent our second most important expense and was the fastest growing expense item at restaurant level. It is expected that personnel costs to grow proportionally with the growth of the number of the restaurants and our restaurant revenue complemented by appropriate increase in sales prices. Factors that influence fluctuations in the labour costs include minimum wage and payroll tax legislation, the frequency and severity of labour-related claims, health care costs, the performance of our restaurants, new openings and whether new employees are fixed overhead costs or are restaurant hires.

Marketing and advertising activities

The Group's marketing and advertising activities are an essential part of attracting new customers as well as retaining existing customers. Marketing is particularly important for the Group to communicate its product innovation and price promotion programs to customers and to reinforce the Group's brand awareness, build the Group's image and drive customer volumes. According to the franchise agreements signed so far, the Group is obliged to spend at least 5% of its restaurant sales on marketing and advertising activities.

The effectiveness of the marketing and advertising activities can vary from one year to another and from one campaign to another, depending on the products under promotion, the quality of our communication as well as on the ability of our employees to communicate to customers the ongoing campaigns and promote trade-up products.

The Group also monitors closely the expenditure and frequency of marketing and advertising campaigns by the Group's competition and seeks to maintain a relatively constant presence in the market.

Product liability claims or poultry related health pandemics could have a negative impact on consumers' confidence in the safety and quality of our products

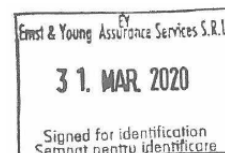
The Group may from time to time be involved in product liability claims typical for the food industry, such as product alteration or injury following consumption.

Also, incidents of health pandemics, food-borne illnesses or food tampering could force the Group to close a number of restaurants for an undetermined period of time. Widespread illnesses such as avian influenza, the H1N1 influenza virus, e-coli, or hepatitis A generally affecting the population may cause customers to avoid certain products, resulting in lack of confidence from customers in the products offered by the Group, especially in poultry food. What is more, even if such poultry related health pandemics would not affect the products offered by the Group, but by other restaurants, still a direct impact can be produced over consumers, who might avoid poultry products irrespective of who is offering them. This would result in a decrease in the number of clients for the Group's restaurants.

Furthermore, the Group's reliance on third-party food suppliers and distributors increases the risk of food-borne illness incidents to all of the Group's restaurants that are served by the respective suppliers and distributors. Power outages and other issues beyond the Group's control can result in costly spoilage or contamination of food. Also, any media news or reports of inspection authorities released to the public identifying unsanitary preparation or preservation of food products in restaurants that are not related to the

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Group or that are not under the Group's control may change the perception of its customers about the quality of the products in restaurants in general. Adverse publicity may negatively impact our reputation, regardless of whether the allegations are valid.

As our core business is the operation of restaurants, the Group depends on consumer confidence in the quality and safety of food products offered in our restaurants. While the Group maintains high standards for the quality of food products and dedicates substantial resources to ensure that these standards are met, the spread of these illnesses is often beyond its control and the Group cannot assure that food-borne illnesses will not occur, as a result of consumption of its products. Product liability risks are currently not covered by product liability insurance.

In addition, the food service industry in general is subject to the threat of food tampering by suppliers, employees or customers, such as addition of foreign objects to the food that the Group sells. Instances of food tampering, even those occurring solely at competitor restaurants, in the markets where the Group operates, or even in other markets, even totally unrelated with the Group's market geographies, could cause negative publicity to the restaurant industry in general, and to the Group in particular.

All of the above could (with immediate effect) result in significantly reduced demand for our food, reduced guest traffic, severe declines in restaurant sales and financial losses as well as significant reputational damages and legal claims of aggrieved guests, even if we were ultimately deemed not to be responsible for the issue or our liability was limited. A decrease in customer confidence in the Group's products as a result of real or perceived public health concerns or negative publicity may have a material adverse effect on our business, results of operations and financial condition.

