



## Sphera Franchise Group Financial Report for Q3 2020

12.11.2020



## Quarterly Report in Accordance with

Annex 13 from ASF Regulation nr. 5/2018

For Financial Period	9M 2020: 01.01.2020 - 30.09.2020 Q3 2020: 01.07.2020 – 30.09.2020
Report Date	12.11.2020
Issuer's Name	Sphera Franchise Group SA
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Trade Registry Number	J40/7126/2017
Fiscal Code	RO 37586457
Subscribed and Paid-Up Share Capital	581,990,000 RON
Market where Securities are Traded	Bucharest Stock Exchange, Main Segment, Premium Category
Number of Shares	38,799,340 shares
Symbol	SFG

**Notes:** The interim condensed consolidated financial statements presented below are prepared in accordance with International Financial Reporting Standards, as adopted by European Union ("IFRS").

The interim condensed consolidated financial statements as of September 30<sup>th</sup>, 2020 are unaudited.

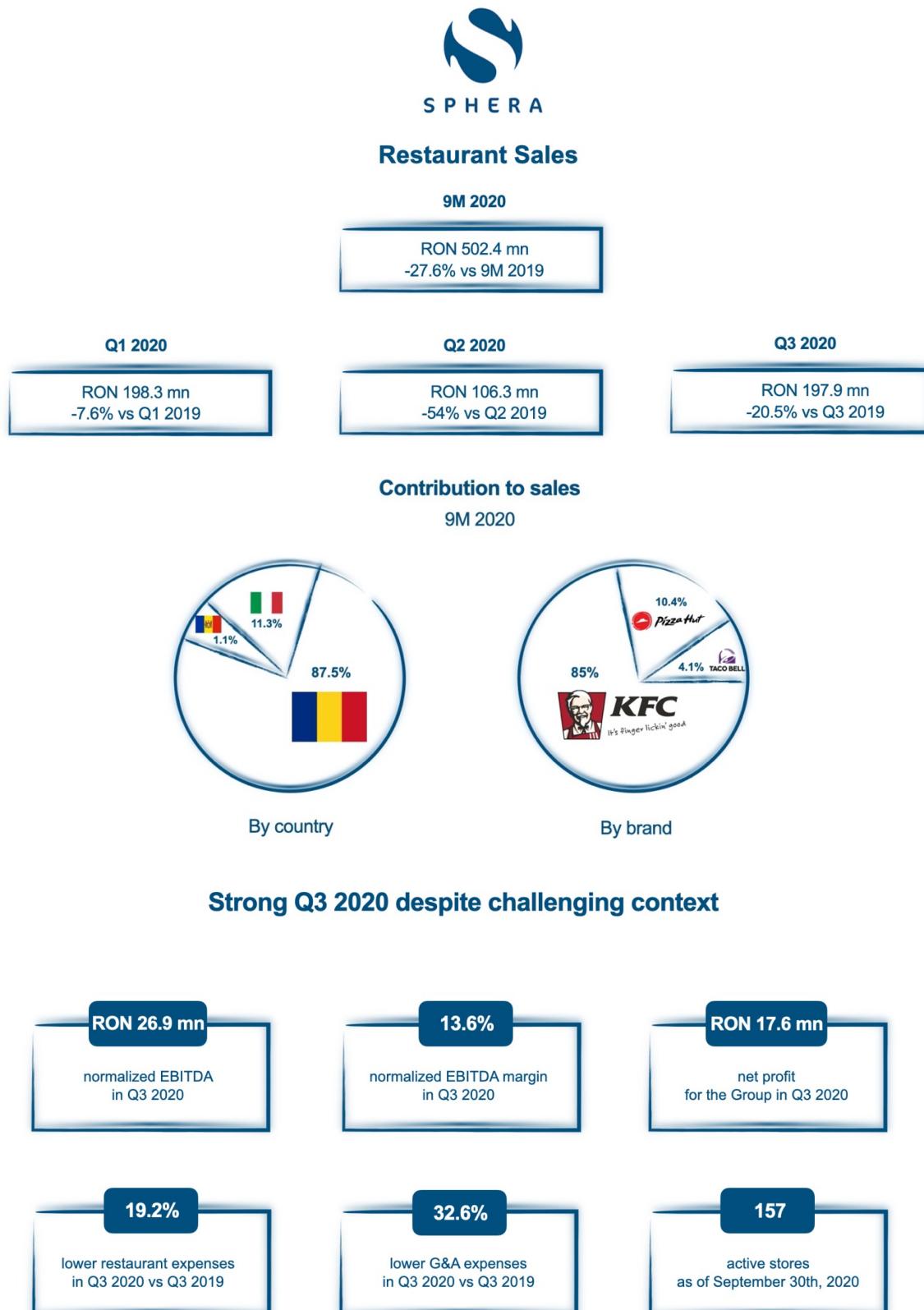
The financial figures presented in the descriptive part of the report that are expressed in million RON are rounded off to the nearest integer and may result in small reconciliation differences.

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## 1. Financial Results Highlights



## 2. 9M 2020 Financial Results Analysis

**Note:** Starting 1 January 2019, Sphera Franchise Group applies IFRS 16 "Leases" standard that sets out the principles for the recognition, measurement, presentation and disclosure of leases. When analyzing the performance of the Group, the management's focus is on the financial results that exclude the impact of IFRS 16. Therefore, the basis for the financial analysis on the following pages are the results excluding IFRS 16. Nonetheless, for most of the tables below are provided financial results both including, as well as excluding the impact of IFRS 16. For more information on the impact of IFRS 16 Leases on the interim condensed consolidated financial statements of Sphera, please refer to the Interim Condensed Consolidated Financial Statements.

Q3 2020 continued to be a challenging period for the HoReCa sector across the world, as the COVID-19 pandemic continued to take the toll on the businesses. In this difficult context, Sphera Franchise Group continued its strategy of quick response to changing environments in order to maximize the revenues. As a result, the Group ended first nine months of 2020 with a consolidated turnover of RON 502.4 million (-27.6% compared to the same period of 2019), out of which RON 197.9 million were generated between July and September 2020 (-20.5% compared to the same period of 2019).

Restaurant expenses in 9M 2020 decreased by 22.8% due to: lower cost of food & material by RON 70.9 million (-30.1% compared to 9M 2019 – mainly volume related), payroll expenses by RON 52.4 million (-33.1%), royalties by RON 11.3 million (-27.8%), advertising by RON 10.8 million (-31.5%) and rent by RON 6.0 million (-12.2%). The decrease in the costs related to payroll and employee benefits was fueled mainly by state aid measures, reduced working hours and a lower number of employees in the period.

Under restaurant expenses, only other operating expenses, as well as expenses related to depreciation and amortization, have increased. The increase in "other operating expenses" was driven by the higher share of aggregator commissions, with the weight in this category growing from 2.1% (out of RON million 67.6) as of September 30th, 2019, to 21.7% (out of RON 74.5 million) as of September 30th, 2020. The increase in depreciation and amortization costs was the result of opening 13 new restaurants between October 1st, 2019 and September 30th, 2020 (16 restaurants if considering the latest openings: KFC inaugurated on October 21st, 2020 in AFI Brasov, KFC inaugurated on November 11<sup>th</sup>, 2020 in Rome, Italy and Taco Bell inaugurated on November 12th, 2020 in Brasov).

In the first nine months of 2020, the restaurants operated by the Group registered operating profit of RON 34.8 million, -60.5% lower compared to the same period of last year. Despite decreasing the G&A expenses by 17.4%, the Group ended 9M 2020 with an operating loss of RON 0.4 million. Nonetheless, the Group significantly improved the EBITDA margin in Q3 2020, ending the 9M 2020 period with normalized EBITDA of RON 28.4 million and EBITDA 5.7% margin, considerably higher compared with normalized EBITDA of RON 1.6 million and 0.5% EBITDA margin reported for H1 2020.

