

**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 2020**

**SPHERA FRANCHISE GROUP SA****SEPARATE FINANCIAL STATEMENTS****Prepared in accordance with Order of the Ministry of Public Finance no. 2844/2016****31 December 2020**

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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, 2020, 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, 2020, 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.

#### Key audit matters

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

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

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

#### Key audit matter

##### 1. Going concern in the context of COVID 19 pandemic

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.

There is ongoing uncertainty as to the duration of the pandemic and what its lasting impact on the global and economy of the countries where the Group to which the Company belongs operates and on the current and future operations of the Company. The management have considered the impact of Covid- 19 pandemic on the way business is carried out across the Company.

During the current year the Company has a profit of RON 66,292 thousand and had a net current assets position of RON 97,792 thousand.

During the current year the Group to which the Company belongs made a loss of RON 9,587 thousand and had a net current liability position of RON 76,576 thousand. The group holds a cash and cash equivalent balance of RON 121,913 thousand and has undrawn facilities of RON 55,381 thousand as at 31 December 2020.

The financial statements Note 2.1 explain how the management performed a judgement, in the larger context of the Group to which the Company belongs, considering the specific activity of the Company, that it is appropriate to adopt the going concern basis of preparation of the financial statements for the Company. In making this assessment the management have prepared cash flow projections covering the next 12 months until 31 December 2021, using assumptions which include the estimated impact of Covid 19 pandemic developments, including downside scenarios based on certain more pessimistic assumptions.

In the preparation of the cash flow projections the management considered the following factors:

- The Company's current and expected profitability;
- The Group's to which the Company belongs current and expected profitability;
- The timing of repayment of existing financing facilities;
- The potential sources of replacement financing;
- The effects of any temporary shut-down or curtailment of the Group to which the Company belongs activities due to COVID 19 pandemic evolution;
- Possible restrictions on activities that might be imposed by governments in the future.

Due to the evolving nature of the pandemic there is an uncertainty over the expected future cash flows and continuity of the operations at the expected level and therefore this was considered to be a key audit matter for our audit.

The Company disclosures in regards to Going concern and Covid 19 implications are included in Note 2.1 to the financial statements.

How our audit addressed the key audit matter

In assessing the Management going concern assessment including the potential impact of Covid 19 our audit work focused but was not limited to following audit procedures:

- Obtained and analysed the Company's revised post-Covid 19 business plan for the year 2021 and cash flow projections until 31 December 2021 and assessed for reasonableness the main assumptions and methods used in the forecast against historical performance of the Company and external available market data as well as in relation to the performance of the Group the Company belongs to, as described further;
- Obtained and analysed the Group to which the Company belongs revised post-Covid 19 business plan for the year 2021 and cash flow projections until 31 December 2021 and assessed for reasonableness the main assumptions and methods used in the forecast against historical performance of the Group to which the Company belongs and external available market data as well as consistency with the assumptions used in other testing such as goodwill impairment test and in the recoverability analysis of the carrying value of investments in subsidiaries and loans granted to those subsidiaries. The main inputs and assumptions used are: operational cash flows, comprised of revenues, costs, operating expenses and EBITDA forecasts, net working capital; capital expenditures, as well as debt financing;
- Performed our own independent sensitivity analysis over the forecasted sales volumes, net working capital levels and assumed refinancing options of the loans to assess further the appropriate downside scenarios;

- Performed inquiries of Group's to which the Company belongs management and the Sales Department of the Group to understand their assessment on a number of matters including the forecasted sales based on the new development plans agreed with the franchisor;
- Analysis of the Group to which the Company belongs actual financial data trends for the period January to February 2021 considering the evolution of Covid-19 pandemic and government measures in certain areas;
- Assessed the loans covenants compliance and considered the Group to which the Company belongs available financing and maturity profile to assess liquidity through the assessment period;
- Agreed the key terms and conditions of the financing facilities to signed agreements and obtained lenders confirmations;
- Further we inspected evidence for the renegotiation and extension of short-term bank loans after the end of the reporting period;
- Tested the mathematical accuracy of the forecasts and the model used and reconciled them to the Board approved budgets.

We also assessed the appropriateness of disclosures made by the management in the consolidated financial statements in relation to the Company's going concern.

Key audit matter:

## 2. 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 692,863 thousand as at 31 December 2020.

Under the International Financial Reporting Standards, an entity is required to assess, at least at each reporting date, whether triggers for potential impairment of its assets exist and, if they exist, an impairment test is required

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, including the impact of the COVID 19 pandemic related governmental measures.

An impairment test was performed for its subsidiaries where triggers for impairment were identified which, in case of American Restaurant System SA, resulted in an additional impairment adjustment of RON 15,626 thousand recorded as at 31 December 2020.

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 2020, 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 impacted by the pandemic, and the economic circumstances of the Group to which the Company belongs, including the impact of the COVID 19 pandemic related governmental measures (restrictions and support measures for the industry, public moratoria for borrowings from banks); 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;
- Evaluated 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 Annual Report (that includes the Administrators' Report and the Non-financial declaration), 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, actions taken to eliminate threats or safeguards applied.

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, 2020;
- 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, 2020, 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, 2020. 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 4 years, covering the financial periods end December 31, 2017 till December 31, 2020.

#### 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 22 March 2021.

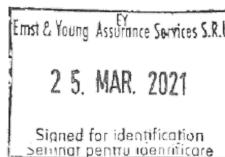
#### Provision of Non-audit Services

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  
25 March 2021

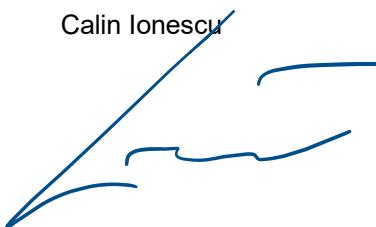
**SPHERA FRANCHISE GROUP SA**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**  
*All amounts in RON thousand, unless specified otherwise*

	<b>Note</b>	<b>2020</b>	<b>2019</b>
<b>Revenues</b>			
Dividend revenues	19	85,223	51,239
Revenue from contracts with related parties	19	23,823	30,360
<b>Total revenues</b>		<b>109,046</b>	<b>81,599</b>
<b>Expenses</b>			
Payroll and employee benefits		20,804	25,717
Impairment loss of investments in subsidiaries	10	15,626	15,457
Other expenses	5	6,389	8,297
<b>Total expenses</b>		<b>42,819</b>	<b>49,471</b>
<b>Operating profit</b>		<b>66,227</b>	<b>32,128</b>
Finance costs	6.1	1,903	1,797
Finance income	6.2	1,968	2,004
<b>Profit before tax</b>		<b>66,292</b>	<b>32,335</b>
Income tax expense	7	(83)	337
<b>Profit for the period</b>		<b>66,375</b>	<b>31,998</b>
<b>Total comprehensive income for the period, net of tax</b>		<b>66,375</b>	<b>31,998</b>

These separate financial statements from page 2 to page 44 were approved by the Board of Directors and were authorised for issue on 23 March 2021.