Consumer preferences

Consumer preferences in the quick-service, casual dine-in and delivery/takeaway foodservice segments are affected by a range of factors, including consumer tastes, national, regional and local economic conditions and demographic trends. For instance, prevailing health or dietary preferences may cause consumers to avoid fast-food products or pizza products offered by the Group in favour of foods that are perceived to be healthier. Changes in consumer preferences can significantly impact demand for the Group's products, but this impact may be somehow limited by our exposure to multiple segments of the foodservice sector.

The Group seeks to maintain the appeal of its products to customers through product innovation, characterized by frequent introduction of new product offerings, and the consumer reaction to new product launches can affect the Group's sales.

Accordingly, the Group's results of operations are affected by the Group's success against the Group's competitors in the quick-service, casual dine-in and delivery/takeaway foodservice segments, which is dependent on a variety of factors, including the comparative attractiveness and taste of the Group's products, perceived product and service quality and the availability of comparable products from its competitors. The pricing of the Group's products, and in particular, the timing and terms of specially-priced offers to customers, can have a significant impact on both the volume of the Group's sales and the Group's margins, as well as the Group's market share against competitors.

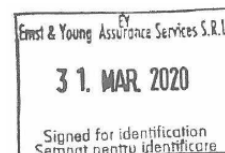
10. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Group's principal financial liabilities comprise loans and borrowings, finance leases and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's financial assets are represented by loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations, as well as long-term deposits to guarantee rent payables.

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

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Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Trade and other receivables and payables are non-interest-bearing financial assets and liabilities. The borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term and short-term credit facilities. Interest rates on the Group's debt finance are variable. Changes in interest rates impact primarily loans and borrowings by changing either their future cash flows (variable rate debt). Management policy is to resort mainly to variable rate financing. However, at the time of rising new loans or borrowings management uses its judgment to decide whether it believes that fixed or variable rate would be more favourable to the Group over the expected period until maturity.

The Group does not hedge its interest rate risk.

On a standalone basis, interest rate on the Company's debt finance from bank is variable. Interest rates on the Company's debt finance from Group companies are fixed. Thus, changes in interest rate do not impact loans and borrowings to third parties either since future cash flows are not affected by such changes in interest rates. In connection to loans granted or obtained from related parties, management policy is to resort mainly to fixed rate financing. However, at the time of rising or granting new loans or borrowings management shall use its judgment to decide whether it believes that fixed or variable rate would be more favourable to the Company over the expected period until maturity.

Foreign currency risk

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

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

On a individual basis, the Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's financing activities, as the financing contracted by the Company is Euro based. The vast majority of revenues and expenses, trade and other receivables and payables is in RON. Part of the loans granted to related parties are denominated in EUR. Natural hedging occurs from the Company's financing activities, as the Company grants loans to its subsidiaries in the same currencies in which the funds are obtained from the bank.

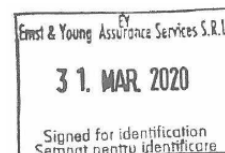
Credit risk

The Group is not significantly exposed to credit risk as the majority of its sales are on a cash basis. The Group's credit risk is primarily attributed to trade and other receivables and balances with banks. The carrying amount of trade and other receivables, net of allowance for impairment and deposits for rent guarantee as per statement of financial position plus balances with banks, represent the maximum amount exposed to credit risk. Management believes that there is no significant risk of loss to the Group beyond the allowances already recorded.

The Group invests cash and cash equivalents with highly reliable financial institutions. The Group has only plain vanilla deposits with reputable banks, none of which has experienced any difficulties in 2019 or up to the date of these consolidated financial statements. The majority of cash is transacted through and placed with Alpha Bank Romania, member of Alpha Bank Group from Greece and Banca Romana de Dezvoltare (BRD), a member of Societe Generale Group from France, as well as with Unicredit Bank Italy. The long-term credit rating of Alpha Bank Greece is Caa1 as provided by Moody's rating agency, no credit rating being available for its Romanian subsidiary. The long-term credit rating of BRD is Baa3, while the one for Unicredit is Baa1, both provided by Moody's

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There is no significant concentration of credit risk in respect of trade and other receivables due to the fact that sales are based mainly on cash and credit card payments. Therefore, there are no formal policies in the Group to manage credit risk for trade receivables. The Group's credit risk is primarily attributed to loans and receivables from related parties, for which the probability of losses is considered remote.