### Summary of interim Consolidated Financial Statements for 9M (results excluding IFRS 16 Impact):

Data in RON'000	9M-20	9M-19	Y/Y %	% of Sales		Δ%
				9M-20/9M-19	9M-20	
<b>Restaurant sales</b>	<b>502,445</b>	<b>694,317</b>	<b>-27.6%</b>			
<b>Restaurant expenses</b>	<b>467,620</b>	<b>606,107</b>	<b>-22.8%</b>	<b>93.1%</b>	<b>87.3%</b>	<b>5.8%</b>
Food and material	164,520	235,421	-30.1%	32.7%	33.9%	-1.2%
Payroll and employee benefits	106,011	158,397	-33.1%	21.1%	22.8%	-1.7%
Rent	43,154	49,123	-12.2%	8.6%	7.1%	1.5%
Royalties	29,439	40,780	-27.8%	5.9%	5.9%	0.0%
Advertising	23,435	34,230	-31.5%	4.7%	4.9%	-0.2%
Other operating expenses, net	74,477	67,625	10.1%	14.8%	9.7%	5.1%
Depreciation and amortization	26,585	20,530	29.5%	5.3%	3.0%	2.3%
<b>Restaurant operating profit</b>	<b>34,825</b>	<b>88,210</b>	<b>-60.5%</b>	<b>6.9%</b>	<b>12.7%</b>	<b>-5.8%</b>
General & Admin expenses, net	35,235	42,644	-17.4%	7.0%	6.1%	0.9%
<b>Operating Profit/(Loss)</b>	<b>(411)</b>	<b>45,566</b>	<b>-100.9%</b>	<b>-0.1%</b>	<b>6.6%</b>	<b>-6.7%</b>
Finance costs	3,973	4,822	-17.6%	0.8%	0.7%	0.1%
Finance income	182	121	51%	0.0%	0.0%	0.0%
<b>Profit/(Loss) before tax</b>	<b>(4,202)</b>	<b>40,864</b>	<b>-110.3%</b>	<b>-0.8%</b>	<b>5.9%</b>	<b>-6.7%</b>
Income tax expense	511	2,650	-80.7%	0.1%	0.4%	-0.3%
<b>Profit/(Loss) for the period</b>	<b>(4,712)</b>	<b>38,214</b>	<b>-112.3%</b>	<b>-0.9%</b>	<b>5.5%</b>	<b>-6.4%</b>
<b>EBITDA</b>	<b>27,310</b>	<b>67,223</b>	<b>-59.4%</b>	<b>5.4%</b>	<b>9.7%</b>	<b>-4.3%</b>
<b>Normalized EBITDA*</b>	<b>28,417</b>	<b>67,223</b>	<b>-57.6%</b>	<b>5.7%</b>	<b>9.7%</b>	<b>-4.0%</b>

(\*)For the 9M period ended September 30<sup>th</sup>, 2020, EBITDA was normalized to exclude the accrued penalties due to Pizza Hut Europe (Master Franchisor) for the restaurants committed to be opened in 2019 and postponed for the future periods.

**Summary of interim Consolidated Financial Statements for 9M – results and evolution presented with and without IFRS 16 impact**

Data in RON'000	9M-20	9M-20	9M-19	9M-19	Change (%)	
	(1)	(2)	(1)	(2)	9M-20/9M-19 (1)	9M-20/9M-19 (2)
<b>Restaurant sales</b>	<b>502,445</b>	<b>502,445</b>	<b>694,317</b>	<b>694,317</b>	<b>-27.6%</b>	<b>-27.6%</b>
<b>Restaurant expenses</b>	<b>464,129</b>	<b>467,620</b>	<b>604,823</b>	<b>606,107</b>	<b>-23.3%</b>	<b>-22.8%</b>
Food and material	164,520	164,520	235,421	235,421	-30.1%	-30.1%
Payroll and employee benefits	106,011	106,011	158,397	158,397	-33.1%	-33.1%
Rent	3,085	43,154	16,063	49,123	-80.8%	-12.2%
Royalties	29,439	29,439	40,780	40,780	-27.8%	-27.8%
Advertising	23,435	23,435	34,230	34,230	-31.5%	-31.5%
Other operating expenses, net	74,230	74,477	67,870	67,625	9.4%	10.1%
Depreciation and amortization	63,410	26,585	52,062	20,530	21.8%	29.5%
<b>Restaurant operating Profit / (Loss)</b>	<b>38,316</b>	<b>34,825</b>	<b>89,493</b>	<b>88,210</b>	<b>-57.2%</b>	<b>-60.5%</b>
General & Admin expenses, net	35,025	35,235	42,286	42,644	-17.2%	-17.4%
<b>Operating Profit/(Loss)</b>	<b>3,292</b>	<b>(411)</b>	<b>47,207</b>	<b>45,566</b>	<b>-93.0%</b>	<b>-100.9%</b>
Finance costs	13,953	3,973	12,926	4,822	7.9%	-17.6%
Finance income	182	182	121	121	51.0%	51.0%
<b>Profit/(Loss) before tax</b>	<b>(10,479)</b>	<b>(4,202)</b>	<b>34,402</b>	<b>40,864</b>	<b>-130.5%</b>	<b>-110.3%</b>
Income tax expense	218	511	2,570	2,650	-91.5%	-80.7%
<b>Profit/(Loss) for the period</b>	<b>(10,697)</b>	<b>(4,712)</b>	<b>31,831</b>	<b>38,214</b>	<b>-133.6%</b>	<b>-112.3%</b>
EBITDA	70,092	27,310	102,468	67,223	-31.6%	-59.4%
<b>Normalized EBITDA*</b>	<b>71,253</b>	<b>28,417</b>	<b>102,468</b>	<b>67,223</b>	<b>-30.5%</b>	<b>-57.6%</b>

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

(\*) Normalized EBITDA – excludes the penalty from franchisor for postponed development of Pizza Hut restaurants in 2019.

Q3 showed signs of gradual recovery from the onset of the COVID-19 pandemic as the consolidated sales grew with RON 91.6 million (+86.2%) compared to Q2 2020. The normalized EBITDA margin registered by the Group in Q3 2020 reached 13.6%, improved compared both with result from Q2 2020 (-1.9%) and from the same period of last year, Q3 2019 (12.3%). The significant improvement of Q3 2020 performance helped partially recover the negative evolution caused by the onset of the pandemic in Q2 2020.

In Q3 2020, the Group continued to implement significant cost-saving measures both at the restaurant level as well as at the level of G&A expenses. Moreover, throughout Q3 2020, the Group benefitted from state aid from the Romanian government, which helped lower the payroll expenses by 33.4%, as well as successfully renegotiated with its lessors, which ended in 20.7% decrease in rent expenses. The Group also lowered the advertising costs by 34.9% compared to Q3 2019. The reduction in the cost of food & material, as well as royalties due, was aligned with the decline in overall restaurant sales. Like the evolution at 9M 2020, only other expenses related to depreciation and amortization as well as other operating expenses have increased, with the latter being driven by the higher fees due to food aggregators.

As a result, the consolidated restaurant expenses were lower in Q3 2020 by 19.2% (RON -40.3 million) compared to the same period of 2019. The G&A expenses decreased by 32.6% (RON -5.2 million) and, consequently, the Group closed Q3 with a normalized EBITDA of RON 26.9 million, just 11.8% lower than result from Q3 2019, and a net profit of RON 17.6 million, 12.3% lower than in Q3 2019. The normalized EBITDA margin increased from 12.3% in Q3 2019 to 13.6% in Q3 2020.

For comparison, in Q1 2020 the normalized EBITDA margin was 1.8%, and in Q2 2020 it was -1.9%.

Consequently, the performance in Q3 2020 alone helped recover RON 26.9 million in EBITDA and lower the net loss registered as of June 30<sup>th</sup>, 2020 by RON 17.6 million.