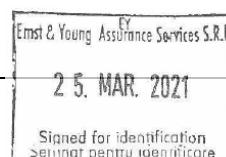
Chief Executive Officer

Calin Ionescu



Chief Financial Officer

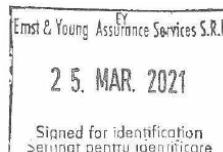
Valentin Budes

**SPHERA FRANCHISE GROUP SA**  
**STATEMENT OF FINANCIAL POSITION**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**  
*All amounts in RON thousand, unless specified otherwise*

	<b>Note</b>	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Assets</b>			
<b>Non-current assets</b>		<b>631,432</b>	<b>593,368</b>
Property, plant and equipment	8	2,342	2,521
Right-of-use assets	12	4,959	5,963
Intangible assets	9	170	138
Investments in subsidiaries	10	615,854	576,704
Loan receivables	14	7,025	7,043
Deferred tax asset	7	1,082	999
<b>Current assets</b>		<b>113,470</b>	<b>91,197</b>
Trade and other receivables (including short term loans)	14	108,373	71,566
Prepayments		214	398
Cash and cash equivalents	15	4,883	19,233
<b>Total assets</b>		<b>744,902</b>	<b>684,565</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Issued capital	16	581,990	581,990
Legal reserve		6,922	3,607
Retained earnings	16	93,442	44,061
<b>Total equity</b>		<b>682,354</b>	<b>629,658</b>
<b>Non-current liabilities</b>		<b>46,870</b>	<b>38,423</b>
Interest-bearing loans and borrowings	11	42,570	33,331
Lease liabilities	12	4,300	5,092
<b>Current liabilities</b>		<b>15,678</b>	<b>16,484</b>
Interest-bearing loans and borrowings	11	3,849	3,778
Lease liabilities	12	1,027	1,140
Trade and other payables	18	10,802	11,566
<b>Total liabilities</b>		<b>62,548</b>	<b>54,907</b>
<b>Total equity and liabilities</b>		<b>744,902</b>	<b>684,565</b>

These separate financial statements from page 2 to page 44 were approved by the Board of Directors and were authorised for issue on 23 March 2021

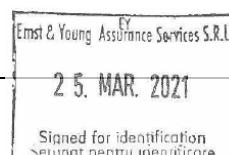


**SPHERA FRANCHISE GROUP SA**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**  
*All amounts in RON thousand, unless specified otherwise*

	<b>Issued capital</b>	<b>Share premium</b>	<b>Legal reserves</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>As at 1 January 2020</b>	<b>581,990</b>	-	<b>3,607</b>	<b>44,061</b>	<b>629,658</b>
Profit for the period	-	-	-	66,375	66,375
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>66,375</b>	<b>66,375</b>
Legal reserves	-		3,315	(3,315)	-
Cash dividends				(13,679)	(13,679)
<b>At 31 December 2020</b>	<b>581,990</b>	-	<b>6,922</b>	<b>93,442</b>	<b>682,354</b>
	<b>Issued capital</b>	<b>Share premium</b>	<b>Legal reserves</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>As at 1 January 2019</b>	<b>581,990</b>	<b>(580)</b>	<b>1,990</b>	<b>27,933</b>	<b>611,333</b>
Profit for the period	-	-	-	31,998	31,998
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,998</b>	<b>31,998</b>
Transfer to share premium	-	580		(580)	-
Legal reserves	-		1,617	(1,617)	-
Cash dividends				(13,673)	(13,673)
<b>At 31 December 2019</b>	<b>581,990</b>	-	<b>3,607</b>	<b>44,061</b>	<b>629,658</b>

The share capital has not suffered any changes during 2020 and 2019.

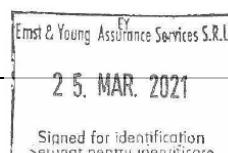
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**SPHERA FRANCHISE GROUP SA**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**  
*All amounts in RON thousand, unless specified otherwise*

	<b>Note</b>	<b>2020</b>	<b>2019</b>
<b>Operating activities</b>			
Profit before tax		66,292	32,335
Adjustments to reconcile profit before tax to net cash flows:			
Dividend revenue	19	(85,223)	(51,239)
Depreciation and amortization of property, plant and equipment, right-of-use and intangible assets	8, 9, 12	1,780	1,740
Impairment loss of investments in subsidiaries	10	15,626	15,457
Rent concessions		(71)	-
Net foreign exchange differences		30	215
Finance income	6.2	(1,968)	(2,004)
Finance costs (interest)	6.1	1,815	1,650
<b>Working capital adjustments:</b>			
(Increase)/Decrease in trade and other receivables and prepayments		3,345	(4,146)
Increase/(Decrease) in trade and other payables		(757)	6,224
Dividends received		6,000	51,239
Interest paid		(955)	(858)
<b>Net cash flows from operating activities</b>		<b>5,914</b>	<b>50,613</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment and intangible assets	8, 9	(334)	(651)
Loans to related parties	14	(13,007)	(33,105)
<b>Net cash flows used in investing activities</b>		<b>(13,342)</b>	<b>(33,756)</b>
<b>Financing activities</b>			
Proceeds from borrowings	11	15,255	-
Repayment of borrowings	11	(7,267)	(2,816)
Payment of lease liabilities	2	(1,226)	(1,074)
Dividends paid		(13,684)	(13,673)
<b>Net cash flows used in financing activities</b>		<b>(6,922)</b>	<b>(17,563)</b>
<b>Net increase in cash and cash equivalents</b>		<b>(14,350)</b>	<b>(706)</b>
<b>Cash and cash equivalents at 01 January</b>		<b>19,233</b>	<b>19,939</b>
<b>Cash and cash equivalents at 31 December</b>		<b>4,883</b>	<b>19,233</b>

These separate financial statements from page 2 to page 44 were approved by the Board of Directors and were authorised for issue on 23 March 2021.



**SPHERA FRANCHISE GROUP SA**  
**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**  
*All amounts in RON thousand, unless specified otherwise*

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## **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 2020 and 31 December 2019, the Company has the following investments in subsidiaries:

<b>Company name</b>	<b>Country of incorporation</b>	<b>Field of activity</b>	<b>Share interest %</b>
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 106 restaurants as at 31 December 2020) 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 (21 restaurants) as well as pizza delivery points (19 locations) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (11 restaurants) and one restaurant under Paul brand, in Romania.

As at 31 December 2020, the Company has 152 employees (2019: 165).

The separate financial statements for the year ended 31 December 2020 were authorized for issue in accordance with the resolution of the Board of Directors dated 23 March 2021.

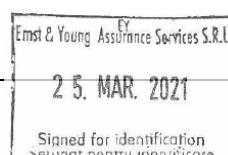
## **2. SIGNIFICANT ACCOUNTING POLICIES**

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.



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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

During the current year the Company has a profit of 66,292 and had a net current assets position of 97,792. The Company holds a cash and cash equivalent balance of 4,883 and has available 67,813 of undrawn borrowing facility from US Food Network SA (2019: 76,417) and 17,382 (2019: 29,965) from the bank loan facility with Alpha Bank, in common with other companies from Sphera Group and 10,000 from the bank credit facility with Vista Bank, thus being able to respond to any unforeseen higher cash outflow needs.

The Company's main revenues refer to management services and other support function services provided to its operating subsidiaries (i.e. its customers) and receives dividends from investments in these subsidiaries.

During the current year, the Group from which the Company is part of made a loss of 9,587 and had a net current liability position of 76,576. The Group holds a cash and cash equivalent balance of 121,913 and has undrawn facilities of 55,381 as at 31 December 2020.

The management, based their assessment on the Group's detailed cash flow projections for the period up to 31 December 2021, prepared using assumptions which include the estimated impact of Covid 19 pandemic developments. These projections take into account the current available cash resources of the Group as of 31 December 2020, the contracts in place in relation to rental expenses, anticipated additional expenses from new lease agreements to be concluded during the period covered by the projections, as well as contracted debt financing and the current classification of loans at the reporting date, CAPEX, payment of taxes due which were postponed for payment in 2020 and other commitments.