In what regards the Company, the carrying amount of trade and other receivables, plus balances with banks, plus the loans and receivables from related parties represent the maximum amount exposed to credit risk.

Liquidity risk

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

At 31 December 2019, the Group had available 87,087 of undrawn uncommitted borrowing facilities (31 December 2018: 47,449), thus being able to respond to any unforeseen higher cash outflow needs.

On a standalone basis, at 31 December 2019, the Company had available 76,417 of undrawn borrowing facility from US Food Network SA (2018: 73,439) and 29,965 (2018: 4,664) from the bank loan facility with Alpha Bank, jointly with other companies from Sphera Group, thus being able to respond to any unforeseen higher cash outflow needs.

Capital management

Capital of the Group includes the equity attributable to the equity holders of the parent.

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

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

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

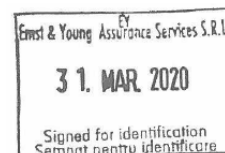
The Group may monitor capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group does not have a target gearing ratio, as the overall gearing is low. The Group includes within net debt, interest bearing loans and borrowings, financial trade and other payables,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

Calculation of consolidated gearing ratio is presented below:

	31 December 2019 consolidated	31 December 2018 consolidated
Interest-bearing loans and borrowings (including finance lease as per IAS 17 as of 31 December 2018)	108,044	124,456
Leases in relation to IFRS 16	235,212	-
Financial trade and other payables	68,257	57,615
Less: cash and short-term deposits	57,272	90,665
Net debt	354,241	91,406
Equity	172,251	128,826
Capital and net debt	526,492	220,232
Gearing ratio:	67%	42%

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	31 December 2019 standalone	31 December 2018 standalone
Interest-bearing loans and borrowings	37,109	38,610
Lease liabilities	6,232	-
Trade and other payables	11,566	5,144
Less: cash and short-term deposits	19,233	19,939
Net debt	35,674	23,815
Equity	629,658	611,333
Capital and net debt	665,332	635,148
Gearing ratio:	5%	4%

The Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

Fair values

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

The carrying amount of the interest-bearing loans and borrowings approximate their fair value. Management estimates that the margin applicable over Euribor at the balance sheet date would be similar to the ones at the dates of each previous withdrawal, due to the fact that the Group maintained over the past years a low gearing ratio and a stable financial condition, and also based on statistics published by the National Bank of Romania.

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

The carrying amounts of these financial instruments are considered to approximate their fair values, due to their short-term nature (in majority) and low transaction costs of these instruments.

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

11. INTERNAL CONTROL

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

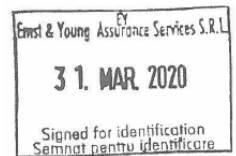
The existence of a control environment forms the basis for an effective internal control system. It consists of the definition and adherence to group-wide values and principles (e.g. business ethics) and of organizational measures (e.g. clear assignment of responsibility and authority, commitment to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

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

- Compliance with the applicable laws and internal regulations;
- Reliability of financial reporting (accuracy, completeness and correctness of the information);

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- Prevention and detection of fraud and error;
- Protection of the Group's resources against losses due to waste;
- Effective and efficient business operations.

In order to achieve these goals, the management of the Group follows, inter alia, the below principles and approaches:

- Ensures a commitment to integrity and ethical values by demonstrating through the Board of Directors' and management's directives, actions and behaviour the importance of integrity and ethical values to support the functioning of the system of internal control;
- The Board of Directors demonstrates independence from management and exercises oversight for the development and performance of internal control;
- Establishes, with Board of Directors oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of the objectives by maintaining job descriptions, defining roles and reporting lines, defining the role of internal audit;
- Ensures and demonstrates a commitment to attract, develop and retain competent individuals in alignment with the objectives of the Group by establishing required knowledge, skills and expertise, selecting appropriate outsourced service providers when needed, evaluating competence and behaviour, evaluating the capacity of finance personnel;
- Holds individuals accountable for their responsibilities in the pursuit of the objectives of the Group by developing balanced performance measures, incentives and rewards and linking compensation and other rewards to performance;
- Specifies objectives with clarity to enable the identification and assessment of risks related to objectives by identifying financial statement accounts, disclosures and assertions, reviewing and updating understanding of applicable standards, considering the range of Group's activities;
- Identifies risks to the achievement of the Group's objectives and analyzes risks as a basis for determining how the risks should be managed;
- Considers the potential for fraud in assessing risks to the achievement of objectives by considering fraud risk in the internal audit plan;
- Identifies and assesses changes that could significantly impact the system of internal control by assessing change in the external environment, CEO and senior executive changes;
- Selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives at acceptable levels by considering processes, risks and controls in the internal audit plan, identifying incompatible functions, considering alternative control activities to the segregation of duties;
- Selects and develops general control activities over technology to support the achievement of objectives by considering ERP implementation, administering security and access, configuring IT to support the complete, accurate and valid processing of transactions and data;
- Develops control activities through policies and procedures that establish what is expected by developing and documenting policies and procedures;
- Obtains or generates and uses relevant, quality information to support the functioning of internal control.

Policies and practices that represent the Group's competence standards for financial reporting positions are used as a basis for human resources and employee compliance activities, which include:

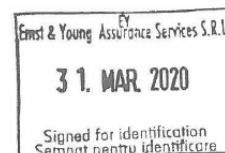
- Selecting and interviewing candidates;
- Performing background/reference checks;
- Setting certification expectations.

Senior management evaluates the capacity of personnel who are involved in recording and reporting financial information, and in designing and developing financial reporting systems including underlying IT systems. Senior management assesses the department's ability to identify issues and stay abreast of technical financial reporting developments. Considerations when assessing the adequacy of staffing levels and competence of financial reporting personnel include the extent of technical skills and nature required and the number of personnel dedicated to financial reporting.

The Board of Directors including the Audit Committee ("the board") oversees management's performance of internal control and retain objectivity in relation to management. The board monitors the functioning of internal controls by performing periodical analysis on the profit and loss accounts, execution of the budget,

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internal and external audit reports. The board demonstrates an appropriate level of skepticism of management's assertions and judgments that affect financial reporting. In particular, the Audit Committee seeks clarification and justification of the Group's process for:

- Selecting and implementing accounting policies;
- Determining critical accounting estimates;
- Making key assumptions used in the application of technical accounting and reporting matters;
- Evaluating other risks facing the Group, with the potential impact on financial reporting.

Deficiencies in the implementation or functioning of internal controls are noted in the internal audit reports and are presented to the management, with the purpose of issuing the corrective actions. The internal audit assessments includes the evaluation of the internal control systems, and evaluation whether:

- Risks relating to the achievement of the Group's strategic objectives and also the risks related to day to day operations are appropriately identified and managed;
- The actions of the Group's directors, employees, and contractors are in compliance with the Group's policies, procedures, and applicable laws, regulations, and governance standards;
- The results of operations are consistent with established goals;
- Operations are being carried out efficiently;
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Group;
- Resources and assets are acquired economically, used efficiently, and protected adequately.

Internal control process is carried out by personnel at all levels.

12. NON-FINANCIAL TOPICS AND DIVERSITY POLICY

Corporate Social Responsibility

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

Environmental protection

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

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

Training and career development for own employees

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

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

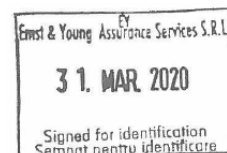
There is an actively sought to create training programs that address not only the job skill set necessary to perform day-to-day tasks within restaurants, but also extended skills such as active responsibility, accountability, time keeping, customer service, communication skills and team work. The training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

Diversity policy

Company has developed an internal culture which promotes equal opportunities and diversity in all its processes and functions. Management is guided by the following principles:

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

In 2019 Sphera Franchise Group signed Romanian Diversity Charter, which is a proof of commitment to promote diversity and equal opportunities for its staff.