**Summary of interim Consolidated Financial Statements for Q3 (results excluding IFRS 16 Impact):**

Data in RON'000	Q3-20	Q3-19	Q3-20/Q3-19	% of Sales		
				Q3-20	Q3-19	Δ%
<b>Restaurant sales</b>	<b>197,865</b>	<b>248,749</b>	<b>-20.5%</b>			
<b>Restaurant expenses</b>	<b>169,717</b>	<b>209,969</b>	<b>-19.2%</b>	<b>85.8%</b>	<b>84.4%</b>	<b>1.4%</b>
Food and material	63,726	80,722	-21.1%	32.2%	32.5%	-0.3%
Payroll and employee benefits	34,696	52,077	-33.4%	17.5%	20.9%	-3.4%
Rent	13,859	17,481	-20.7%	7.0%	7.0%	0.0%
Royalties	11,555	14,705	-21.4%	5.8%	5.9%	-0.1%
Advertising	9,006	13,843	-34.9%	4.6%	5.6%	-1.0%
Other operating expenses, net	28,063	23,741	18.2%	14.2%	9.5%	4.7%
Depreciation and amortization	8,813	7,400	19.1%	4.5%	3.0%	1.5%

<b>Restaurant operating profit</b>	<b>28,148</b>	<b>38,781</b>	<b>-27.4%</b>	<b>14.2%</b>	<b>15.6%</b>	<b>-1.4%</b>
General & Admin expenses, net	10,788	16,012	-32.6%	5.5%	6.4%	-0.9%
<b>Operating Profit/(Loss)</b>	<b>17,360</b>	<b>22,768</b>	<b>-23.8%</b>	<b>8.8%</b>	<b>9.2%</b>	<b>-0.4%</b>
Finance costs	1,071	1,355	-20.9%	0.5%	0.5%	-0.0%
Finance income	94	58	63.5%	0.0%	0.0%	0.0%
<b>Profit/(Loss) before tax</b>	<b>16,383</b>	<b>21,471</b>	<b>-23.7%</b>	<b>8.3%</b>	<b>8.6%</b>	<b>-0.3%</b>
Income tax expense	(1,264)	1,354	-193.4%	-0.6%	0.5%	-1.1%
<b>Profit/(Loss) for the period</b>	<b>17,647</b>	<b>20,118</b>	<b>-12.3%</b>	<b>8.9%</b>	<b>8.1%</b>	<b>0.8%</b>
EBITDA	26,538	30,512	-13.0%	13.4%	12.3%	1.1%
<b>Normalized EBITDA*</b>	<b>26,908</b>	<b>30,512</b>	<b>-11.8%</b>	<b>13.6%</b>	<b>12.3%</b>	<b>1.3%</b>

(\*)EBITDA normalized to exclude the accrued penalties due to Pizza Hut Europe (Master Franchisor) for the restaurants committed to be opened in 2019 and postponed for the future periods.

At the individual level, USFN Romania (KFC Romania) and USFN Moldova (KFC Moldova) closed 9M 2020 profitable, registering together RON 30.7 million in net profit. The rest of the Group entities ended the nine months with a loss, with the most significant decline recorded by USFN Italy (KFC Italy), followed by ARS (Pizza Hut Romania).

In Q3 2020, KFC Romania registered a high level of EBITDA margin performance, of 19.2%, while KFC Moldova registered EBITDA margin of 21.2%. Taco Bell Romania closed the three months period with 11.3% EBITDA margin. Even though KFC Italy and Pizza Hut Romania closed the Q3 2020 with a negative EBITDA, they nonetheless significantly improved their performance, with KFC Italy increasing the EBITDA margin from -54.4% in Q2 2020 to -5.8% in Q3 2020, and Pizza Hut increasing the normalized EBITDA margin from -22.7% in Q2 2020 to -2.4% in Q3 2020.

**Breakdown of consolidated results by Group companies – 9M-2020 (Results excluding IFRS 16 Impact):**

	9M-20							
Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons.Adj.	SFG Cons
<b>Restaurant sales</b>	<b>366,624</b>	<b>52,423</b>	<b>5,725</b>	<b>56,873</b>	<b>20,633</b>	<b>17,494</b>	<b>(17,327)</b>	<b>502,445</b>
<b>Restaurant expenses</b>	<b>316,823</b>	<b>57,847</b>	<b>5,085</b>	<b>68,332</b>	<b>20,579</b>	<b>484</b>	<b>(1,529)</b>	<b>467,620</b>
Food and material	123,284	14,691	2,264	16,923	7,365	0	(7)	164,520
Payroll and employee benefits	67,891	15,076	1,076	17,886	4,082	0	0	106,011
Rent	29,230	5,200	244	6,815	1,665	0	0	43,154
Royalties	21,873	3,010	344	3,391	821	0	0	29,439
Advertising	15,817	3,763	204	3,521	1,142	484	(1,496)	23,435
Other operating expenses	44,313	12,203	702	13,511	3,775	0	(26)	74,477
Depreciation	14,416	3,904	251	6,285	1,729	0	0	26,585
<b>Restaurant operating profit/(loss)</b>	<b>49,801</b>	<b>(5,424)</b>	<b>640</b>	<b>(11,459)</b>	<b>54</b>	<b>17,010</b>	<b>(15,797)</b>	<b>34,825</b>
G&A expenses	17,906	4,984	198	6,022	1,670	20,180	(15,724)	35,235
<b>Operating profit/(loss)</b>	<b>31,895</b>	<b>(10,408)</b>	<b>442</b>	<b>(17,481)</b>	<b>(1,616)</b>	<b>(3,170)</b>	<b>(73)</b>	<b>(411)</b>
Finance costs	2,553	851	81	2,132	1,181	1,143	(3,968)	3,973
Finance income	2,653	17	0	1	0	1,479	(3,968)	182
<b>Profit/(Loss) before tax</b>	<b>31,995</b>	<b>(11,242)</b>	<b>361</b>	<b>(19,613)</b>	<b>(2,796)</b>	<b>(2,833)</b>	<b>(73)</b>	<b>(4,202)</b>
Income tax expense	1,672	559	24	(2,141)	108	288	0	511
<b>Profit/(Loss) for the period</b>	<b>30,323</b>	<b>(11,801)</b>	<b>337</b>	<b>(17,472)</b>	<b>(2,904)</b>	<b>(3,121)</b>	<b>(73)</b>	<b>(4,712)</b>
EBITDA	46,712	(6,370)	722	(11,178)	164	(2,667)	(73)	27,310
<b>Normalized EBITDA*</b>	<b>46,712</b>	<b>(5,209)</b>	<b>722</b>	<b>(11,178)</b>	<b>164</b>	<b>(2,667)</b>	<b>(73)</b>	<b>28,417</b>

In 9M 2020, the Group managed to lower the General and Administrative (G&A) expenses by 17.4% compared to the same period of 2019. When analyzing the cost-saving measures taken solely in Q3 2020, the Group lowered G&A costs by 32.6% compared to Q3 2019. For G&A expenses, the most considerable cost-savings registered in 9M 2020 were on payroll and employee benefits (decrease in costs of RON 3.8 million compared to 9M 2019), followed by third-party services (decrease of RON 2.3 million) and transport (decrease of RON 1.1 million).

	Data in RON '000				Change (%) 2020/ 2019 (1) 2020/ 2019 (2)	Percentage of sales			
	9M-20 (1)	9M-20 (2)	9M-19 (1)	9M-19 (2)		9M-20 (1)	9M-20 (2)	9M-19 (1)	9M-19 (2)
<b>General and administration (G&amp;A) expenses, net</b>	<b>35,025</b>	<b>35,235</b>	<b>42,286</b>	<b>42,644</b>	<b>-17.2%</b>	<b>-17.4%</b>	<b>7.0%</b>	<b>7.0%</b>	<b>6.1%</b>
Payroll and employee benefits	21,972	21,972	25,731	25,727	-14.6%	-14.6%			
Third-party services	4,702	4,702	6,871	7,043	-31.6%	-33.2%			
Depreciation and amortization	3,391	1,136	3,199	1,128	6.0%	0.7%			
Rent	86	2,551	301	2,693	-71.4%	-5.3%			
Banking charges	2,090	2,090	2,382	2,276	-12.3%	-8.2%			
Transport	760	760	1,891	1,891	-59.8%	-59.8%			
Other*	2,025	2,025	1,910	1,886	6.0%	7.4%			

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

\*Other expenses include maintenance & repairs, smallware, insurance, advertising, phone & postage, miscellaneous expenses.

Since July 2020, the Group registered a gradual, month by month, increase in sales on all three markets of activity. As a result, the performance in Q3 2020 compared to the previous quarter improved, from a Y/Y decline of 54% in Q2, to 20.5% Y/Y decline in Q3. Analyzing the sales in the first nine months based on the geographic location, sales in Romania decreased by 28.7%, from RON 617.1 million (9M 2019) to RON 439.8 million at 9M 2020, in Italy by 17.5%, to RON 56.9 million and by 30.3% in the Republic of Moldova, reaching RON 5.7 million.