The main assumptions considered in cash flow projections:

**Macroeconomic environment**

- The current budget proposal includes the effects generated by Covid-19
- RON will continue a slight depreciation trend against EUR, due to further deterioration of the current account deficit
- It is expected overall inflation to reach 2.5% -3% in 2021
- Minimum wage increase starting with mid of January 2021.

**Restaurant Sales**

- Progressive recovery of sales has been assumed during 2021: starting with H2 normal course of business is assumed, H1 continuing being affected by restrictions imposed by the state and by local authorities due to pandemic situation.
- The delivery is assumed to have a significant weight in total sales of around 25%.

**Restaurant Operational Expenses**

- Food and Material costs (as percentage of sales) is assumed to be almost flat versus 2020, as it is expected to be able to use buying leverage and growing volumes.
- Cost of labor will be calibrated in order to match the ramp-up of the sales throughout of year.

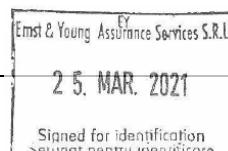
**G&A expenses**

- Normalized G&A expenses are expected to fall as percentage of sales, as fixed costs are assumed to remain almost stable, due to inelasticity of these costs in relation with activity volume increase.

**Development Plan**

- The development plan will focus on the opening of 16 restaurants (8x KFC Romania, 2x KFC Italy, 3x Pizza Hut and 3x Taco Bell), with an estimated capex of approximately EUR 10.2m;

The Group Management have also considered potential stress-test scenarios that could exert a downward pressure on projected cash flows as a result of factors outside the Group's control, resulting from the Covid-19 pandemic and its potential economic effects in the countries the Group operates. The projections and related sensitivity analysis carried out show that, in the period up to 31 December 2021, the Company anticipates having sufficient liquid resources to continue to fund ongoing operations and asset development.



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## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Scenario 1:** 15 % drop in revenues assumed versus Budget 2021. For all category costs, except for Payroll and employee benefits and G&A expenses, the budget ratios (weight in net sales) were considered. For "Payroll and employee benefits", there were used the Q4 2020 ratios (after excluding technical unemployment in Q4). For G&A expenses, there were considered major items as fixed, except for: banking charges (related with the card collections), meal tickets processing fee, transport, for which it was considered a decrease in line with revenues.

**Scenario 2:** In terms of revenues, starting point of revenues have been year-to-date February 2021 Actuals, with a progressive recovery in sales for forthcoming period. For all category costs, except for Payroll and employee benefits and G&A expenses, there were considered the budget ratios (weight in net sales). For "Payroll and employee benefits", there were used the Q4 2020 ratios (after excluding technical unemployment in Q4). For G&A expenses, there were considered major items as fixed, except for: banking charges (related with the card collections), meal tickets processing fee, transport, for which it was considered a decrease in line with revenues.

As outlined in note 15 of the consolidated financial statements at 31 December 2020, the Group had available 55,381 of undrawn uncommitted borrowing facilities (31 December 2019: 87,087), thus being able to respond to any unforeseen higher cash outflow needs.

In making the assessment about whether the going concern basis of preparation is appropriate, management considered the following factors:

- The Group's current and expected profitability
- The timing of repayment of existing financing facilities
- The potential sources of replacement financing
- The effects of any temporary shut-down or curtailment of the entity's activities due to COVID 19 pandemic evolution;
- Possible restrictions on activities that might be imposed by governments in the Future;

The projections show that the Company has sufficient resources to continue to fund ongoing operations and asset development.

### **COVID 19 pandemic impact on the business during 2020 and going concern principle**

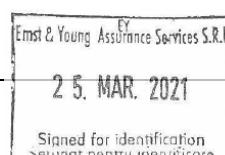
#### **RESTAURANT DEVELOPMENT**

SFG operated 158 restaurants as of 31.12.2020. Out of 158 stores, 138 were based in Romania, 18 in Italy and 2 in Republic of Moldova.

During 2020 there were 9 new openings: SFG inaugurated 5 new KFC restaurants in Romania (+1 relocation of a store based in Targu Mures), 3 new KFC stores in Italy and 1 new Taco Bell in Romania. 6 stores in Romania identified as nonviable were closed.

#### **DEVELOPMENT AGREEMENT**

In December 2020, the Group announced successful conclusion of negotiations with YUM!. During the negotiations, the parties agreed that for the period 2020 - 2021, USFN (KFC Romania) will open 10 new stores in Romania. Out of that amount, 4 new stores were already inaugurated by the Group in 2020. Therefore, USFN has 6 more new stores to open by the end of 2021. During the negotiations, the Group also managed to obtain financial incentives that will help in the process of expansion the KFC network in Romania. Moreover, should the Group overpass the goal of opening 10 new locations by the end of 2021, it will benefit from further financial incentives from the franchisor.



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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Same month, following the negotiations with the YUM!s representative, Taco Bell Europe, the parties agreed that for the period 2020 - 2021, CFF will benefit of progressive financial incentives, depending on the number of new restaurants being opened. For each new restaurant that exceeds the number of 5 new restaurants, CFF will benefit of additional financial incentives.

Negotiations with Pizza Hut are ongoing.

**STAFF & STATE AID RELATED TO STAFF COSTS**

As at December 31st, 2020, the Group had 4,802 employees, out of which 4,401 were in Romania, 323 in Italy and 78 in Republic of Moldova.

At the end of 2020, approximately 6% of employees from Romania and 8% of employees based in Italy were in technical unemployment. In the Republic of Moldova, all the employees were back from technical unemployment as of Q3 2020.

In the context of indoor dining restrictions in Q4 2020, the Group actively monitored, on a weekly basis, the number of employees needed in the restaurants. Restrictions imposed by authorities and reduced consumer demand influenced the number of employees who entered into technical unemployment.

When it comes to the headquarter employees, as of June 30th, all HQ staff was back from technical unemployment. Nonetheless, throughout the second half of 2020, part of the staff from the headquarters continued to work under a reduced schedule.

In Q4, 2020 Sphera Franchise Group benefitted from technical unemployment grants from the Romanian state in the amount of RON 1.6 million. In Q4 2020, USFN Italy benefitted from an aid from the Italian government in the value of RON 0.7 million for the turnover reduction due to the COVID-19 business disruption.

**LEASE AGREEMENTS**

In Q4 2020, depending on the evolution of the COVID-19 pandemic and the lockdown measures ordered in particular regions or cities, new negotiations were initiated by the Group, on a case-by-case basis. In Q4 2020, the Group benefited from a discount of RON 2.9 million on fixed rent. The total amount of discounts on fixed rent granted in 2020 to the Group equaled RON 11.6 million.

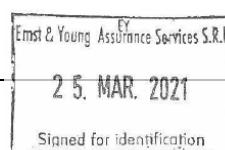
**FINANCIAL MEASURES**

In the context of coronavirus crisis, the Group has optimized the financing facilities to ensure enough working capital as well as accelerated the recoverability of the amounts due from the state. In H1 2020, the Group has activated existing working capital lines with house bank that was not utilized until the beginning of the pandemic, in the amount of RON 20.3 million, as well as has secured new working capital lines totaling RON 10 million.

Additionally, the Group has refinanced the investments with the house bank in the amount of EUR 2.7 million in Q2 2020.