Performance evaluation

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

Extensive information on the Group's sustainability strategy, products, environment, products, people and community may be found in the annual Sustainability Report which is available on the Company's website www.spheragroup.com. The report for the year ended 31 December 2019 will be issued by the Company by 30 June 2020, as per legal requirements.

13. OTHER INFORMATION

a) Predictable development of the Group

Network rollout

In order to attract new customers and consolidate the brand's market share, the Group plans to continue the expansion of the restaurant network. Over the medium term, the Group intends to keep the rollout of new stores to an annual average of approximately 25 stores. As a result, new store openings have been a significant driver of the Group's revenue growth and will continue to materially affect the results of operations for the foreseeable future.

A significant component of future network rollout will be the development of the restaurant network in the North-Eastern part of Italy. During the end of the year 2016 and the first half of the year 2017, the Group have signed two development agreements with Yum! for opening at least 25 KFC stores within five years. During 2019, the Group has opened 5 new stores in Italy consolidating the brand position on the Italian market to 15 operating stores as at 31 December 2019. At the beginning of 2020, the Group agreed with Yum Italy to terminate existing development agreements for the two regions signed (Tri Veneto and Piemonte) and entered into negotiations for new development agreements for other regions in Italy, that would apply for 2021 onwards as the development plan for 2020 is already approved and ongoing.

In 2017 the Group signed a new franchise agreement with Yum! and brought on the Romanian market the Taco Bell brand with the commitment to open 10 Taco Bell restaurants within the following three years. In 2019, the Group opened 5 Taco Bell stores, reaching a total of 10 stores. The Group is planning to continue the expansion of the Taco Bell brand on the local market.

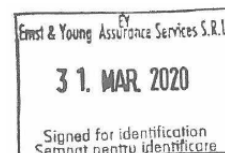
Performance of existing restaurants

The growth of our revenues over the past period was driven almost equally by opening of new restaurants and the strong like-for-like performance of our existing restaurants. KFC was the main contributor to this performance, both in terms of store count and year-on-year growth rates.

In the following years, we expect the like-for-like performance to be influenced positively by the continuous improvement in the purchasing power of the population, higher propensity for dining-out or delivery ordering, increased awareness of our brands across the territories we operate and negatively by the

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number and speed with which we open new units in cities where we are already present, as well as by the increased competition

b) Environmental matters

As of 31 December 2019, the Group incurs no debts relating to anticipated costs for environmental aspects. The Group does not consider that costs relating to environmental aspects are significant.

14. NON-FINANCIAL STATEMENT

In accordance with legal requirements, the Company will publish the Non-financial Statement no later than six months after the reporting date, 31 December 2019, as part of Annual Report.

15. COMMITMENTS AND CONTINGENCIES

Lease commitments — Group as lessee

The Group has entered into operating lease agreements for the premises of most of its restaurants and several vehicles and equipment. The lease terms are between five and ten years, with very few agreements exceeding ten years period. The contract period of the operating lease agreements for vehicles and equipment does not exceed five years term.

Starting 1 January 2019, the Group applied IFRS 16 Leases, using the modified retrospective approach for transition. 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, unless practical expedients are applicable. As at 31 December 2018, future minimum rentals payable under non-cancellable operating leases are disclosed in the financial statements. A reconciliation between future operating lease commitments as at 31 December 2018 to lease liability as at 1 January 2019 is disclosed in the financial statements.

The Group has also finance leases for vehicles. The Group's obligations under finance leases are secured by the lessor's title to the leased assets as disclosed in the consolidated financial statements.

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, as presented in the consolidated and individual financial statements.

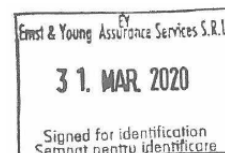
Other commitments

Per the Romania new network development plan signed in October 2017, the Group has agreed with KFC Europe to open a minimum of 39 new KFC locations (out of which 29 standard format restaurants and 10 smaller format restaurants meaning rural drive-thru or an agreed small box design) during the years 2018-2022 (out of which 7 units in 2019). Should the Group fail to achieve these targets, the Group will pay KFC Europe a penalty for each such location; the Group has not paid such penalties to date, being in line with the committed development plan.

Per the Romania new network development plan concluded with Pizza Hut Europe (Master Franchisor) in October 2017, the Group has agreed to open a minimum of 34 outlets (restaurants and pizza delivery) during the years 2017- 2021 (out of which 6 locations in 2019). Should the Group fail to achieve these targets, the Group will pay PH Europe Sarl a penalty for each such location. For the year ended 31 December 2019, the Group has postponed the committed openings for the next years and recognised in the consolidated financial statements a liability for the initial fees due to YUM related to the committed stores not yet realised as at 31 December 2019. Starting 2020, the assumed continuing fees for the restaurants which should have been opened in 2019 will be monthly accrued according to the development plan agreement.

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Per the Romania network development plan concluded with TB International Holdings II SARL (the Franchisor) in April 2017, the Group has agreed to open a minimum of 10 Taco Bell restaurants during the years 2017- 2019 (2 restaurants in 2017, 3 restaurants in 2018 and 5 restaurants in 2019).

If the Group exceeds the minimum annual target, the Franchisor grants incentives for the franchise fees. In 2019, the Group increased Taco Bell network by 5 new stores, in line with the committed development plan.

Per the Italy network development plan, the Group has agreed in October 2016 (Tri Veneto region) and August 2017 (Piemonte region) with KFC Europe to open a minimum of 25 KFC locations during the years 2016- 2022 in the Northern part of Italy. Should the Group fail to achieve these targets, the Group might lose the exclusive franchise rights over the franchised regions. In 2019, the Group extended the Italian network with 5 restaurants. As presented in the financial statements, at the beginning of 2020, the Group agreed with Yum Italy to terminate existing development agreements for these two regions signed (Tri Veneto and Piemonte) and entered into negotiations for new development agreements for other regions in Italy, that would apply for 2021 onwards as the development plan for 2020 is already approved and ongoing.

Bank letter of guarantees

The Group has issued bank letters of guarantee in favour of suppliers as at 31 December 2019 in amount of 15,595 (31 December 2018: 10,449). Letters of guarantee as at 31 December 2019 include a 3,495 bank letter of guarantee issued in favour of tax authorities.

The company has not issued any letters of guarantees as of 31 December 2019 and 31 December 2018.

Other contingencies

Taxation

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

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

Contingent liabilities may arise in relation to additional tax assessments that may be imposed by the tax authorities as a result of reviews performed. Corporate tax returns can be subject to review by tax authorities within a 5-year period in Romania and Italy and a 4-years period in Republic of Moldova. Recently, there has been an increase in audits carried out by the tax authorities.

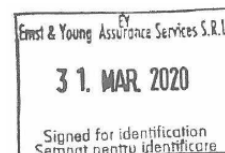
Transfer pricing

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

The Group has prepared transfer pricing files.

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Legal proceedings

During the period, the Group was involved in a small number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of Management, based on legal advice, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

In 2019, USFN, alongside the owner of the building where one of the KFC drive-through restaurant is operating, has been sued by a third party acting as plaintiff in connection with utilities pipes (electrical, gas and water) [sub]crossing plaintiff's plot in absence of a pre-agreement. Plaintiff requests from USFN and the landlord, inter alia, payment of liquidated damages in amount of approximately 705. Given the court proceedings is still incipient (not even the first hearing took place), a result cannot be fully anticipated.

16. EVENTS AFTER THE REPORTING PERIOD

Proposed profit distribution for the financial year 2019

For the year ended 31 December 2019, the Board of Directors has proposed to the shareholders' approval, the following allocation 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 2019:

- Setting up the legal reserves in accordance with the statutory regulations in amount of 1,617.
- Profit not distributed of 30,382.

New openings

On 17 January 2020, the Group opened the 100th KFC restaurant of the portfolio in Rome Tiburtina train station, Italy.

Increase of share capital of American Restaurant System SA

On 27 February 2020, the Extraordinary General Shareholders Meeting of American Restaurant System SA approved the increase of share capital of the Company with the value of 20,000 (from 95 to 20,095) by converting a part of the loan granted by Sphera Franchise Group SA (20,000) and cash contribution from Lunic Franchising and Consulting LTD (0.006), the shareholding structure remaining unchanged.

Payment of dividends for 2018

On 2 March 2020, the General Shareholders Meeting of Sphera Franchise Group SA has approved the distribution of dividends in total gross amount of 13,679 (0.3525 RON/ordinary share) from the undistributed net profit of Sphera Franchise Group SA for the financial year 2018.

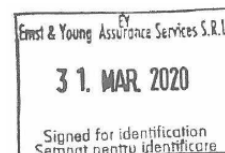
Development commitments – USFN Italy

At the beginning of 2020, USFN Italy was operating a total of 16 stores, higher than the target. However, 4 stores were opened in areas other than those with exclusive franchise rights. Hence, Yum Italy and USFN Italy agreed to terminate the existing development agreements for the two regions signed in 2016-2017 (Triveneto and Piemonte) and entered into negotiations for new development agreements that would apply for 2021 onwards as the development plan for 2020 is already approved and ongoing.

The emergency state that the Italian government has applied in the country due to the coronavirus epidemic and the consecutive measures which directly affect restaurant operations do not allow for the time being these negotiations to be concluded. Both parties are monitoring the evolutions and will resume when a clear picture of the market will be in place.

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Coronavirus impact on business

The coronavirus outbreak occurred at a time close to reporting date and the condition has continued to evolve throughout the period to the consolidated financial statements approval date.

Management assessment is that the measures taken by various authorities in 2020, in the countries where Group operations are located, represent a non-adjusting event and should not be reflected in the valuation of assets and liabilities of the Group as at 31 December 2019. Being in the early stages of the outbreak, the high level of uncertainties due to the unpredictable outcome of this disease make it difficult to estimate the financial effects of the outbreak.

The Group operates 16 KFC Franchise restaurants in the Northern part of Italy, which account about 10% of the Group sales. During March 2020, the Italian government announced special measures to mitigate the spread of the coronavirus epidemic in the country.

Under the current circumstances, based on the consecutive measures of the Italian government, the execution of the development plan of 2020 may suffer some delays not being able to guarantee its feasibility in terms of supplies required, human resources mobilization and other logistics or regulatory factors.

The Romanian authorities have also taken several measures to combat the spread of the epidemic, including the declaration of a state of emergency, starting on 16 March 2020. The measures included the closure, among other things, of restaurants and bars.

Starting 20 March 2020, the restaurants are closed, with the temporary closure estimated to last until 21 April 2020. However, the order also provides the permission to commercialize food and alcoholic and non-alcoholic beverages that do not require clients to remain in the spaces designated to consumption, as „drive-in”, „room-service” or customer delivery services. Therefore, KFC and Pizza Hut Delivery will continue to serve products to its customers only through the delivery service for both brands, as well as the dedicated car lines in Drive Thru in KFC, available both in Bucharest and around the country. Pizza Hut Dine-in and Taco Bell restaurants will remain closed until further decisions of the Romanian authorities.

The high level of uncertainty caused by the coronavirus outbreak will lead to a highly volatile market environment in the following months and the subsequent measures imposed by the various authorities, if any, in the countries where Group operations are located will potentially further adversely impact the overall current operations and the Group's results for the next period.

Actions taken or in progress to be taken by the Group in order to maintain the viability of the group and its business lines include, without being limited to, reducing expenses in the context of the support measures announced by the Romanian Government (salaries for staff in technical unemployment, renegotiation or suspension of rent by obtaining certificates of force majeure), reducing the working schedule of the non-critical headquarter employees, ongoing negotiations with suppliers of services in order to suspend or significantly reduce the fees for their services rendered to Sphera Group. Ongoing discussion are initiated with banks for increasing available liquidity to the Group, in the event the current crisis will extend for a longer period.

The Management's position is that the currently taken measures will ensure the business continuity and thus the going concern principle remains applicable for these financial statements.

31 March 2020

On behalf of Board of Directors,


Georgios Argentopoulos

Chairman of the Board