Data in RON '000	Q1-20	Q1-19	Y/Y Q1	Q2-20	Q2-19	Y/Y Q2	Q3-20	Q3-19	Y/Y Q3	9M-20	9M-19	Change
												9M-20/9M-19
<b>Sales by region</b>												
Romania	176,764	194,780	-9.2%	93,821	206,180	-54.5%	169,260	216,175	-21.7%	439,847	617,135	-28.7%
Italy	19,205	17,203	11.6%	11,435	21,993	-48.0%	26,232	29,772	-11.9%	56,873	68,968	-17.5%
Rep. Moldova	2,345	2,742	-14.5%	1,009	2,669	-62.2%	2,371	2,803	-15.4%	5,725	8,214	-30.3%
<b>Total sales</b>	<b>198,314</b>	<b>214,725</b>	<b>-7.6%</b>	<b>106,266</b>	<b>230,842</b>	<b>-54.0%</b>	<b>197,865</b>	<b>248,750</b>	<b>-20.5%</b>	<b>502,445</b>	<b>694,317</b>	<b>-27.6%</b>

In the first nine months of 2020, like-for-like sales across Sphera brands declined 33.6% Y/Y, with a drop between 30% Y/Y for USFN RO/MD and 45% Y/Y for ARS. At the same time, the new locations opened for KFC Romania, KFC Italy and Taco Bell in Romania and their solid performance in Q3 2020 helped recover part of the revenues lost. Subsequently, the Group closed 9M 2020 with a sales decline of 27.6% across all brands, on all markets of activity.

		Y/Y Q1-20	Y/Y Q2-20	Y/Y Q3-20	Y/Y 1H-20	Y/Y 9M-20
<b>USFN</b>	<b>All Stores</b>	<b>-9.9%</b>	<b>-51.6%</b>	<b>-17.1%</b>	<b>-31.4%</b>	<b>-26.4%</b>
	o/w Same Stores	-14.7%	-53.5%	-23.6%	-34.6%	-30.7%
<b>ARS</b>	<b>All Stores</b>	<b>-15.7%</b>	<b>-68.8%</b>	<b>-51.5%</b>	<b>-41.9%</b>	<b>-45.2%</b>
	o/w Same Stores	-15.7%	-68.8%	-51.5%	-41.9%	-45.2%
<b>CFF</b>	<b>All Stores</b>	<b>46.0%</b>	<b>-55.9%</b>	<b>-3.0%</b>	<b>-14.0%</b>	<b>-9.7%</b>
	o/w Same Stores	-10.3%	-64.4%	-24.1%	-38.8%	-33.2%
<b>USFN IT</b>	<b>All Stores</b>	<b>11.4%</b>	<b>-48.1%</b>	<b>-11.7%</b>	<b>-22.0%</b>	<b>-17.6%</b>
	o/w Same Stores	-29.5%	-64.5%	-26.9%	-47.2%	-39.6%
<b>USFN MD</b>	<b>All Stores</b>	<b>-14.4%</b>	<b>-62.1%</b>	<b>-15.5%</b>	<b>-37.9%</b>	<b>-30.3%</b>
	o/w Same Stores	-14.4%	-62.1%	-15.5%	-37.9%	-30.3%
<b>TOTAL</b>	<b>All Stores</b>	<b>-7.6%</b>	<b>-54.0%</b>	<b>-20.4%</b>	<b>-31.7%</b>	<b>-27.6%</b>
	o/w Same Stores	-16.0%	-57.0%	-27.6%	-36.9%	-33.6%

Sales through own delivery channels, partnership with food aggregating platforms as well as well-targeted marketing activities helped improve the performance in Q3 2020, even though the share of sales through delivery dropped, driven primarily by the loosening of the restrictions mid-May on the main market of Group's activity, Romania. In Q3 2020, 24% of all orders were for delivery while 76% were sold in-store. As a comparison, in the same period of 2019, only 6% of sales were generated through the delivery channel. In this context, at the end of September, KFC Romania launched a dedicated online delivery/order platform, [www.delivery.kfc.ro](http://www.delivery.kfc.ro), with a strategic goal to further strengthen the delivery service in Bucharest as well as around the country.

<b>Sales by entity, by Country</b>		<b>Q1-19</b>	<b>Q2-19</b>	<b>Q3-19</b>	<b>Q4-19</b>	<b>Q1-20</b>	<b>Q2-20</b>	<b>Q3-20</b>
USFN RO	delivery	3%	3%	3%	4%	6%	44%	23%
	non-delivery	97%	97%	97%	96%	94%	56%	77%
ARS	delivery	23%	27%	27%	29%	33%	68%	53%
	non-delivery	77%	73%	73%	71%	67%	32%	47%
CFF	delivery	0%	0%	0%	5%	11%	81%	40%
	non-delivery	100%	100%	100%	95%	89%	19%	60%
USFN IT	delivery	0%	0%	0%	0%	0%	32%	11%
	non-delivery	100%	100%	100%	100%	100%	68%	89%
USFN MD	delivery	8%	10%	8%	10%	13%	60%	23%
	non-delivery	92%	90%	92%	90%	87%	40%	77%
All	delivery	6%	6%	6%	7%	9%	47%	24%
	non-delivery	94%	94%	94%	93%	91%	53%	76%

The increase in sales through food aggregators can be seen in the financial statements under “Restaurant expenses, other operating expenses”. In the first nine months of 2020, the fees due to the aggregators have grown by 1,024%, reaching a total of RON 16.2 million. The highest increase in the fees due to third-party platform was registered by KFC Romania (+1,749% compared to 9M 2019), followed by Taco Bell Romania (+469%), Pizza Hut Romania (+172%), KFC Moldova (+141%).

## MAIN FINANCIAL RATIOS

The main financial ratios of Sphera Franchise Group (consolidated result) as of September 30<sup>th</sup>, 2020 (including and excluding IFRS 16 impact) are presented below, together with the result from the same period of 2019 (including IFRS 16 impact).

<i>Financial data in RON '000</i>	<b>9M period ended 30 September 2020(1)</b>	<b>9M period ended 30 September 2020(2)</b>	<b>9M period ended 30 September 2019(1)</b>			
<b>Current ratio</b>						
Current assets	<u>145,533</u>	= 0.67	<u>148,658</u>	= 0.85	<u>119,079</u>	= 0.61
Current liabilities	<u>217,370</u>		<u>175,796</u>		<u>196,471</u>	
<b>Debt to Equity ratio</b>						
Interest-bearing debt (long term)	<u>286,464</u>	= 194%	<u>147,295</u>	= 92%	<u>259,118</u>	= 173%
Equity	<u>147,853</u>		<u>159,582</u>		<u>149,887</u>	
Interest-bearing debt (long term)	<u>286,464</u>	= 66%	<u>147,295</u>	= 48%	<u>259,118</u>	= 63%
Capital employed	<u>434,317</u>		<u>306,877</u>		<u>409,004</u>	
<b>Trade receivables turnover (days)</b>						
Average receivables	<u>29,389</u>	= 15.79	<u>29,389</u>	= 15.79	<u>22,420</u>	= 8.7
Sales	<u>502,445</u>		<u>502,445</u>		<u>694,317</u>	
<b>Fixed asset turnover</b>						
Sales	<u>502,445</u>	= 1.36	<u>502,445</u>	= 2.52	<u>694,317</u>	= 1.97
Net fixed assets	<u>492,293</u>		<u>265,772</u>		<u>470,582</u>	

Notes: Annualized values, based on ASF methodology.

(1) Including the impact of IFRS 16; (2) Excluding the impact of IFRS 16 Leases.

### 3. Significant events in Q3 2020: pandemic evolution

Q3 2020 was the period leading to the reopening of all the Group's stores as well as continuous agile adaptation to the new realities. The Group has primarily focused on the extension of delivery services, "menu engineering" meaning optimizing menus to fit the market conditions, redesigning client and production flows, analysis and improvement of cost and cost structures to maximize the performance. Despite the pandemic, the Group continued to implement the plan for opening new restaurants as well as identifying new locations for future developments.

#### DEVELOPMENT PLANS

Since the beginning of 2020 until the date of publishing this report, 4 new KFC restaurants opened in Romania (+1 relocation of a store based in Targu Mures), 3 new KFC stores were opened in Italy and 1 Taco Bell opened in Romania. In Q3 2020 alone, the Group inaugurated 4 stores – 3 in Romania and 1 in Italy. So far in Q4 2020, 1 KFC restaurant was inaugurated mid-October in Romania, 1 KFC in Italy mid-November and 1 Taco Bell in Romania mid-November. At the same time, since the beginning of this year, three stores in Romania identified as non-viable were closed, one of them being already impaired as of December 31st, 2019.

As of September 30<sup>th</sup>, 2020, the Group counted 158 stores. The Group is currently in negotiations with YUM!, the Master Franchisor, to revise and update the restaurant development plan for KFC and Pizza Hut in Romania.

#### STAFF & STATE AID RELATED TO STAFF COSTS

At the end of the Q3 2020 reporting period, the Group had 4,934 employees, out of which 4,533 in Romania, 321 in Italy and 80 in the Republic of Moldova. Mid-September, the Group announced the intention to hire over 400 employees in order to ensure continuous operations of KFC Romania.

As of June 30th, 2020, an estimated 22% of the restaurant employees in Romania were still in technical unemployment, which covered the expenses of 75% of the average national salary. As of September 1st, all the employees, on all three markets of activity, have returned from the technical unemployment.

When it comes to the G&A payroll expenses, as of June 30th, all HQ staff was back from technical unemployment. Nonetheless, throughout the Q3 2020, part of the staff from the headquarters continued to work under a reduced schedule.

In Q3, 2020 Sphera Franchise Group benefitted from technical unemployment grants from the Romanian state as well as applied for the state aid accorded by the Romanian government that covered 41.5% of costs related to the salaries of employees who received technical unemployment indemnity, according to the provisions of the Emergency Ordinance no. 92/2020. The total amount of state aid granted to the entities from the Group in Q3 2020, across all 3 markets of activity, was RON 7.7 million. Out of that amount, RON 2.4 million was technical unemployment indemnity received from the Romanian state, and RON 0.3 million were the amounts received from Italian and Moldovan governments. RON 4.9 million lei was the total value of the Romanian state aid that covered 41.5% of payroll costs of restaurant employees who previously were in technical unemployment. The applicability of further indemnities granted by the State for Q4 2020 on, is to be evaluated based on the legislation to be released.

#### LEASE AGREEMENTS

In Q3 2020, the Group benefited from a discount of RON 4.3 million on fix rent. The total amount of discounts from fix rent granted in 9M 2020 equaled RON 8.7 million. There are no more ongoing negotiations related to the rent of the first 9M of 2020.

In Q4 2020, depending on the evolution of the COVID-19 pandemic and the lockdown measures ordered on individual markets of the activity or even in particular regions, new negotiations will be initiated by the Group. These negotiations will, however, be initiated on a case-by-case basis, depending on the restrictions applicable in specific areas (countries, regions, counties or cities).

#### FINANCIAL MEASURES

All the financing facilities accessed in the course of H1 2020 to ensure working capital were still applicable throughout Q3 2020. Additionally, the Group secured a new short-term working capital line of RON 9.6 million, which has not been activated to date, as well as continued to engage in good faith negotiations with suppliers and with the Master Franchisor, YUM!.

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.

## 4. Important Events after closing Q3 2020

### MANAGEMENT CHANGES

On October 8th, 2020, the Board of Directors of Sphera Franchise Group appointed Mr. Calin Ionescu, as the Chief Executive Officer of the Company. The mandate of Mr. Calin Ionescu is effective as of October 8th, 2020, until May 1st, 2023.

On October 8th, 2020, the Board of Directors took note of the resignation of Mr. Anastasios Tzoulas from the position of the member of the Board of Directors, the Vice-Chairman of the Board as well as the member of the Audit Committee of the Company. The resignation became effective as of October 9th, 2020.

On October 14th, 2020, the Board of Directors appointed Mr. Lucian Hoanca, as the Chairman of the Board, and Mr. Silviu Carmaciu, as the Vice-Chairman of the Board. The term of Mr. Hoanca's and Mr. Carmaciu's mandates is until 2023, in line with the appointment of the whole Board of Directors.

### GENERAL MEETING OF SHAREHOLDERS

For November 25th, 2020, 10:00AM Bucharest time, the Group called the Ordinary General Meeting of Shareholders (OGSM) and the Extraordinary General Meeting of Shareholders (EGSM). If the quorum is not met, the 2nd call is November 26th, 2020. Among the subjects to be voted by the shareholders is the reduction of the number of the Board Members of the Company, from 7 to 5 members. The convening notice as well as support documents can be accessed at the [Group's website](#).

### COVID-19 EVOLUTION AND LOCAL LOCKDOWNS

In the context of COVID-19 pandemic, there exists a chance that lockdowns, including the temporary closure of restaurants, hotels, cafes, clubs, shopping malls, gradual closure of borders, limiting or prohibiting the movement of vehicles or people in/to certain areas can be implemented throughout Europe, including in the countries of activity of the Group. The lockdowns can be applied at the national level, impacting all the restaurants of the Group in one country of operation, as well as at a local level, impacting restaurants located in certain municipalities or regions that are subject to restrictions.

The lockdowns at a local (municipality or city) level were already ordered in Romania in September 2020, in areas qualified a "red zone" (>3 COVID-19 cases/1,000 inhabitants), impacting the sales of the restaurants located in those cities. There was an impact of lockdown on the September results, however it was limited as it included smaller cities, where the Group's activity is relatively small. As of October 2020, the following cities where the Group has stores were qualified as the red zone: Bucharest (red alert starting October 20th, 2020), Ramnicu Valcea, Zalau, Bacau, Focsani. As a result, the indoor dining sections in those locations had to be closed. As of November 1<sup>st</sup>, 8 Pizza Hut dine-in restaurants of the group located in the red zones are temporarily closed while the rest of the restaurants (including Pizza Hut Delivery) continues to operate providing take-away and delivery orders.

With the increase in the number of COVID-19 infections across Europe, similar measures limiting the indoor dining can be expected in other municipalities and cities across Romania as well as on the other two markets of activity: Italy and the Republic of Moldova. As of November 1<sup>st</sup>, one KFC store in Italy has been temporarily closed.

The current situation showcasing Group's all stores vs. active stores is presented below.

	30-Sept-19	31-Dec-19	30-Sept-20		Jun-20	Sept-20	Oct-20
Total Stores				Active Stores			
KFC RO*	77	82	85	KFC RO*	80	84	85
KFC MD	2	2	2	KFC MD	1	2	2
KFC IT	15	15	17	KFC IT	16	17	17
Pizza Hut	23	23	23	Pizza Hut	20	23	23
Pizza Hut Delivery**	22	22	21	Pizza Hut Delivery**	21	21	21
Taco Bell	7	10	10	Taco Bell	10	10	10
<b>Total stores</b>	<b>146</b>	<b>154</b>	<b>158</b>	<b>Total active stores</b>	<b>148</b>	<b>157</b>	<b>158</b>

\*KFC Romania includes also one Paul store. \*\*includes one sub-franchised store.

## 5. Declaration of the Management

We confirm to the best of our knowledge that the unaudited interim condensed consolidated financial statements for the nine months period ended 30 September 2020 give a true and fair view of Sphera Franchise Group's assets, liabilities, financial position and profit and loss, as required by the applicable accounting standards, and that the Directors' Report gives a true and fair view of important events that have occurred during the first nine months of the 2020 financial year and their impact on the interim condensed consolidated financial statements.

Bucharest, November 12<sup>th</sup>, 2020

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020 (UNAUDITED)**

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

The interim condensed consolidated financial statements are unaudited.

**SPHERA FRANCHISE GROUP SA**  
**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020 (UNAUDITED)**  
*All amounts in RON thousand, unless specified otherwise*

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**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020 (UNAUDITED)**

	Note	30 September 2020	Nine -month period ended 30 September 2019
Restaurant sales		502,445	694,317
Restaurant expenses			
Food and material expenses		164,520	235,421
Payroll and employee benefits	4	106,011	158,397
Rent		3,085	16,063
Royalties		29,439	40,780
Advertising		23,435	34,230
Other operating expenses, net	5	74,230	67,871
Depreciation, amortization and impairment of non-current assets	7	63,410	52,062
<b>Restaurant operating profit</b>		<b>38,316</b>	<b>89,492</b>
General and administration expenses, net	6	35,025	42,285
<b>Operating profit</b>		<b>3,292</b>	<b>47,207</b>
Finance costs	8	13,953	12,926
Finance income		182	121
<b>Profit/(Loss) before tax</b>		<b>(10,479)</b>	<b>34,402</b>
Income tax expense		218	2,570
<b>Profit/(Loss) for the period</b>		<b>(10,697)</b>	<b>31,831</b>
<b>Attributable to:</b>			
Equity holders of the parent		(10,736)	31,661
Non-controlling interests		39	170
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Exchange differences on translation of foreign operations		(22)	(109)
<b>Total comprehensive income for the period, net of tax</b>		<b>(10,719)</b>	<b>31,722</b>
<b>Attributable to:</b>			
Equity holders of the parent		(10,753)	31,551
Non-controlling interests		33	171

**SPHERA FRANCHISE GROUP SA**  
**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020 (UNAUDITED)**  
*All amounts in RON thousand, unless specified otherwise*

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**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2020 (UNAUDITED)**

	<b>30 September 2020</b>	<b>31 December 2019</b>
<b>Assets</b>		
<b>Non-current assets</b>	<b>509,524</b>	<b>508,147</b>
Property, plant and equipment	199,509	199,415
Right-of-use assets	228,574	229,121
Intangible assets	64,210	64,835
Deposits for rent guarantee	8,587	8,416
Deferred tax assets	8,644	6,360
<b>Current assets</b>	<b>145,533</b>	<b>112,082</b>
Inventories	9,922	11,632
Trade and other receivables	19,488	39,289
Prepayments	2,806	3,889
Cash and short-term deposits	113,318	57,272
<b>Total assets</b>	<b>655,058</b>	<b>620,229</b>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Issued capital (Note 9)	581,990	581,990
Share premium	(519,998)	(519,998)
Other reserves	(1,178)	(1,178)
Retained earnings	86,986	111,402
Foreign currency translation reserve	(182)	(166)
<b>Equity attributable to equity holders of the parent</b>	<b>147,618</b>	<b>172,050</b>
Non-controlling interests	235	201
<b>Total equity</b>	<b>147,853</b>	<b>172,251</b>
<b>Non-current liabilities</b>	<b>289,836</b>	<b>265,596</b>
Interest-bearing loans and borrowings	92,194	73,617
Lease liabilities	194,270	190,073
Net employee defined benefit liabilities (Note 5)	3,371	1,906
<b>Current liabilities</b>	<b>217,370</b>	<b>182,381</b>
Trade and other payables	116,024	101,696
Interest-bearing loans and borrowings	54,466	34,427
Lease liabilities	46,879	45,139
Provisions	-	1,120
<b>Total liabilities</b>	<b>507,205</b>	<b>447,978</b>
<b>Total equity and liabilities</b>	<b>655,058</b>	<b>620,229</b>

**SPHERA FRANCHISE GROUP SA**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020  
(UNAUDITED)**

*All amounts in RON thousand, unless specified otherwise*

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020 (UNAUDITED)**

	<b>Issued capital</b>	<b>Share premium</b>	<b>Other reserves</b>	<b>Retained earnings</b>	<b>Foreign currency translation reserve</b>	<b>Total equity</b>	<b>Non-controlling interest</b>	<b>Total equity</b>
<b>As at 1 January 2020</b>	<b>581,990</b>	<b>(519,998)</b>	<b>(1,178)</b>	<b>111,402</b>	<b>(166)</b>	<b>172,049</b>	<b>202</b>	<b>172,251</b>
Loss for the period	-	-	-	(10,736)	-	(10,736)	39	(10,697)
<b>Other comprehensive income</b>								
Translation differences					(17)	(17)	(6)	(22)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(10,736)</b>	<b>(17)</b>	<b>(10,753)</b>	<b>33</b>	<b>(10,719)</b>
Cash dividends	-	-	-	(13,679)	-	(13,679)	-	(13,679)
<b>At 30 September 2020</b>	<b>581,990</b>	<b>(519,998)</b>	<b>(1,178)</b>	<b>86,986</b>	<b>(182)</b>	<b>147,618</b>	<b>235</b>	<b>147,853</b>

	<b>Issued capital</b>	<b>Share premium</b>	<b>Retained earnings</b>	<b>Foreign currency translation reserve</b>	<b>Total equity</b>	<b>Non-controlling interest</b>	<b>Total equity</b>
<b>As at 1 January 2019, as previously reported</b>	<b>581,990</b>	<b>(520,578)</b>	<b>67,248</b>	<b>20</b>	<b>128,680</b>	<b>146</b>	<b>128,826</b>
Impact of change in accounting policies (IFRS 16)			3,179		3,179	47	3,227
<b>As at 1 January 2019</b>	<b>581,990</b>	<b>(520,578)</b>	<b>70,428</b>	<b>20</b>	<b>131,859</b>	<b>194</b>	<b>132,053</b>
Profit for the period	-	-	31,661	-	31,661	170	31,831
<b>Other comprehensive income</b>							
Translation differences				(110)	(110)	1	(109)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>31,661</b>	<b>(110)</b>	<b>31,551</b>	<b>171</b>	<b>31,722</b>
Transfer to share premium	-	580	(580)	-	-	-	-
Cash dividends to be paid	-	-	(13,673)	-	(13,673)	(216)	(13,889)
<b>At 30 September 2019</b>	<b>581,990</b>	<b>(519,998)</b>	<b>87,837</b>	<b>(90)</b>	<b>149,738</b>	<b>149</b>	<b>149,887</b>

**SPHERA FRANCHISE GROUP SA**  
**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020 (UNAUDITED)**  
*All amounts in RON thousand, unless specified otherwise*

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**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020 (UNAUDITED)**

	<b>Nine-month period ended</b>	
	<b>30 September 2020</b>	<b>30 September 2019</b>
<b>Operating activities</b>		
Profit/(Loss) before tax	(10,479)	34,402
Adjustments to reconcile profit/(loss) before tax to net cash flows:		
Depreciation of right-of-use assets	39,301	33,603
Depreciation and impairment of property, plant and equipment	25,008	19,314
Amortisation and impairment of intangible assets	2,492	2,344
Rent concessions	(8,715)	-
Unrealised net foreign exchange differences	4,858	3,698
(Gain)/Loss on disposal of property, plant and equipment	47	(1)
Finance income	(182)	(121)
Finance costs (interest)	10,353	8,871
<b>Working capital adjustments:</b>		
Decrease/(Increase) in trade and other receivables and prepayments	27,159	(17,425)
Decrease in inventories	1,709	783
Increase in trade and other payables	9,086	6,303
Interest received	182	121
Interest paid	(10,283)	(8,775)
Income tax paid	(2,527)	(4,707)
<b>Net cash flows from operating activities</b>	<b>88,009</b>	<b>78,410</b>
<b>Investing activities</b>		
Proceeds from sale of property, plant and equipment	86	14
Purchase of intangible assets	(1,867)	(4,840)
Purchase of property, plant and equipment	(25,236)	(50,489)
<b>Net cash flows used in investing activities</b>	<b>(27,018)</b>	<b>(55,314)</b>
<b>Financing activities</b>		
Proceeds from borrowings	48,719	17,914
Repayment of borrowings	(11,601)	(23,348)
Payment of lease liabilities	(28,248)	(29,920)
Dividends paid to equity holders of the parent	(13,671)	-
Dividends paid to non-controlling interests	-	(108)
<b>Net cash flows used in financing activities</b>	<b>4,801</b>	<b>(35,462)</b>
<b>Net increase in cash and cash equivalents</b>	<b>56,191</b>	<b>(12,367)</b>
Net foreign exchange differences	(145)	(139)
<b>Cash and cash equivalents at 1 January</b>	<b>57,272</b>	<b>90,665</b>
<b>Cash and cash equivalents at 30 September</b>	<b>113,318</b>	<b>78,160</b>

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020 (UNAUDITED)****1 CORPORATE INFORMATION**

These interim condensed consolidated financial statements are prepared by Sphera Franchise Group SA and comprise its activities and those of its subsidiaries, together referred hereinafter as "SFG" or "the Group". Sphera Franchise Group SA is listed on Bucharest Stock Exchange under the symbol "SFG". Sphera Franchise Group SA ("the legal Parent", or "Sphera") was incorporated on 16 May 2017 as a joint stock company and is registered at No. 239 Calea Dorobanti, Bucharest, Romania.

The Group operates quick service and takeaway restaurant concepts (a chain of 103 restaurants) under the Kentucky Fried Chicken ("KFC"), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (23 restaurants as at 30 September 2020) as well as pizza delivery points (21 locations as at 30 September 2020) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (10 restaurants as at 30 September 2020) and one restaurant under Paul brand, in Romania.

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

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

The Moldavian subsidiary, US Food Network SRL which operates the KFC franchise in Moldova, was incorporated in 2008 as a limited liability company and is registered at No. 45 Banulescu Bodoni Street, Chisinau, Republic of Moldova. The Group owns 80% of the company's shares.

The Italian subsidiary, US Food Network Srl operating the KFC franchise in Italy was incorporated in 2016 as a limited liability company and is registered at No. 5 Viale Francesco Restelli Street, Milano, Italy. The Group owns 100% of the company's shares.