To improve the cash-flow, the Group has accelerated the recoverability of the amounts due from the state – in the period between March 30th, 2020 until June 2020, Sphera has recovered RON 23.5 million of VAT (for USFN Romania and CFF) and approximately RON 2.5 million of medical leave indemnity for USFN Romania.

The Group has adopted the provisions of the Emergency Ordinance no 37/2020 regarding the facilities to debtors in respect of the loans granted by credit institutions and non-banking financial institutions, resulting in the postponement of principal amounts of approximately RON 24 million due to banks and leasing companies. Finally, the Group has also implemented several supplier financing measures, including Yum!.



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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Moreover, in order to enhance the liquidity, the Group decided to take advantage of the provisions of Emergency Ordinance 181/2020, which allows it to benefit from payment rescheduling, for a maximum of 12 months, for the principal fiscal obligations whose maturity were fulfilled after the date the state of emergency was declared.

In December 2020, the Group activated a short-term working capital line of RON 9.6 million from Intesa Sanpaolo Bank and paid back a short-term working capital line to Vista Bank, in the amount of RON 10 million. After closing the year, in January 2021, the Group negotiated with Alpha Bank a further 1-year postponement of principal payments, in the amount of approximately 36m RON.

In December 2020, the Group decided to take advantage of the provisions of Emergency Ordinance 181/2020 and applied for the option to pay the taxes due, in the total amount of RON 27.1 million, in 12 installments.

On 31 December 2020, Emergency Ordinance 224/31.12.2020 was published that stipulates that companies from HoReCa sector can apply for a state aid in the amount that represents 20% of the loss of turnover in 2020 compared to 2019. The maximum amount per company is capped at EUR 800,000, the total aid received by a firm under the aid schemes should not exceed EUR 1.8 million. The total budget allocated by the government for this measure amounts to RON 1 billion. The initial deadline to pay aid has been extended to 30 June 2022. As soon as the implementation guidelines of the recently published Emergency Ordinance no.10/24.02.2021 are issued, it will be determined if all 3 companies, USFN Romania, ARS and CFF would qualify for this measure. As soon as it is possible, the Group will apply for the state aid.

The Management has taken into consideration the potential impact from future COVID 19 pandemic related restrictions on the evolution of the business and embedded these assumptions into the cash flow projections for 2021 as described in Statement of Compliance above. Thus, the Management's position is that the currently and future measures will ensure the business continuity and thus the going concern principle remains applicable for these financial statements.

**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.

**2.3 Summary of significant accounting policies**

**2.3.1 Current versus non-current classification**

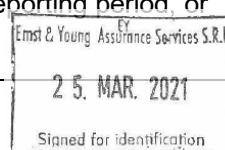
The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- 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



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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

- 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.

**2.3.2 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

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.

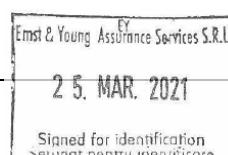
**2.3.3 Revenue**

*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.



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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

**2.3.4 Government grants**

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

IAS 20 "Accounting for government grants and disclosure of government assistance" permits two alternative ways of presenting a government grant relating to income, as other operating income in the statement of profit or loss or deducted from the related expense.

The Company has chosen to present grants related to expenses items to be deducted in reporting the related expense.

**2.3.5 Foreign currencies**

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

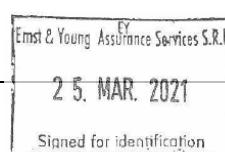
*Transactions and balances*

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

The exchange rate RON – EUR as at 31 December 2020 and 31 December 2019 were:

	<b>31 December 2020</b>	<b>31 December 2019</b>
RON – EUR	4.8694	4.7793
RON – USD	3.9660	4.2608

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



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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3.6 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:

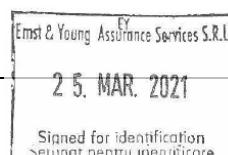
- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences 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.

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.



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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

**2.3.7 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:

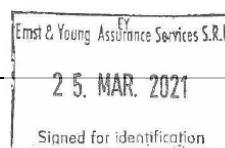
Leasehold improvements	over the lease contract duration (usually 10 years)
Computers and IT equipment	3 to 5 years
Vehicles	5 years
Other property, plant and equipment	2 to 10 years

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.

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

**2.3.8 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.



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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

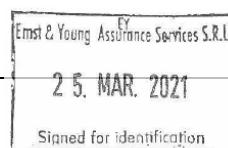
ii) Lease liabilities

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.

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.



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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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.

**2.3.9 Intangible assets**

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

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

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

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

**2.3.10 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.

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3.11 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.

**2.3.12 Financial instruments**

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

**i) Financial assets**

*Initial recognition and measurement*

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

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

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

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

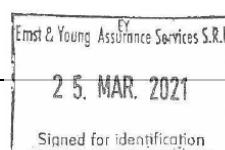
Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

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

*Subsequent measurement*

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

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



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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*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.

*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.

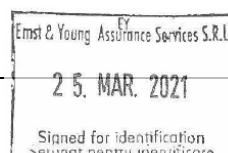
When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards 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.



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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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).

*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.

**2.3.13 Cash and cash equivalents**

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

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3.14 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. 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.

**2.3.15 Equity**

*Share capital*

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

*Dividends*

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

**2.3.16 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.

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3.17 Employee benefits**

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

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

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

**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 2020.

**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.

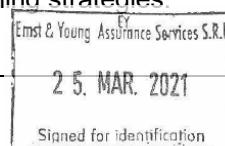
*Recoverability of investments in subsidiaries and loans to subsidiaries*

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.

**Deferred for tax losses carried forward**

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.



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#### **4. CHANGES IN ACCOUNTING POLICIES**

##### **4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2020**

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 Company as of 1 January 2020:

##### **Conceptual Framework in IFRS standards**

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

##### **IFRS 3: Business Combinations (Amendments)**

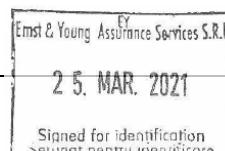
The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. Management has assessed the application of these amendments had no impact on the financial position or performance of the Company.

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

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. Management has assessed the application of these amendments had no impact on the financial position or performance of the Company.

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

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. 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 provide 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 amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Phase two (ED) focuses on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The Company does not use hedging accounting.



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**4. CHANGES IN ACCOUNTING POLICIES (continued)**

**IFRS 16 Leases-Covid 19 Related Rent Concessions (Amendment)**

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

For the financial year ended 31 December 2020, the Company has used the practical expedient allowed by the amendment to the IFRS 16 and recognized in profit or loss the benefit of the rent concession received in total amount of (71) as rent expense.

**4.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2020 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.

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

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

**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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**4. CHANGES IN ACCOUNTING POLICIES (continued)**

**IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

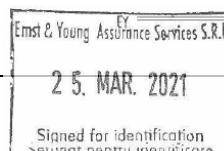
The amendments have not yet been endorsed by the EU. Management has assessed that application of these amendments will have no significant impact on the financial position of the Company.

**Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods. The amendments are not expected to have a material impact on the Company.

**5. OTHER EXPENSES**

	<b>2020</b>	<b>2019</b>
Third-party services	2,330	3,615
Advertising	969	641
Other taxes	198	240
Rent	-	88
Banking charges	54	53
Travel expenses	321	816
Office supplies	226	347
Depreciation	1,780	1,740
Insurance	252	333
Maintenance and repairs	135	89
Utilities	42	57
Miscellaneous expenses	82	278
<b>Total</b>	<b>6,389</b>	<b>8,297</b>



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**6. FINANCE COSTS AND INCOME**

**6.1 Finance costs**

	<b>2020</b>	<b>2019</b>
Interest on debts and borrowings	757	644
Interest on lease liabilities	199	218
Interest on related parties loans (Note 0)	859	788
Foreign exchange loss	88	147
<b>Total finance costs</b>	<b>1,903</b>	<b>1,797</b>

**6.2 Finance income**

	<b>2020</b>	<b>2019</b>
Interest income from loans to related parties (Note 0)	1,968	2,004
<b>Total finance income</b>	<b>1,968</b>	<b>2,004</b>

**7. INCOME TAX**

The major components of income tax for the years ended 31 December 2020 and 31 December 2019 are:

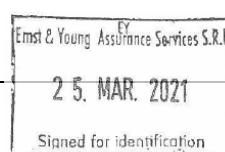
	<b>2020</b>	<b>2019</b>
<b>Deferred tax:</b>		
Relating to fiscal losses carried forward	(83)	337
<b>Income tax expense reported in the statement of comprehensive income</b>	<b>(83)</b>	<b>337</b>

**Deferred tax**

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

	<b>Statement of financial position 31 December 2020</b>	<b>Statement of comprehensive income 2020</b>
Fiscal losses carried forward	1,082	(83)
<b>Deferred tax expense</b>		(83)
<b>Net deferred tax assets</b>	<b>1,082</b>	

	<b>Statement of financial position 31 December 2019</b>	<b>Statement of comprehensive income 2019</b>
Fiscal losses carried forward	999	337
<b>Deferred tax expense</b>		337
<b>Net deferred tax assets</b>	<b>999</b>	



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**7. INCOME TAX (continued)**

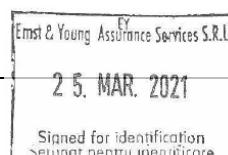
The deferred tax asset of 1,082 (31 December 2019: 999) arose from the tax losses carried forward of the Company which are available for offsetting against the Company's future tax profits within the next years (i.e. seven years from the recognition, according to the Romanian tax law).

At December 31, 2020 the Company, registered a tax loss in the amount of 6,242 with a recoverable term in 2024 and the amount of 520 with a recoverable term in 2027.

**8. PROPERTY, PLANT AND EQUIPMENT**

	<b>Freehold buildings and leasehold improvements</b>	<b>Plant and machinery</b>	<b>Other equipment</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost</b>					
<b>At 1 January 2019</b>	<b>1,808</b>	<b>254</b>	<b>692</b>	<b>-</b>	<b>2,754</b>
Additions	353	68	278	333	1,032
Transfers	-	-	-	311	311
Transfer to ROUA	-	168	-	-	168
<b>At 31 December 2019</b>	<b>2,161</b>	<b>154</b>	<b>970</b>	<b>22</b>	<b>3,307</b>
Additions	11	6	159	320	496
Transfers	-	-	-	-	-
Disposals	-	17	-	173	190
<b>At 31 December 2020</b>	<b>2,172</b>	<b>143</b>	<b>1,129</b>	<b>169</b>	<b>3,613</b>
<b>Depreciation</b>					
<b>At 1 January 2019</b>	<b>81</b>	<b>73</b>	<b>206</b>	<b>-</b>	<b>360</b>
Depreciation charge for the period	190	9	291	-	490
Accumulated depreciation of transfers to ROUA	-	64	-	-	64
<b>At 31 December 2019</b>	<b>271</b>	<b>18</b>	<b>497</b>	<b>-</b>	<b>786</b>
Depreciation charge for the period	222	53	227	-	502
Disposals	-	17	-	-	17
<b>At 31 December 2020</b>	<b>493</b>	<b>54</b>	<b>724</b>	<b>-</b>	<b>1,271</b>
<b>Net Book Value</b>					
<b>At 1 January 2019</b>	<b>1,727</b>	<b>181</b>	<b>486</b>	<b>-</b>	<b>2,394</b>
<b>At 31 December 2019</b>	<b>1,890</b>	<b>136</b>	<b>473</b>	<b>22</b>	<b>2,521</b>
<b>At 31 December 2020</b>	<b>1,679</b>	<b>89</b>	<b>405</b>	<b>169</b>	<b>2,342</b>

The additions during the year ended 31 December 2020 consisted mainly in office leasehold improvements, as well as office computers and other office equipment.



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**9. INTANGIBLE ASSETS**

	<b>Software licenses</b>	<b>Total</b>
<b>Cost</b>		
<b>At 1 January 2019</b>	<b>198</b>	<b>198</b>
Additions	57	57
<b>At 31 December 2019</b>	<b>255</b>	<b>255</b>
Additions	160	160
<b>At 31 December 2020</b>	<b>415</b>	<b>415</b>
<b>Amortisation</b>		
<b>At 1 January 2019</b>	<b>26</b>	<b>26</b>
Amortisation	91	91
<b>At 31 December 2019</b>	<b>117</b>	<b>117</b>
Amortisation	128	128
<b>At 31 December 2020</b>	<b>245</b>	<b>245</b>
<b>Net book value</b>		
<b>At 1 January 2019</b>	<b>172</b>	<b>172</b>
<b>At 31 December 2019</b>	<b>138</b>	<b>138</b>
<b>At 31 December 2020</b>	<b>170</b>	<b>170</b>

**10. INVESTMENTS IN SUBSIDIARIES**

Details of the investments in subsidiaries at 31 December 2020 are as follows:

<b>Company name</b>	<b>Country of incorporation</b>	<b>Field of activity</b>	<b>Share interest percent</b>	<b>Investment at cost</b>	<b>Impairment loss</b>	<b>Carrying value</b>
US Food Network SA	Romania	Restaurants	99.9997%	519,704	-	519,704
American Restaurant System SA	Romania	Restaurants	99.9997%	88,786	50,888	37,898
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%	56,417	-	56,417
<b>Total</b>				<b>666,742</b>	<b>50,888</b>	<b>615,854</b>

In 2020, the Company increased the value of the investments in the subsidiaries: American Restaurant System SA with the amount of 28,000 and US Food Network SRL Italy with the amount 26,776, by converting a part of the existing shareholder's loans to equity.

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**10. INVESTMENTS IN SUBSIDIARIES (continued)**

Details of the investments in subsidiaries at 31 December 2019 are as follows:

<b>Company name</b>	<b>Country of incorporation</b>	<b>Field of activity</b>	<b>Share interest percent</b>	<b>Investment at cost</b>	<b>Impairment loss</b>	<b>Carrying value</b>
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
<b>Total</b>				<b>611,966</b>	<b>35,262</b>	<b>576,704</b>

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.

As of 31 December 2020, the Company assessed whether there are indicators of impairment for its cost of investment in subsidiaries, as follows:

- Despite of the COVID-19 pandemic, USFN and USFN Moldova's activities in 2020 have continued in line or at better performance than anticipated through the cash flow projections at the commencement of the COVID-19 pandemic; USFN is in a profit position, therefore no impairment indicator was identified;
- USFN Italy, that started activity during 2017, was affected by the COVID-19 outbreak due to the severe impact of the pandemic in Italy. As such management has decided to perform an impairment analysis as at 31 December 2020; Management estimated the recoverable amount of the investment based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2021-2025). 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). Consequently, the FVLCD versus carrying amount analysis shows that there is enough headroom and no impairment need to be recorded.
- Taco Bell opened 1 new restaurant in 2020 (in addition to the 10 already opened as at 31.12.2019). During 2020 there were ongoing discussions with the franchisor in order to update and prolong the development plan for future periods. Further to the negotiations, the parties have agreed that for the period 2020 - 2021, CFF will benefit of progressive financial incentives, depending on the number of net new restaurants being opened. Thus, it was considered that there are no impairment indicators.
- Pizza Hut's performance in 2020 was below the cash flow projections, the subsidiary being more affected by the pandemic due to the restrictions on indoor dining. Management estimated the recoverable amount of the investment at 47,815 (2019: 57,274) based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2021-2025). 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.

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**10. INVESTMENTS IN SUBSIDIARIES (continued)**

*Impairment test for Pizza Hut*

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 opening new restaurants according to the Base Tier agreed in the new development plan with the franchisor, new types of sales channel which will be implemented starting 2021 and a tighter control of certain expenses (restaurant payroll, marketing, rent, general & administrative expenses).

Discount rate (post tax) used is 10.4% (2019: 10%). The discount rate reflects the current market assessment of the risks specific to ARS and was estimated based on the weighted average cost of capital for the industry. This rate was further adjusted to reflect the market assessment of any risk specific to ARS for which further estimates of cash-flows have not been adjusted. The WACC was determined by taking into account the debt equity structure of the peers.

The company considers the sales growth rates used in the impairment test to be 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 new concepts (Pizza Hut Express and Pizza Hut FCD – Fast Casual Dining) with smaller crew and smaller to operate.

As a result of the analysis, as compared to the investment carrying value of 88,786 and also considering the loan granted to ARS of 9,917 (2019: 31,750) and the accumulated impairment loss already recognized in the financial statements as at and for the year ended 31 December 2019 of 35,262, there was a decrease of the investment's recoverable amount of additional 15,626 for which the Company recognized an impairment loss in the financial statements as at and for the year ended 31 December 2020. 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 5% the recoverable amount of the investment would be 42,331 and the impairment loss as at and for the year ended 31 December 2020 would be 21,110, while if the EBITDA margin would increase by 5% the recoverable amount of the investment would be 53,299 and the impairment loss as at and for the year ended 31 December 2020 would be 10,142.

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**10. INVESTMENTS IN SUBSIDIARIES (continued)**

<b>Key drivers</b>	<b>Key drivers (%)</b>	<b>Fair value less cost to sell</b>	<b>Impairment</b>
	<b>10.40%</b>	<b>47,815</b>	<b>(15,626)</b>
<b>Cost of capital</b>	+0.50%	42,876	(20,565)
	-0.50%	53,498	(9,943)
	<b>3.00%</b>	<b>47,815</b>	<b>(15,626)</b>
<b>Perpetuity growth factor</b>	2.50%	43,122	(20,319)
	3.50%	53,189	(10,252)
<b>Net working capital (%/sales)</b>	1%	46,176	(17,265)
	-1%	49,452	(13,989)

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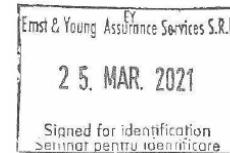
**11. INTEREST-BEARING LOANS AND BORROWINGS**

	<b>Interest rate, %</b>	<b>Maturity</b>	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Current interest-bearing loans and borrowings</b>				
Bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	3,849	3,778
Short-term working capital facility	ROBOR 3M + relevant spread	1 year from contract date	-	-
<b>Total current interest-bearing loans and borrowings</b>			<b>3,849</b>	<b>3,778</b>
<b>Non-current interest-bearing loans and borrowings</b>				
Bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	11,459	12,506
Loan from related parties (including accrued interest) (Note 19)	4% fixed interest rate	Within 5 years from contract signing date	31,111	20,825
<b>Total non-current interest-bearing loans and Borrowings</b>			<b>42,570</b>	<b>33,331</b>
<b>Total interest-bearing loans and borrowings</b>			<b>46,419</b>	<b>37,109</b>

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 2020, 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.

In January 2021, the parties agreed by an addendum to loan contract to suspend temporarily all loan principal payments due by the Borrowers (Sphera and its Romanian subsidiaries) until 31 December 2021. All principal amounts initially due during suspension period will be paid beginning 1 January 2022 and loan maturities will be postponed in accordance. The split between current and non-current loans and borrowings takes into account existing loan repayment schedule agreed by the parties by addendum to loan contract as at 31 December 2020. Interest payments are not suspended.



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

Starting with 29 May 2020, Sphera entered in a short-term borrowing arrangement with Vista Bank Romania. Credit facility is revolving and may be used by the Borrower during 12 months for financing of working capital needs and of generic company costs, as well as intragroup loans. As at 31 December 2020, the loan balance with Vista Bank is nil.

### 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.

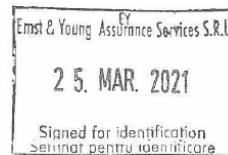
Breaches in meeting the financial covenant at Group consolidated level would permit the bank to immediately call the loan. There have been no breaches of the consolidated financial covenant for the years ended 31 December 2020 and 31 December 2019.

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 2020.

### Information related to cash flows from financing

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

	31 December 2019	Non-cash changes	Cash changes		31 December 2020
			Drawings	Repayments	
Interest-bearing loans and borrowings	<b>37,109</b>	<b>1,063</b>	<b>462</b>	<b>15,256</b>	<b>(7,267)</b>
Bank loans	16,284	204	291	6,000	(7,267)
Loans from related parties	20,825	859	171	9,256	-
					<b>(204)</b>
					<b>(204)</b>
					<b>46,419</b>



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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:

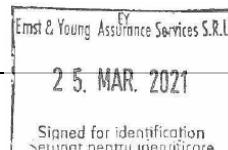
	<b>Freehold buildings</b>	<b>Motor vehicles and other equipment</b>	<b>Total</b>
<b>As at 1 January 2019</b>	<b>5,257</b>	<b>1,491</b>	<b>6,748</b>
Additions	86	282	368
Depreciation expense	594	559	1,153
<b>As at 31 December 2019</b>	<b>4,749</b>	<b>1,214</b>	<b>5,963</b>
Additions	78	136	214
Depreciation expense	603	558	1,161
Disposals	-	60	60
<b>As at 31 December 2020</b>	<b>4,224</b>	<b>732</b>	<b>4,956</b>

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

<b>As at 1 January 2020</b>	<b>6,232</b>
Additions	214
Accretion of interest	199
Payments	1,366
Disposals	60
(Unrealized) forex exchange loss	108
<b>As at 31 December 2020</b>	<b>5,327</b>
Current	1,027
Non-current	4,300
<b>As at 1 January 2019</b>	<b>6,758</b>
Additions	368
Accretion of interest	218
Payments	1,292
(Unrealized) forex exchange loss	180
<b>As at 31 December 2019</b>	<b>6,232</b>
Current	1,140
Non-current	5,092

The following are the amounts recognized in profit or loss:

	<b>2020</b>	<b>2019</b>
Depreciation expense of right-of-use assets	1,161	1,153
Interest expense on lease liabilities	199	218
Forex exchange differences, net	108	180
Expense relating to leases of low value assets	72	88
Rent concessions	(71)	-
<b>Total amount recognized in profit or loss</b>	<b>1,469</b>	<b>1,639</b>



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### **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 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**

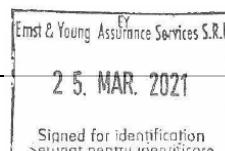
With all other variables held constant, the Company's profit before tax and equity are not affected through the impact on change in market interest rates, due to the fact that both loans to and from related parties have a fixed interest rate.

	<b>Increase in basis points</b>	<b>Effect on profit before tax</b>
<b>31 December 2020</b> EUR	1%	(153)
<b>31 December 2019</b> EUR	1%	(163)

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.



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**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:

	Increase in EUR rate	Effect on profit before tax
31 December 2020	1%	(153)
31 December 2019	1%	(443)

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

**Credit risk**

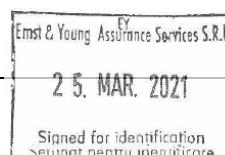
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The carrying amount of trade and other receivables, plus balances with banks, plus the loans and receivables from related parties (Note 14), represent 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, Banca Romana de Dezvoltare (BRD), a member of Societe Generale Company from France and Vista Bank Romania. 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 2020	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings	-	1,095	3,233	45,097	-	49,426
Lease liabilities	-	257	771	2,892	1,407	5,327
Trade and other payables	198	122	67	-	-	387
<b>Total:</b>	<b>198</b>	<b>1,474</b>	<b>4,071</b>	<b>47,990</b>	<b>1,407</b>	<b>55,140</b>



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**13. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)**

<b>31 December 2019</b>	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
Interest-bearing loans and borrowings	-	1,086	3,211	36,129	-	<b>40,426</b>
Lease liabilities	-	285	855	3,081	2,011	<b>6,232</b>
Trade and other payables	151	5,362	46	9	-	<b>5,568</b>
<b>Total:</b>	<b>151</b>	<b>6,732</b>	<b>4,112</b>	<b>39,219</b>	<b>2,011</b>	<b>52,226</b>

At 31 December 2020, the Company had available 67,813 of undrawn borrowing facility from US Food Network SA (2019: 76,417) and 17,382 (2019: 29,965) from the bank loan facility with Alpha Bank, in common with other companies from Sphera Group and 10,000 from the bank credit facility with Vista Bank, thus being able to respond to any unforeseen higher cash outflow needs.

**Capital management**

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

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

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

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

	<b>31 December 2020</b>	<b>31 December 2019</b>
Interest-bearing loans and borrowings	46,419	37,109
Lease liabilities	5,327	6,232
Trade and other payables	10,803	11,566
Less: cash and short-term deposits	4,883	19,233
<b>Net debt</b>	<b>57,666</b>	<b>35,674</b>
Equity	682,354	629,658
<b>Capital and net debt</b>	<b>740,020</b>	<b>665,332</b>
Gearing ratio:	8%	5%

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**13. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)**

**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).

**14. TRADE AND OTHER RECEIVABLES**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Trade receivables from related parties (Note 0)	7,235	8,750
Dividends to be received (Note 0)	79,223	-
Loans to related parties (Note 0)	21,097	62,441
Interest accrual from loans to related parties (Note 0)	5,024	2,988
Tax receivables (VAT)	2,333	4,044
Other receivables	486	386
<b>Total</b>	<b>115,398</b>	<b>78,609</b>
<b>Less non-current portion:</b>		
Loans to related parties	6,252	6,651
Interest accrual from loans to related parties	735	353
Other receivables	38	39
<b>Total</b>	<b>7,025</b>	<b>7,043</b>
<b>Trade and other receivables, current</b>	<b>108,373</b>	<b>71,566</b>

Terms and conditions relating to related party transactions are described in Note 0.

Tax receivables refer to the unsettled VAT 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.

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**14. TRADE AND OTHER RECEIVABLES (continued)**

As at 31 December 2020 and 31 December 2019, the ageing analysis of trade receivables from related parties, net of allowances, is, as follows:

<b>31 December 2020</b>	<b>Trade receivables</b>					
	<b>Total</b>	<b>Current</b>	<b>Days past due</b>			
			<b>&lt; 30 days</b>	<b>30-60 days</b>	<b>61-90 days</b>	<b>&gt;91 days</b>
Expected credit loss rate		0%	0%	0%	0%	0%
Estimated total gross carrying amount at default	<b>7,235</b>	4,859	-	658	632	1,085
Expected credit loss	-	-	-	-	-	-

<b>31 December 2019</b>	<b>Trade receivables</b>					
	<b>Total</b>	<b>Current</b>	<b>Days past due</b>			
			<b>&lt; 30 days</b>	<b>30-60 days</b>	<b>61-90 days</b>	<b>&gt;91 days</b>
Expected credit loss rate		0%	0%	0%	0%	0%
Estimated total gross carrying amount at default	<b>8,750</b>	5,082	953	1,089	667	959
Expected credit loss	-	-	-	-	-	-

The balance of 959 as at 31 December 2019, older than 91 days, was fully collected during 2020.

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

**15. CASH**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Cash at banks and on hand	4,883	19,233
<b>Total</b>	<b>4,883</b>	<b>19,233</b>

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 2020 is of 4,883 (31 December 2019: 19,178).

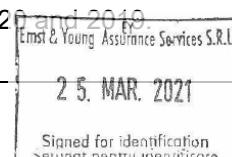
**16. ISSUED CAPITAL**

	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Authorised shares</b>		
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 as at 31 December 2020 are: Tatika Investments Ltd. (28.2320%), Computerland Romania SRL (20.5326%), Wellkept Group SA (16.3400%), Lunic Franchising and Consulting LTD (10.8412%) and free float (24.0539%).

The shareholders of Sphera Franchise Group SA at 31 December 2019 are: Tatika Investments Ltd. (27.3300%), Computerland Romania SRL (21.4347%), Wellkept Group SA (16.3400%), Lunic Franchising and Consulting LTD (10.99%) and free float (23.9053%).

The share capital has not suffered any changes during 2020 and 2019.



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**17. PROFIT DISTRIBUTION**

	<b>2020</b>	<b>2019</b>
Dividends declared and paid during the period:	13,679	13,673
<b>Total dividends for the period</b>	<b>13,679</b>	<b>13,673</b>
Dividends per share (RON/share)	0.3525	0.3524

For the year ended 31 December 2020, 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 2020:

- Setting up the legal reserves in accordance with the statutory regulations in amount of 3,315;
- Allocation of undistributed profit of 63,061 to retained earnings.

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.

For the year ended 31 December 2019 and in the context of the COVID-19 sanitary crisis, General Shareholders' Meeting of Sphera Franchise Group SA that took place on 26 May 2020 approved the allocation of the financial year profit, as follows: setting up the statutory legal reserves in amount of 1,617 and allocation of undistributed profit of 30,382 to retained earnings.

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).

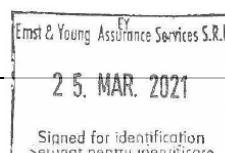
**18. TRADE AND OTHER PAYABLES**

	<b>31 December 2020</b>	<b>31 December 2019</b>
Trade payables	368	1,176
Other payables to related parties	2,651	4,347
Salary liability	3,575	5,143
Social contribution liability	3,552	707
Other employee related liabilities	632	145
VAT payable	-	-
Other payables	24	48
<b>Total</b>	<b>10,802</b>	<b>11,566</b>

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 0.

Starting December 2020, the Company benefits of the provisions of the new Emergency Ordinance 181/2020 to pay the taxes due in 12 installments.



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**19. RELATED PARTY DISCLOSURES**

During the year ended 31 December 2020 and 31 December 2019, respectively, the Company has carried out transactions with the following related parties:

<b>Related party</b>	<b>Nature of the relationship</b>	<b>Country of incorporation</b>	<b>Nature of transactions</b>
US Food Network SA	Subsidiary	Romania	Dividends, loan received, 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 Republic of Moldova	Loan provided, sale of services
US Food Network SRL	Subsidiary	Italy	Dividends
US Food Network SRL	Subsidiary		Sale of services
Wellkept Group SA	Shareholder	Romania	Rent training center
Tatika Investments Ltd.	Shareholder	Cyprus	Dividends
Radu Dimofte	Beneficial owner of		Dividends
Computerland Romania SRL	Wellkept Group SA, Tatika Investments Ltd and ultimate beneficiary owner	Romania	-
Lunic Franchising and Consulting Ltd.	of Sphera		
Shareholder		Romania	Dividends
Cinnamon Bake&Roll SRL	Entity with several common members of key management personnel	Cyprus	Dividends
Midi Development SRL	Entity with several common members of key management personnel	Romania	Acquisition of goods
Moulin D'Or SRL	Entity affiliated to shareholders of the parent	Romania	Services
Grand Plaza Hotel SA	Entity affiliated to a shareholder of the parent	Romania	Sale of services, acquisition of goods
Baneasa Developments SRL	Entity affiliated to a shareholder of the parent	Romania	Acquisition of goods and services
		Romania	Acquisition of goods and services

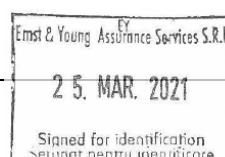
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**19. RELATED PARTY DISCLOSURES (continued)**

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

<b>31 December 2020</b>	<b>Dividends revenues</b>	<b>Revenues from service contracts to related parties</b>	<b>Purchases from related parties</b>	<b>Amounts owed by related parties</b>	<b>Amounts owed to related parties</b>
<b>Related party</b>					
US Food Network SA	85,223	17,375	5	4,317	79,223
American Restaurant System SA	-	3,897	12	1,309	2,650
California Fresh Flavors SRL	-	1,232	-	450	-
US Food Network SRL (Italy)	-	889	-	1,159	-
Moulin D'Or SRL	-	160	3	-	-
Midi Development SRL	-	10	-	-	-
Wellkept Group SA	-	-	236	-	1
Grand Plaza Hotel SA	-	-	4	-	-
Arggo Software Development and Consulting SRL	-	-	249	-	37
Loans and interest from related parties	-	-	-	-	31,111
Loans and interest to related parties (please see below)	-	-	-	26,121	-
	<b>85,223</b>	<b>23,563</b>	<b>509</b>	<b>33,356</b>	<b>113,022</b>

<b>31 December 2019</b>	<b>Dividends revenues</b>	<b>Revenues from service contracts to related parties</b>	<b>Purchases from related parties</b>	<b>Amounts owed by related parties</b>	<b>Amounts owed to related parties</b>
<b>Related party</b>					
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 (please see below)	-	-	-	-	20,826
Loans and interest to related parties (please see below)	-	-	-	65,429	-
	<b>51,239</b>	<b>30,343</b>	<b>921</b>	<b>74,179</b>	<b>25,173</b>



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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 2020, 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.

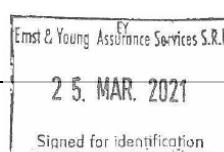
Starting 1 July 2019, Sphera Franchise Group SA and American Restaurant System have registered as a tax group for VAT purpose. The amounts owed to American Restaurant System SA as at 31 December 2020 and 31 December 2019, respectively are mainly in relation with the VAT receivables taken over from ARS 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:

<b>Related party</b>	<b>Interest expense</b>	<b>Interest payable</b>	<b>Loan payable</b>
	<b>2020</b>	<b>31 December 2020</b>	<b>31 December 2020</b>
US Food Network SA	859	2,552	28,560
<b>Total</b>	<b>859</b>	<b>2,552</b>	<b>28,560</b>
	<b>Interest income</b>	<b>Interest receivable</b>	<b>Loan receivable</b>
	<b>2020</b>	<b>31 December 2020</b>	<b>31 December 2020</b>
California Fresh Flavors SRL	373	735	8,458
US Food Network SRL (Italy)	889	2,254	4,757
American Restaurant System SA	706	2,035	7,883
<b>Total</b>	<b>1,968</b>	<b>5,024</b>	<b>21,097</b>
<b>Related party</b>	<b>Interest expense</b>	<b>Interest payable</b>	<b>Loan payable</b>
	<b>2019</b>	<b>31 December 2019</b>	<b>31 December 2019</b>
US Food Network SA	788	1,657	19,169
<b>Total</b>	<b>788</b>	<b>1,657</b>	<b>19,169</b>
	<b>Interest income</b>	<b>Interest receivable</b>	<b>Loan receivable</b>
	<b>2019</b>	<b>31 December 2019</b>	<b>31 December 2019</b>
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
<b>Total</b>	<b>2,004</b>	<b>2,988</b>	<b>62,441</b>

In 2020, the Company increased the value of the investments in the subsidiaries: American Restaurant System SA with the amount of 28,000 and US Food Network SRL Italy with the amount 26,776, by converting a part of the existing shareholder's loans to equity.



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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 2020, the contracts were extended for another one-year period.

In 2020, Sphera Franchise Group SA paid dividends to its shareholders of a total gross amount of 13,679 (representing 0.3525 RON/ordinary share), as approved by the Annual General Shareholders Meeting held on 2 March 2020.

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

	<b>2020</b>	<b>2019</b>
Short-term employee benefits	7,752	8,604
<b>Total compensation paid to key management personnel</b>	<b>7,752</b>	<b>8,604</b>

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

**20. COMMITMENTS AND CONTINGENCIES**

**Company as lessee - lease commitments**

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 varies between three and ten years term.

Please see Note 13 for presentation of the maturity profile of the Company's financial lease liabilities, including principal amounts and interests according to contractual terms, at 31 December 2020 and 31 December 2019 based on contractual undiscounted payments.

**Borrowing facilities granted to third parties**

At 31 December 2020, the value of the undrawn borrowing facilities granted to related parties was of 52,137 (31 December 2019: 104,229).

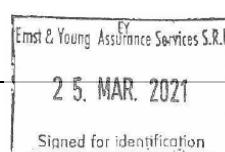
**Contingencies**

*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.



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**20. COMMITMENTS AND CONTINGENCIES (continued)**

Recently, there has been an increase in audits carried out by the tax authorities.

*Transfer pricing*

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

The Company has prepared transfer pricing files.

**21. AUDITOR'S FEES**

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

The fee for the statutory audit of the consolidated and standalone financial statements as of 31 December 2020 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 2020 of US Food Network SA, American Restaurant System SA and California Fresh Flavors in accordance cu MOF 1802/2014 and of the statutory audit of US Food Network Srl Italy was of 555 (excluding VAT).

Other non-assurance services amounted 49 (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 allocation for the financial year 2020*

For the year ended 31 December 2020, 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 2020:

- Setting up the legal reserves in accordance with the statutory regulations in amount of 3,315;
- Allocation of undistributed profit of 63,061 to retained earnings.

*New openings*

In February 2021, the Group opened its first KFC DriveThru restaurant in Italy, Pomezia.(Lazio) and in March 2021 it was opened the first KFC restaurant in Sfantu Gheorghe (Covasna, Romania).

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes