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

**2 BASIS OF PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The interim condensed unaudited financial statements of the Group as of and for the nine-month period ended 30 September 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting.

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2019.

The interim condensed consolidated financial statements for nine-month period ended 30 September 2020 included in this report are unaudited.

## General accounting policies

The accounting policies and valuation methods adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for adoption of the new amendment to IFRS 16, COVID-19-Related Rent Concessions, issued by IASB in May 2020 and effective for the periods beginning on or after 1 June 2020, with earlier application permitted.

All other amendments effective since 1 January 2020 do not have a material effect on the Group's condensed consolidated financial statements. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

### *COVID-19-Related Rent Concessions - Amendment to IFRS 16 Leases (the amendment).*

The IAS Board has amended the standard to provide optional 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 amendments do not apply to lessors.

Under the standard's previous requirements, lessees assess whether rent concessions are lease modifications and, if so, apply the specific guidance on accounting for lease modifications. This generally involves complex calculations as remeasuring the lease liability using the revised lease payments and a revised discount rate.

As a practical expedient, a lessee may elect not to assess whether a COVID-19 related lease concession from a lessor is a lease modification. A lessee that makes this election accounts for any qualifying 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. A lessee may elect to apply the practical expedient consistently to contracts with similar characteristics and in similar circumstances.

The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and 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 nine-month period ended 30 September 2020, the Group 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 8,715 as if it was a variable lease payment, as follows:

	<b>Nine-month period ended</b>	
	<b>30 September</b>	<b>30 September</b>
	<b>2020</b>	<b>2019</b>
Variable lease payments and expenses related to short-term leases included in restaurant expenses – Rent	11,493	16,063
Rent concessions included in restaurant expenses	(8,408)	-
<b>Rent presented in Restaurant expenses</b>	<b>3,085</b>	<b>16,063</b>
Expenses relating to leases of low value assets and short-term leases included in administrative expenses	393	262
Rent concessions included in administrative expenses	(307)	-
<b>Rent in "General and administration expenses, net"</b>	<b>86</b>	<b>262</b>

## Foreign currencies

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

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

The exchange rate RON – EUR as at 30 September 2020 and 31 December 2019 were:

	<b>30 September 2020</b>	<b>31 December 2019</b>
RON – EUR	4.8698	4.7793
RON – USD	4.1617	4.2608
RON – MDL	0.2456	0.2481

#### ***Transactions and balances***

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

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

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

#### ***Group companies***

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

### 3 GROUP INFORMATION

#### Investments in controlled companies

Details of the Group consolidated subsidiaries at 30 September 2020 and 31 December 2019 are as follows:

Company name	Country of incorporation	Field of activity	Control	Control
			30 September 2020	31 December 2019
US Food Network SA	Romania	Restaurants	99.9997%	99.9997%
American Restaurant System SA	Romania	Restaurants	99.9997%	99.9997%
California Fresh Flavours SRL	Romania	Restaurants	99.9900%	99.9900%
US Foods Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%	100.0000%

The value of non-controlling interests in USFN, ARS si CFF of 30 September 2020 is below 1 thousand RON therefore there are no other presentations thereof.

### 4 PAYROLL AND EMPLOYEE BENEFITS

	Nine-month period ended 30 September 2020	30 September 2019
Payroll and employee benefits recognized in restaurant expenses	132,005	158,397
Government grants recognised in restaurant expenses	(25,994)	-
<b>Payroll and employee benefits recognised in restaurant expenses</b>	<b>106,011</b>	<b>158,397</b>
Payroll and employee benefits recognized in "General and administration expenses, net"	22,731	25,727
Government grants recognised in "General and administration expenses, net"	(759)	-
<b>Payroll and employee benefits recognized in "General and administration expenses, net"</b>	<b>21,972</b>	<b>25,727</b>
<b>Total Payroll and employee benefits</b>	<b>127,982</b>	<b>184,124</b>

Government grants refer to the financial support granted by the governments in the countries when the Group operates, as part of the supportive measures for the employee-related costs incurred by the companies affected by a temporary reduction and/or interruption of activity due to COVID-19 pandemic (i.e. technical unemployment indemnity and 41.5% Tax Romanian State Aid).

Payroll costs of 730 representing the value of project management and other technical activities performed by the Group's employees during the nine-month period ended 30 September 2020 (788 during the nine-month period ended 30 September 2019) for the construction or refurbishment of restaurants were capitalised in the cost of construction of the non-current assets.

#### *Net employee defined benefit liabilities (Italian subsidiary)*

In accordance with the local labour regulations, Italian companies have to pay to their employees a leaving-service indemnity ("TFR"). The accrual for termination benefits in amount of 3,371 (1,906 as at 31 December 2019) was calculated as a career-average lump sum, in accordance with the Italian statutory regulations. The Group performs an actuarial computation of these termination benefits in line with the IAS 19 "Employee benefits".

**5 OTHER OPERATING EXPENSES, NET**

	<b>Nine-month period ended</b>	<b>30 September</b>	<b>30 September</b>
	<b>2020</b>	<b>2019</b>	
Third-party services	36,883	23,370	
YUM penalties (Note 10)	1,160	-	
Utilities	15,584	19,020	
Maintenance and repairs	7,214	8,903	
Cleaning supplies	4,782	6,309	
Transport	3,083	4,691	
Small-wares	1,596	2,859	
Telephone and postage	650	704	
Insurance	554	622	
Net (gain)/loss on disposal of property, plant and equipment	47	(1)	
Miscellaneous expenses and income, net	2,677	1,394	
<b>Total</b>	<b>74,230</b>	<b>67,871</b>	

**6 GENERAL AND ADMINISTRATION EXPENSES, NET**

	<b>Nine-month period ended</b>	<b>30 September</b>	<b>30 September</b>
	<b>2020</b>	<b>2019</b>	
Payroll and employee benefits	21,972	25,727	
Third-party services	4,702	7,043	
Depreciation and amortization	3,391	3,199	
Rent	86	262	
Banking charges	2,090	2,276	
Transport	760	1,891	
Maintenance and repairs	213	211	
Small-wares	53	201	
Insurance	398	467	
Advertising	536	196	
Telephone and postage	195	284	
Miscellaneous expenses and income, net	630	527	
<b>Total</b>	<b>35,025</b>	<b>42,285</b>	

## 7 DEPRECIATION AND AMORTIZATION

	Nine-month period ended 30 September 2020	30 September 2019
Depreciation and amortization of right-of-use assets, recognized in "Restaurant expenses"	36,940	31,532
Depreciation, amortization and impairment of property, plant and equipment and intangible assets, recognized in "Restaurant expenses"	26,470	20,530
<b>Depreciation, amortization and impairment recognized in "Restaurant expenses"</b>	<b>63,410</b>	<b>52,062</b>
Depreciation and amortization of right-of-use assets recognized in "General and administration expenses, net"	2,360	2,072
Depreciation, amortization and impairment of property, plant and equipment and intangible assets recognized in "General and administration expenses, net"	1,030	1,128
<b>Depreciation, amortization and impairment recognized in "General and administration expenses, net"</b>	<b>3,391</b>	<b>3,200</b>
<b>Total depreciation and amortization</b>	<b>66,801</b>	<b>55,261</b>

## 8 FINANCE COSTS

	Nine-month period ended 30 September 2020	30 September 2019
Interest on loans and borrowings	3,709	3,382
Interest expense on lease liabilities	6,643	5,489
Interest cost on benefit obligation	7	-
Foreign exchange loss, net	3,593	4,056
<b>Total finance costs</b>	<b>13,953</b>	<b>12,926</b>

## 9 ISSUED CAPITAL

	30 September 2020	31 December 2019
<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 30 September 2020 and 31 December 2019, respectively are: Tatika Investments Ltd. (27.3300%), Computerland Romania SRL (21.4347%), Wellkept Group SA (16.3400%), Lunic Franchising and Consulting LTD (10.9900%) and free float (23.9053%).

At the Ordinary General Shareholders Meeting held on 02 March 2020, the shareholders of Sphera Franchise Group SA approved the distribution of the net profit remained undistributed related to 2018 financial year, respectively of the amount of 13,679.

## 10 EBITDA

	Nine-month period ended	
	30 September 2020	30 September 2019
<b>Operating profit/(loss)</b>	<b>3,292</b>	<b>47,207</b>
Depreciation, amortization and impairment included in restaurant expenses	63,410	52,062
Depreciation, amortization and impairment included in general and administration expenses	3,391	3,199
<b>EBITDA</b>	<b>70,092</b>	<b>102,468</b>
Non-recurring expenses	1,160	-
<b>Normalised EBITDA</b>	<b>71,253</b>	<b>102,468</b>

For the nine-month period ended 30 September 2020, EBITDA was normalized to exclude the accrued penalties due to Pizza Hut Europe (Master Franchisor - YUM!) for the restaurants committed to be opened in 2019 and postponed for the future periods (Note 5).

## 11 RELATED PARTY DISCLOSURES

During the nine-month period ended 30 September 2020 and 30 September 2019 respectively, the Group 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>
Moulin D'Or SRL	Entity affiliated to shareholders of the parent	Romania	Sale of goods and services
Midi Development SRL	Entity with common members of key management personnel	Romania	Services
Grand Plaza Hotel SA	Entity affiliated to a shareholder of the parent	Romania	Rent and utilities store PH Dorobanti
Arggo Software Development and Consulting SRL	Entity affiliated to a shareholder of the parent	Romania	Implementation services, IT services
Lunic Franchising and Consulting LTD	Shareholder (since November 2019)	Cyprus	Payment of dividends
Wellkept Group SA	Shareholder	Romania	Rent training center and payment of dividends
Tatika Investments Ltd.	Shareholder	Cyprus	Payment of dividends
Computerland Romania SRL	Shareholder	Romania	Payment of dividends
Cinnamon Bake&Roll SRL	Entity with common members of key management personnel	Romania	Sale of goods and services, loans provided
Lucian Vlad	Beneficial owner of Lunic Franchising and Consulting Ltd.	Romania	Rent store KFC Mosilor
Radu Dimofte	Beneficial owner of Wellkept Group SA	Romania	Rent store KFC Mosilor
Elicom SRL	Entity affiliated to a shareholder of the parent	Romania	Call-centre services
Elicom Connect SRL	Entity affiliated to a shareholder of the parent	Romania	Marketing services

<b>Related party</b>	<b>Nature of the relationship</b>	<b>Country of incorporation</b>	<b>Nature of transactions</b>
Dorobanti 239 Imobiliare SRL	Entity affiliated to a shareholder of the parent	Romania	Rent and utilities for restaurant and administrative area
Baneasa Developments SRL	Entity affiliated to a shareholder of the parent	Romania	Restaurant rent
Baneasa Investments SA	Entity affiliated to a shareholder of the parent	Romania	Restaurant rent

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

	Transactions during the nine-month period ended 30 September 2020		Balances as at 30 September 2020	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL	-	7	698	10
Moulin D'Or SRL	163	39	194	2
Lucian Vlad	-	163	-	-
Radu Dimofte	-	68	-	-
Wellkept Group SA	-	207	-	108
Midi Development SRL	9	-	-	-
Grand Plaza Hotel SA	-	446	66	77
Arggo Software Development and Consulting SRL	-	717	-	71
Elicom SRL	-	850	-	113
Elicom Connect SRL	-	8	-	2
Dorobanti 239 Imobiliare SRL	-	1,917	-	36
Baneasa Developments SRL	-	2,217	-	119
Baneasa Investments SA	-	305	128	56
	<b>172</b>	<b>6,944</b>	<b>1,086</b>	<b>594</b>

	Transactions during the nine-month period ended 30 September 2019		Balances as at 31 December 2019	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL	8	4	974	2
Moulin D'Or SRL	856	29	753	2
Lucian Vlad	-	221	-	-
Radu Dimofte	-	91	-	-
Wellkept Group SA	-	349	-	2
Midi Development SRL	12	3	-	-
Grand Plaza Hotel SA	-	790	-	16
Arggo Software Development and Consulting SRL	-	229	-	13
Elicom SRL	-	863	-	165
Elicom Connect SRL	-	8	-	1
Dorobanti 239 Imobiliare SRL	-	2,417	-	18
Baneasa Developments SRL	-	3,107	-	63
Baneasa Investments SA	-	413	128	-
	<b>876</b>	<b>8,524</b>	<b>1,855</b>	<b>282</b>

The Group has granted a loan to Cinnamon Bake&Roll SRL. The loan balance as at 30 September 2020 was of 639 (31 December 2019: 734) and the interest accrual as at 30 September 2020 was of 59 (31 December 2019: 51).

#### **Terms and conditions of transactions with related parties**

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the period end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the nine months periods ended 30 September 2020 and for similar period of the year 2019, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

#### **Compensation of key management personnel of the Group:**

	Nine months ended	
	30 September 2020	30 September 2019
Short-term employee benefits	6,573	7,856
<b>Total compensation paid to key management personnel</b>	<b>6,573</b>	<b>7,856</b>

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

## 12 SEGMENT INFORMATION

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

- KFC restaurants
- Pizza Hut restaurants
- Taco Bell restaurants

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

The Group's service revenues in amount of 166 (2019: 636) resulting from the contracts signed with other related parties are presented in the "Other" category. The parent-company's revenues from services rendered to its subsidiaries are presented in the "Inter-segment revenues" line and eliminated during consolidation.

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

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



Nine-month period ended 30 September 2020		KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers		429,222	52,423	20,633	167	-	502,445
Inter-segment revenues					17,327	(17,327)	-
Operating expenses		410,864	62,759	22,191	20,594	(17,254)	499,154
<b>Segment operating profit/(loss)</b>		<b>18,354</b>	<b>(10,336)</b>	<b>(1,558)</b>	<b>(3,100)</b>	<b>(73)</b>	<b>3,292</b>
Finance costs		11,526	1,969	1,574	1,360	(2,476)	13,953
Finance income		1,162	17	-	1,479	(2,476)	182
Income taxes		(737)	559	108	288	-	218
<b>Net profit/(loss)</b>		<b>8,731</b>	<b>(12,847)</b>	<b>(3,240)</b>	<b>(3,269)</b>	<b>(73)</b>	<b>(10,698)</b>
<b>Total assets</b>		<b>534,085</b>	<b>65,433</b>	<b>35,024</b>	<b>74,254</b>	<b>(53,738)</b>	<b>655,058</b>
<b>Total liabilities</b>		<b>430,395</b>	<b>72,756</b>	<b>45,559</b>	<b>58,248</b>	<b>(99,753)</b>	<b>507,205</b>
Nine-month period ended 30 September 2019		KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers		575,018	95,584	22,844	871	-	694,317
Inter-segment Revenues					21,500	(21,500)	-
Dividend revenues		-			51,239	(51,239)	-
Operating expenses		521,128	98,371	23,120	25,908	(21,418)	647,110
<b>Segment operating profit</b>		<b>53,890</b>	<b>(2,787)</b>	<b>(276)</b>	<b>47,702</b>	<b>(51,321)</b>	<b>47,207</b>
Finance costs		9,885	2,408	1,187	1,418	(1,971)	12,926
Finance income		702	7	-	1,383	(1,971)	121
Income taxes		1,272	1,180	213	(95)	-	2,570
<b>Net profit/(loss)</b>		<b>43,435</b>	<b>(6,367)</b>	<b>(1,676)</b>	<b>47,762</b>	<b>(51,321)</b>	<b>31,831</b>
<b>Total assets</b>		<b>448,544</b>	<b>68,241</b>	<b>29,027</b>	<b>139,040</b>	<b>(79,376)</b>	<b>605,475</b>
<b>Total liabilities</b>		<b>390,743</b>	<b>81,080</b>	<b>35,359</b>	<b>69,928</b>	<b>(121,522)</b>	<b>455,589</b>
<b>Total assets</b>		<b>459,009</b>	<b>67,672</b>	<b>38,923</b>	<b>108,256</b>	<b>(53,631)</b>	<b>620,229</b>
<b>Total liabilities</b>		<b>363,911</b>	<b>82,148</b>	<b>46,219</b>	<b>54,907</b>	<b>(99,207)</b>	<b>447,978</b>

**Geographic information:**

<b>Revenue from external customers</b>	<b>Nine-month period ended</b>	
	<b>30 September 2020</b>	<b>30 September 2019</b>
Romania	439,847	617,135
Italy	56,873	68,968
Republic of Moldova	5,725	8,214
<b>Total restaurant revenue</b>	<b>502,445</b>	<b>694,317</b>

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

Bucharest, 12 November 2020

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes