



# Sphera Franchise Group

## Preliminary Financial Results for 2020

26.02.2021

26.02.2021



**2020 Preliminary Financial Results**

For Financial Period	01.01.2020 – 31.12.2020
Report Date	26.02.2021
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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 preliminary condensed consolidated financial statements presented below are prepared in accordance with International Financial Reporting Standards, as adopted by European Union ("IFRS").

The preliminary condensed consolidated financial statements as of December 31<sup>st</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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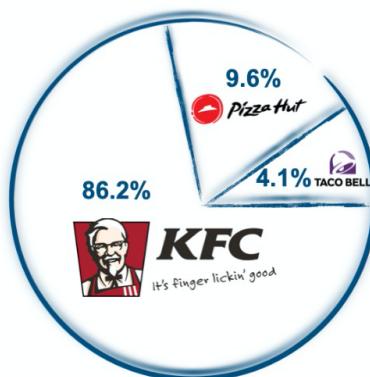
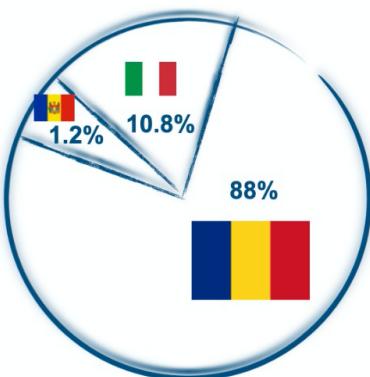
## 1. Financial Results Highlights



### Restaurant Sales



### Contribution to sales in 2020



By market

By brand

By quarter

**Q4 2020 - a strong quarter in a challenging context**

5.3%

turnover increase QOQ

RON 15.6 mn

normalized EBITDA  
in Q4 2020

RON 2.4 mn

net profit in Q4 2020

**Continuous development of the Group throughout 2020**

9

new restaurants opened  
by the Group in 2020

25.3%

orders for delivery in 2020  
compared with 5.9% in 2019

-20.3%

reduction in restaurant expenses  
compared with 2019

## 2. Preliminary 2020 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 preliminary condensed consolidated financial statements of Sphera, please refer to the Preliminary Condensed Consolidated Financial Statements.

2020 was a challenging year for the HoReCa sector across the world, yet the results from Q4 2020 show signs of continued recovery. Despite the ongoing challenges brought by the COVID-19 pandemic and restrictions on indoor dining, Sphera Franchised Group recorded RON 208.4 million turnover in Q4 2020, seeing a 5.3% increase QOQ. The Group managed to improve the sales even in the context of more prevalent restrictions on indoor dining as well as colder months that made outdoor dining challenging for the customers. The strong performance in Q4 2020 helped offset the negative effect of weak first half of the year. Consequently, the Group closed 2020 with consolidated sales for a full year of RON 710.8 million, a decrease of 25.6% compared to the performance in 2019. The result is well-above the revised estimate, as communicated in the current report published on October 22<sup>nd</sup>, 2020 and is determined by right business decisions that helped maximize the sales of the Group in the second half of the year. Other income of RON 0.7 million represents the state aid received by the Italian subsidiary for the turnover reduction due to the COVID-19 business disruption.

The restaurant expenses decreased 20.3% year-on-year, with most significant declines registered on food and material (-27.2%, representing RON 86.7 million), payroll and employee benefits (-30.4%, representing RON 65.6 million), advertising (-33.1%, representing RON 16.3 million), royalties (-26.3%, representing RON 14.8 million) and rent (-13.7%, representing RON 9.3 million). On the other hand, other operating expenses grew 17.3% in 2020, reaching RON 110 million, driven by the higher share of aggregator commissions as these grew 1,136% in 2020, reaching a total of RON 26.7 million. The increase in depreciation and amortization costs by 28.8% was the result of opening 9 new restaurants in 2020.

The Group ended 2020 with restaurant operating profit of RON 49.3 million, 60.4% lower than the year before. G&A expenses amounted to RON 50.9 million in 2020, an increase of 0.8% compared to 2019. However, for like for like comparison, excluding the normalized items for both FY 2019 and FY 2020, the G&A expenses are lower by 20.5% (RON 12 million). The Group ended 2020 with a normalized EBITDA of RON 44.1 million, operating loss of RON 1.6 million and a loss for the period of RON 2.3 million.

### Summary of FY Preliminary Condensed Consolidated Financial Statements (results excluding IFRS 16 Impact):

Data in RON'000	12M-20	12M-19	Y/Y % 2020/2019	% of Sales		
				2020	2019	Δ%
<b>Restaurant sales</b>	<b>710,797</b>	<b>954,728</b>	<b>-25.6%</b>			
<b>Other income</b>	<b>726</b>	<b>0</b>				
<b>Restaurant expenses</b>	<b>662,245</b>	<b>830,448</b>	<b>-20.3%</b>	<b>93.2%</b>	<b>87.0%</b>	<b>6.2%</b>
Food and material	232,338	319,059	-27.2%	32.7%	33.4%	-0.7%
Payroll and employee benefits	150,124	215,739	-30.4%	21.1%	22.6%	-1.5%
Rent	58,593	67,867	-13.7%	8.2%	7.1%	1.1%
Royalties	41,274	56,029	-26.3%	5.8%	5.9%	-0.1%
Advertising	33,033	49,359	-33.1%	4.6%	5.2%	-0.6%
Other operating expenses, net	110,004	93,755	17.3%	15.5%	9.8%	5.7%
Depreciation and amortization	36,879	28,640	28.8%	5.2%	3.0%	2.2%
<b>Restaurant operating profit</b>	<b>49,277</b>	<b>124,281</b>	<b>-60.4%</b>	<b>6.9%</b>	<b>13.0%</b>	<b>-6.1%</b>
General & Admin expenses, net	50,899	50,519	0.8%	7.2%	5.3%	1.9%
<b>Operating Profit/(Loss)</b>	<b>(1,621)</b>	<b>73,761</b>	<b>-102.2%</b>	<b>-0.2%</b>	<b>7.7%</b>	<b>-7.9%</b>
Finance costs	5,208	5,980	-12.9%	0.7%	0.6%	0.1%
Finance income	237	166	43.2%	0.0%	0.0%	0%
<b>Profit/(Loss) before tax</b>	<b>(6,593)</b>	<b>67,946</b>	<b>-109.7%</b>	<b>-0.9%</b>	<b>7.1%</b>	<b>-8.0%</b>
Income tax expense/(credit)	(4,283)	3,779	-213.3%	-0.6%	0.4%	-1.0%
<b>Profit/(Loss) for the year</b>	<b>(2,309)</b>	<b>64,167</b>	<b>-103.6%</b>	<b>-0.3%</b>	<b>6.7%</b>	<b>-7.0%</b>
<b>EBITDA</b>	<b>36,912</b>	<b>103,926</b>	<b>-64.5%</b>	<b>5.2%</b>	<b>10.9%</b>	<b>-5.7%</b>
<b>Normalized EBITDA*</b>	<b>44,094</b>	<b>95,989</b>	<b>-54.1%</b>	<b>6.2%</b>	<b>10.1%</b>	<b>-3.9%</b>

(\*) For the year ended 31 December 2020, EBITDA was normalized to exclude the following expenses: impairment loss of goodwill (4,420), 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 (1,528) and costs related to the Italian subsidiary development agreement terminated in 2020

(1,234). For the year ended 31 December 2019, EBITDA was normalized to exclude the following expenses: release of tax provision (10,343) and impairment loss of goodwill (2,406).

### Summary of FY Preliminary Condensed Consolidated Financial Statements– results and evolution presented with and without IFRS 16 impact

Data in RON'000	2020	2020	2019	2019	Change (%)	
	(1)	(2)	(1)	(2)	2020/2019 (1)	2020/2019 (2)
<b>Restaurant sales</b>	<b>710,797</b>	<b>710,797</b>	<b>954,728</b>	<b>954,728</b>	<b>-25.6%</b>	<b>-25.6%</b>
<b>Other income</b>	<b>726</b>	<b>726</b>	<b>-</b>	<b>-</b>		
<b>Restaurant expenses</b>	<b>657,311</b>	<b>662,245</b>	<b>828,332</b>	<b>830,448</b>	<b>-20.6%</b>	<b>-20.3%</b>
Food and material	232,338	232,338	319,059	319,059	-27.2%	-27.2%
Payroll and employee benefits	150,124	150,124	215,739	215,739	-30.4%	-30.4%
Rent	5,293	58,593	22,480	67,867	-76.5%	-13.7%
Royalties	41,274	41,274	56,029	56,029	-26.3%	-26.3%
Advertising	33,033	33,033	49,359	49,359	-33.1%	-33.1%
Other operating expenses, net	109,479	110,004	93,749	93,755	16.8%	17.3%
Depreciation and amortization	85,770	36,879	71,917	28,640	19.3%	28.8%
<b>Restaurant operating Profit / (Loss)</b>	<b>54,212</b>	<b>49,277</b>	<b>126,396</b>	<b>124,281</b>	<b>-57.1%</b>	<b>-60.4%</b>
General & Admin expenses, net	51,134	50,899	50,024	50,519	2.2%	0.8%
<b>Operating Profit/(Loss)</b>	<b>3,078</b>	<b>(1,621)</b>	<b>76,372</b>	<b>73,761</b>	<b>-96%</b>	<b>-102.2%</b>
Finance costs	17,410	5,208	17,538	5,980	-0.7%	-12.9%
Finance income	237	237	166	166	43.2%	43.2%
<b>Profit/(Loss) before tax</b>	<b>(14,095)</b>	<b>(6,593)</b>	<b>59,000</b>	<b>67,946</b>	<b>-123.9%</b>	<b>-109.7%</b>
Income tax expense/(credit)	(4,508)	(4,283)	3,538	3,779	-227.4%	-213.3%
<b>Profit/(Loss) for the period</b>	<b>(9,587)</b>	<b>(2,309)</b>	<b>55,462</b>	<b>64,167</b>	<b>-117.3%</b>	<b>-103.6%</b>
<b>EBITDA</b>	<b>93,816</b>	<b>36,912</b>	<b>152,619</b>	<b>103,926</b>	<b>-38.5%</b>	<b>-64.5%</b>
<b>Normalized EBITDA*</b>	<b>100,998</b>	<b>44,094</b>	<b>144,682</b>	<b>95,989</b>	<b>-30.2%</b>	<b>-54.1%</b>

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

(\*) For the year ended 31 December 2020, EBITDA was normalized to exclude the following expenses: impairment loss of goodwill (4,420), 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 (1,528) and costs related to the Italian subsidiary development agreement terminated in 2020 (1,234). For the year ended 31 December 2019, EBITDA was normalized to exclude the following expenses: release of tax provision (10,343) and impairment loss of goodwill (2,406).

In Q4 2020, the revenues picked up QOQ. As almost all the restaurants across all 3 markets of activity were operational throughout the quarter, the restaurants expenses increased by RON 24.8 million (+14.7%) QOQ. This was primarily caused by a surge in payroll expenses, which increased by 27.1% (RON 9.4 million) QOQ, reaching 21.2% of the total sales (vs 17.5% in Q3 2020) as a result of decrease in the state aid accessed. In Q4 2020, the Group received state aid in the total amount of RON 1.6 million, lower 79.4% QOQ, The Group also succeeded to receive rent discounts in amount of RON 2.9 million, 32.7% lower QOQ.

Other operating expenses increased 26.6% QOQ as a result of 43.3% surge in aggregator fees, which reached RON 10.5 million in Q4 2020. Aggregator fees contributed to 29.5% of other operating fees in Q4 2020. The rest of the expenses in the period grew relatively proportional to the increase in turnover and were comparable to result from the preceding quarter. Similar to evolution in preceding quarter, in Q4 2020 expenses related to depreciation and amortization grew as a result of continued development of the restaurant plan.

The Group ended Q4 with a restaurant operating profit of RON 14.5 million and a net profit of RON 2.4 million – a good result considering that almost all restaurants were operational while the Group registered decrease in state aid and had limited opportunities to renegotiate rent costs.

The G&A costs grew 45.2% QOQ, reaching RON 15.7 million. However, for like-for-like comparison, excluding the normalized items for Q4 2020, the G&A expenses increased QOQ by 4.9% (RON 0.5 million). The Group closed the last quarter of 2020 with a normalized EBITDA of RON 15.6 million (margin of 7.5%) and an operating loss of RON 1.2 million and a profit for the period in the amount of RON 2.4 million. Q4 2020 was therefore the second-best quarter of the year. For comparison, in Q1 2020 the normalized EBITDA margin was 1.8%, in Q2 2020 it was -1.9%, in Q3 2020 it reached 13.6% and in Q4 2020 it reached 7.5%.

**Summary of Preliminary Condensed Consolidated Financial Statements for Q4 (results excluding IFRS 16 Impact):**

Data in RON'000	Q4-20	Q4-19	Y/Y % Q4-20/Q4-19	% of Sales		Δ%
				Q4-20	Q4-19	
<b>Restaurant sales</b>	<b>208,352</b>	<b>260,412</b>	<b>-20.0%</b>			
<b>Other income</b>	<b>726</b>	<b>0</b>				
<b>Restaurant expenses</b>	<b>194,625</b>	<b>224,341</b>	<b>-13.2%</b>	<b>93.4%</b>	<b>86.1%</b>	<b>7.3%</b>
Food and material	67,818	83,638	-18.9%	32.5%	32.1%	0.4%
Payroll and employee benefits	44,114	57,342	-23.1%	21.2%	22.0%	-0.8%
Rent	15,440	18,743	-17.6%	7.4%	7.2%	0.2%
Royalties	11,835	15,249	-22.4%	5.7%	5.9%	-0.2%
Advertising	9,598	15,128	-36.6%	4.6%	5.8%	-1.2%
Other operating expenses. net	35,527	26,130	36.0%	17.1%	10.0%	7.1%
Depreciation and amortization	10,293	8,111	26.9%	4.9%	3.1%	1.8%
<b>Restaurant operating profit</b>	<b>14,453</b>	<b>36,071</b>	<b>-59.9%</b>	<b>6.6%</b>	<b>13.9%</b>	<b>-7.3%</b>
General & Admin expenses. net	15,663	7,875	98.9%	7.5%	3.0%	4.5%
<b>Operating Profit/(Loss)</b>	<b>(1,211)</b>	<b>28,195</b>	<b>-104.3%</b>	<b>-0.9%</b>	<b>10.8%</b>	<b>-11.7%</b>
Finance costs	1,235	1,158	6.6%	0.6%	0.4%	0.2%
Finance income	55	45	22.2%	0.0%	0.0%	0.0%
<b>Profit/(Loss) before tax</b>	<b>(2,391)</b>	<b>27,082</b>	<b>-108.8%</b>	<b>-1.5%</b>	<b>10.4%</b>	<b>-11.9%</b>
Income tax expense/(credit)	(4,794)	1,129	-524.6%	-2.3%	0.4%	-2.7%
<b>Profit/(Loss) for the period</b>	<b>2,403</b>	<b>25,953</b>	<b>-90.7%</b>	<b>0.8%</b>	<b>10.0%</b>	<b>-9.2%</b>
<b>EBITDA</b>	<b>9,602</b>	<b>36,703</b>	<b>-73.8%</b>	<b>4.6%</b>	<b>10.0%</b>	<b>-5.4%</b>
<b>Normalized EBITDA*</b>	<b>15,623</b>	<b>28,766</b>	<b>-45.7%</b>	<b>7.5%</b>	<b>14.1%</b>	<b>-6.6%</b>

(\*)For the year ended 31 December 2020, EBITDA was normalized to exclude the following expenses: impairment loss of goodwill (4,420), 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 (1,528) and costs related to the Italian subsidiary development agreement terminated in 2020 (1,234). For the year ended 31 December 2019, EBITDA was normalized to exclude the following expenses: release of tax provision (10,343) and impairment loss of goodwill (2,406).

At the level individual results, in 2020, USFN Romania (KFC Romania) managed to reach normalized EBITDA margin of 12.5% (vs 13.7% margin in 2019), USFN Moldova (KFC Moldova) had 13.8% EBITDA margin (vs 17.2% in 2019), while CFF (Taco Bell) had 0.75% EBITDA margin (vs 1.6% margin in 2019). USFN Romania and USFN Moldova closed full year 2020 profitable, registering together RON 67.3 million in normalized EBITDA. ARS (Pizza Hut) and USFN Italy (KFC Italy) ended the year with a negative EBITDA.

In Q4 2020, USFN Romania, USFN Moldova as well as CFF registered positive EBITDA. ARS as well as USFN Italy recorded weaker QOQ results – ARS as a result of restrictions on indoor dining, and USFN Italy because of increase in overall restrictions across the country.

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

2020

Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons. Adj.	SFG Cons
<b>Restaurant sales</b>	<b>527,588</b>	<b>68,403</b>	<b>8,678</b>	<b>76,456</b>	<b>29,512</b>	<b>23,823</b>	<b>(23,663)</b>	<b>710,797</b>
<b>Other income</b>	-	-	-	<b>726</b>	-	-	-	<b>726</b>
<b>Restaurant expenses</b>	<b>457,176</b>	<b>76,810</b>	<b>7,576</b>	<b>93,061</b>	<b>29,348</b>	<b>483</b>	<b>(2208)</b>	<b>662,245</b>
Food and material	176,760	18,805	3,481	22,949	10,352	-	(8)	232,338
Payroll and employee benefits	99,501	19,178	1,513	23,858	6,074	-	-	150,124
Rent	41,450	6,821	386	7,497	2,440	-	-	58,593
Royalties	31,041	3,919	522	4,560	1,232	-	-	41,274
Advertising	23,418	4,631	341	4,825	1,506	483	(2,171)	33,033
Other operating expenses	65,797	17,009	991	20,815	5,419	-	(28)	110,004
Depreciation	19,207	6,447	343	8,558	2,324	-	-	36,879
<b>Restaurant operating profit/(loss)</b>	<b>70,412</b>	<b>(8,408)</b>	<b>1,102</b>	<b>(15,879)</b>	<b>164</b>	<b>108,564</b>	<b>(106,678)</b>	<b>49,277</b>
G&A expenses	33,598	6,321	283	7,874	2,339	42,468	(41,985)	50,899
<b>Operating profit/(loss)</b>	<b>36,815</b>	<b>(14,729)</b>	<b>818</b>	<b>(23,753)</b>	<b>(2,175)</b>	<b>66,096</b>	<b>(64,693)</b>	<b>(1,621)</b>
Finance costs	3,485	997	166	2,889	1,490	1,639	(5,458)	5,208
Finance income	3,701	25	-	1	-	1,968	(5,458)	237
<b>Profit/(Loss) before tax</b>	<b>37,030</b>	<b>(15,701)</b>	<b>652</b>	<b>(26,641)</b>	<b>(3,665)</b>	<b>66,425</b>	<b>(64,693)</b>	<b>(6,593)</b>
Income tax expense/(credit)	2,100	663	72	(7,165)	129	(83)	-	(4,283)
<b>Profit/(Loss) for the period</b>	<b>34,930</b>	<b>(16,364)</b>	<b>580</b>	<b>(19,476)</b>	<b>(3,795)</b>	<b>66,508</b>	<b>(64,693)</b>	<b>(2,309)</b>
<b>EBITDA</b>	<b>56,708</b>	<b>(8,105)</b>	<b>1,199</b>	<b>(15,171)</b>	<b>221</b>	<b>66,753</b>	<b>(64,693)</b>	<b>36,912</b>
<b>Normalized EBITDA</b>	<b>66,144</b>	<b>(6,577)</b>	<b>1,199</b>	<b>(13,937)</b>	<b>221</b>	<b>82,379</b>	<b>(85,336)</b>	<b>44,094</b>

At the level of G&A expenses, throughout the year, the Group managed to make the most considerable cost-savings on payroll and employee benefits (decrease in costs of RON 6.2 million compared to 2019), followed by third-party services (decrease of RON 3 million) and transport (decrease of RON 1.7 million). Other expenses increased by 136.1%, reaching RON 2.6 million, the increase in mainly due to one-offs registered as follows: in FY2019, RON -10.3 million reversal of tax provision. Excluding the effect of one-offs (normalization), other expenses decreased with RON 0.4 million.

	Data in RON '000						Percentage of sale			
	2020	2020	2019	2019	Change (%) 2020/ 2019 (1)	2020/ 2019 (2)	2020	2020	2019	2019
	(1)	(2)	(1)	(2)			(1)	(2)	(1)	(2)
<b>General and administration (G&amp;A) expenses, net</b>	<b>51,134</b>	<b>50,899</b>	<b>50,024</b>	<b>50,519</b>	<b>2.2%</b>	<b>0.8%</b>	<b>7.2%</b>	<b>7.2%</b>	<b>5.2%</b>	<b>5.3%</b>
Payroll and employee benefits	28,955	28,955	35,183	35,183	-17.7%	-17.7%				
Third-party services	6,035	6,035	9,009	9,009	-33%	-33%				
Impairment of goodwill	4,420	4,420	2,406	2,406	83.7%	83.7%				
Depreciation and amortization	4,968	1,655	4,330	1,525	14.7%	8.5%				
Rent	394	3,472	386	3,688	2.1%	-5.9%				
Banking charges	2,810	2,810	3,384	3,384	-17.0%	-17.0%				
Transport	929	929	2,591	2,591	-64.1%	-64.1%				
Other*	2,622	2,622	(7,265)	(7,265)	136.1%	136.1%				

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, other provisions (tax provision), and miscellaneous expenses.

Throughout the second half of the year, the Group registered a gradual, month by month, increase in sales on all three markets of activity. The performance in Q4 2020 improved QOQ in Romania as well as in Republic of Moldova but registered a decline in Italy where the sales shrank by RON 6.6 million compared to previous quarter, and RON 21.9 million y-o-y. Y-o-y, sales in Romania decreased by 26%, from RON 845 million in 2019 to RON 625.5 million in 2020, in Italy by 22.3%, to RON 76.5 million and by 23.4% in the Republic of Moldova, reaching RON 8.7 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	Q4-20	Q4-19	Y/Y Q4	2020	2019	Change 2020/2019
<b>Sales by region</b>															
Romania	176,764	194,780	-9.2%	93,821	206,180	-54.5%	169,260	216,175	-21.7%	185,816	227,836	-18.4%	<b>625,663</b>	<b>844,970</b>	-26%
Italy	19,205	17,203	11.6%	11,435	21,993	-48.0%	26,232	29,772	-11.9%	19,584	29,463	-33.5%	<b>76,456</b>	<b>98,430</b>	-22.3%
Rep. Moldova	2,345	2,742	-14.5%	1,009	2,669	-62.2%	2,371	2,803	-15.4%	2,953	3,114	-5.2%	<b>8,678</b>	<b>11,328</b>	-23.4%
<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>208,352</b>	<b>260,412</b>	<b>-20%</b>	<b>710,797</b>	<b>954,728</b>	<b>-25.6%</b>

In Q4 2020, same stores sales across Sphera brands declined 26.1% y-o-y, but improved QOQ. All store performance recorded 20% y-o-y decline in the last quarter of the year. However, results in the second half of 2020 were visibly better, as all store performance in H2 improved with 10pp, compared to H1 2020 y-o-y. The new locations opened for KFC Romania, KFC Italy and Taco Bell in Romania and their solid performance in H2 2020 helped recover part of the revenues lost. Subsequently, the Group closed 2020 with all store sales decline of 25.6% across all brands, improved by 2.1pp compared to the 9M result. Same stores performance in 2020 dropped 31.7% y-o-y.

		Y/Y Q1-20	Y/Y Q2-20	Y/Y Q3-20	Y/Y Q4-20	Y/Y 1H-20	Y/Y 2H-20	Y/Y FY 20
<b>USFN</b>	<b>All Stores</b>	<b>-9.9%</b>	<b>-51.6%</b>	<b>-17.1%</b>	<b>-11.5%</b>	<b>-31.4%</b>	<b>-14.2%</b>	<b>-22.4%</b>
	<b>o/w Same Stores</b>	<b>-14.7%</b>	<b>-53.5%</b>	<b>-23.6%</b>	<b>-17.3%</b>	<b>-34.6%</b>	<b>-20.4%</b>	<b>-27.2%</b>
<b>ARS</b>	<b>All Stores</b>	<b>-15.8%</b>	<b>-68.8%</b>	<b>-51.4%</b>	<b>-55.8%</b>	<b>-42.0%</b>	<b>-53.7%</b>	<b>-48.1%</b>
	<b>o/w Same Stores</b>	<b>-15.8%</b>	<b>-68.8%</b>	<b>-51.4%</b>	<b>-55.8%</b>	<b>-42.0%</b>	<b>-53.7%</b>	<b>-48.1%</b>
<b>CFF</b>	<b>All Stores</b>	<b>46.0%</b>	<b>-55.9%</b>	<b>-3.0%</b>	<b>-9.2%</b>	<b>-14.0%</b>	<b>-6.3%</b>	<b>-9.5%</b>
	<b>o/w Same Stores</b>	<b>-10.3%</b>	<b>-64.4%</b>	<b>-24.1%</b>	<b>-22.9%</b>	<b>-38.8%</b>	<b>-23.5%</b>	<b>-30.4%</b>
<b>USFN IT</b>	<b>All Stores</b>	<b>11.4%</b>	<b>-48.1%</b>	<b>-11.7%</b>	<b>-33.5%</b>	<b>-22.0%</b>	<b>-22.5%</b>	<b>-22.3%</b>
	<b>o/w Same Stores</b>	<b>-29.5%</b>	<b>-64.5%</b>	<b>-27.0%</b>	<b>-52.7%</b>	<b>-47.2%</b>	<b>-39.7%</b>	<b>-43.1%</b>
<b>USFN MD</b>	<b>All Stores</b>	<b>-14.4%</b>	<b>-62.1%</b>	<b>-15.4%</b>	<b>-5.3%</b>	<b>-37.9%</b>	<b>-10.1%</b>	<b>-23.4%</b>
	<b>o/w Same Stores</b>	<b>-14.4%</b>	<b>-62.1%</b>	<b>-15.4%</b>	<b>-5.3%</b>	<b>-37.9%</b>	<b>-10.1%</b>	<b>-23.4%</b>
<b>TOTAL</b>	<b>All Stores</b>	<b>-7.7%</b>	<b>-54.0%</b>	<b>-20.4%</b>	<b>-20.0%</b>	<b>-31.7%</b>	<b>-20.2%</b>	<b>-25.6%</b>
	<b>o/w Same Stores</b>	<b>-16.0%</b>	<b>-57.0%</b>	<b>-27.6%</b>	<b>-26.1%</b>	<b>-36.9%</b>	<b>-26.9%</b>	<b>-31.7%</b>

Sales through own delivery channels as well as delivery through food aggregating platforms increased QOQ across all brands in Q4 2020 as 31% of all orders on the 3 markets of activity were made for delivery. The increase in orders for delivery was dictated by colder weather and the lack of indoor dining option in majority of restaurants because of COVID-19 restrictions and the expansion of the delivery options.

In 2020, the group significantly increased the share of orders for delivery compared to previous year. For USFN Romania, the share increased from 3% in 2019, to 23%, for ARS it doubled, going from 25%, to 50% in 2020 and for CFF it surged from 2% to 37% in 2020. USFN Moldova had insignificant sales in 2019 on delivery channel, yet in 2020 the share of delivery order reached 26%. USFN Italy had insignificant (below 0.5%) number of deliveries in 2019; in 2020, the delivery orders reached 14%.

<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>	<b>Q4-20</b>
USFN RO	delivery	3%	3%	3%	4%	6%	44%	23%	28%
	non-delivery	97%	97%	97%	96%	94%	56%	77%	72%
ARS	delivery	23%	27%	27%	29%	33%	68%	53%	63%
	non-delivery	77%	73%	73%	71%	67%	32%	47%	37%
CFF	delivery	0%	0%	0%	5%	11%	81%	40%	42%
	non-delivery	100%	100%	100%	95%	89%	19%	60%	58%
USFN IT	delivery	1%	0%	0%	0%	0%	32%	11%	23%
	non-delivery	99%	100%	100%	100%	100%	68%	89%	77%
USFN MD	delivery	0%	0%	0%	10%	15%	60%	23%	25%
	non-delivery	100%	100%	100%	90%	85%	40%	77%	75%
All	delivery	6%	6%	6%	7%	9%	47%	24%	31%
	non-delivery	94%	94%	94%	93%	91%	53%	76%	69%

The increase in sales through food aggregators can be seen in the financial statements under “Restaurant expenses, other operating expenses”. In 2020, the fees due to the aggregators grew 1,136%, reaching a total of RON 26.7 million. The highest increase in the fees due to third-party platform was registered by USFN Romania (+1,883% compared to 2019), followed by CFF (+507%), ARS (+226%), USFN Moldova (+145%).

## MAIN FINANCIAL RATIOS

The main financial ratios of Sphera Franchise Group (consolidated result) as of December 31<sup>st</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>FY 2020(1)</b>	<b>FY 2020(2)</b>	<b>FY 2019(1)</b>
<b>Current ratio</b>			
Current assets	<u>153,654</u>	<u>156,779</u>	<u>112,082</u>
Current liabilities	<u>230,230</u>	<u>190,120</u>	<u>182,381</u>
= 0.67      = 0.82      = 0.61			
<b>Debt to Equity ratio</b>			
Interest-bearing debt (long term)	<u>280,741</u>	<u>150,833</u>	<u>263,690</u>
Equity	<u>149,144</u>	<u>161,903</u>	<u>172,251</u>
= 188%      = 93%      = 153%			
Interest-bearing debt (long term)	<u>280,741</u>	<u>150,833</u>	<u>263,690</u>
Capital employed	<u>429,886</u>	<u>312,736</u>	<u>435,941</u>
= 65%      = 48%      = 60%			
<b>Trade receivables turnover (days)</b>			
Average receivables	<u>28,910</u>	<u>28,910</u>	<u>27,867</u>
Sales	<u>711,523</u>	<u>711,523</u>	<u>954,728</u>
= 14.6      = 14.6      = 10.5			
<b>Fixed asset turnover</b>			
Sales	<u>711,523</u>	<u>711,523</u>	<u>954,728</u>
Net fixed assets	<u>490,121</u>	<u>263,642</u>	<u>493,371</u>
= 1.45      = 2.7      = 1.94			

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

### 3. Significant events in Q4 2020

In Q4 2020, approximately all of the Group's stores were open, serving the clients primarily through delivery or takeaway. In this period, when instore consumption was limited because of the cold weather, the Group continued to focus on the extension of delivery services, „menu engineering” to fit the market conditions, redesigning client and production flows, analysis and improvement of cost and cost structures to maximize the performance. Similar to the previous quarter, the Group continued to implement the plan for opening new restaurants as well as identifying new locations for future developments.

#### RESTAURANT DEVELOPMENT

In 2020, the net number of stores increased by 3, reaching 158 restaurants on December 31<sup>st</sup>, 2020. Out of 158 stores, 138 were based in Romania, 18 in Italy and 2 in Republic of Moldova.

In the course of 2020, the Group 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. At the same time, 6 stores in Romania identified as non-viable 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 net new stores in Romania. Out of that amount, 4 net new stores were already inaugurated by the Group in 2020. Therefore, USFN has 6 more net 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.

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 net new restaurants being opened. For each new net restaurant that exceeds the number of 5 net new restaurants, CFF will benefit of additional financial incentives.

Negotiations regarding Pizza Hut development plan are ongoing.

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

As of 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 G&A payroll expenses, 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

All the financing facilities accessed throughout first 9 months of 2020 to ensure working capital were still applicable throughout Q4 2020. 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 6 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 December 31<sup>st</sup>, 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. At the current moment, the Group is analyzing the impact of the recently published Emergency Ordinance no.10/24.02.2021 in order to determine 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.

### **MANAGEMENT & BOARD OF DIRECTORS 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.

On November 25th, 2020, the Group held the EGSM during which the shareholders approved reduction of the number of the Board Members of the Company, from 7 to 5 members.

### **DIGITALIZATION**

At the end of September 2020, 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.

During Q4 the company tested the innovative ordering solution through touchless kiosks, this being part of our strategy of adapting to the new socio-sanitary system, in the context of the safety measures imposed at national level by the authorities, as well as additional measures taken at business level, including: multiple disinfection of work surfaces in the kitchen and throughout the location, equipping employees with masks and protective gloves, keeping social distance, encouraging contactless payment, placing disinfectant containers in restaurants.

At the end of Q4, the Group finished the implementation of new ERP system: Business Central, powered by Microsoft. Starting with January 2021, all the Group financial operations run under the new system. Together with the new ERP, the company has implemented BPM (Business Process Management) tool natively integrated with Business Central, which incorporates OCR (Optical Character Recognition) and machine learning capabilities.

## 4. Declaration of the Management

We confirm to the best of our knowledge that the unaudited preliminary condensed consolidated financial statements for the 2020, ended 31 December 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 in financial year 2020 and their impact on the preliminary condensed consolidated financial statements.

Bucharest, February 26, 2021

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes

## **Preliminary Condensed Consolidated Financial Statements for the year ended 31 December 2020 (unaudited)**

The consolidated financial information included in this Preliminary Financial Report is based on the Sphera Franchise Group SA unaudited IFRS preliminary condensed consolidated financial statements for the year ended 31 December 2020.

**SPHERA FRANCHISE GROUP SA**

**PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR  
ENDED 31 DECEMBER 2020 ((UNAUDITED))**

*All amounts in RON thousand, unless specified otherwise*

**PRELIMINARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED  
31 DECEMBER 2020 (UNAUDITED)**

	<b>Note</b>	<b>2020</b>	<b>2019</b>
Restaurant sales		710,797	954,728
Other restaurant income*		726	-
 Restaurant expenses			
Food and material expenses		232,338	319,059
Payroll and employee benefits	4	150,124	215,739
Rent		5,293	22,480
Royalties		41,274	56,029
Advertising		33,033	49,359
Other operating expenses, net	5	109,479	93,750
Depreciation, amortization and impairment of non-current assets		85,770	71,917
 <b>Restaurant operating profit</b>		<b>54,212</b>	<b>126,395</b>
General and administration expenses, net	6	51,134	50,023
 <b>Operating profit</b>		<b>3,078</b>	<b>76,372</b>
 Finance costs		17,410	17,538
Finance income		237	166
 <b>Profit/(Loss) before tax</b>		<b>(14,095)</b>	<b>59,000</b>
Income tax expense/(credit)		(4,508)	3,538
 <b>Profit/(Loss) for the period</b>		<b>(9,587)</b>	<b>55,462</b>
 <b>Attributable to:</b>			
Equity holders of the parent		(9,666)	55,226
Non-controlling interests		79	236
 <b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Remeasurement loss on defined benefit plan		262	(1,178)
Exchange differences on translation of foreign operations		(103)	(197)
 <b>Total comprehensive income for the period, net of tax</b>		<b>(9,428)</b>	<b>54,087</b>
 <b>Attributable to:</b>			
Equity holders of the parent		(9,479)	53,863
Non-controlling interests		51	224

\*Other restaurant income refers to the state aid received by the Italian subsidiary for the reduction of turnover due to the Covid-19 business disruption.

**SPHERA FRANCHISE GROUP SA**

**PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR  
ENDED 31 DECEMBER 2020 ((UNAUDITED))**

*All amounts in RON thousand, unless specified otherwise*

**PRELIMINARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020  
(UNAUDITED)**

	<b>Note</b>	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Assets</b>			
<b>Non-current assets</b>		<b>511,170</b>	<b>508,147</b>
Property and equipment		200,645	199,415
Right-of-use assets		228,494	229,121
Intangible assets		60,983	64,835
Trade and other receivables		402	-
Deposits for rent guarantee		7,017	8,416
Deferred tax assets		13,629	6,360
<b>Current assets</b>		<b>153,654</b>	<b>112,082</b>
Inventories		11,099	11,632
Trade and other receivables		18,530	39,289
Prepayments		2,112	3,889
Cash and short-term deposits		121,913	57,272
<b>Total assets</b>		<b>664,824</b>	<b>620,229</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Issued capital	7	581,990	581,990
Share premium		(519,998)	(519,998)
Other reserves		(917)	(1,178)
Retained earnings		88,057	111,402
Foreign currency translation reserve		(240)	(166)
<b>Equity attributable to equity holders of the parent</b>		<b>148,892</b>	<b>172,050</b>
Non-controlling interests		253	201
<b>Total equity</b>		<b>149,144</b>	<b>172,251</b>
<b>Non-current liabilities</b>		<b>285,450</b>	<b>265,596</b>
Interest-bearing loans and borrowings		83,859	73,617
Lease liabilities		196,883	190,073
Net employee defined benefit liabilities	4	3,141	1,906
Trade and other payables		1,567	-
<b>Current liabilities</b>		<b>230,230</b>	<b>182,381</b>
Trade and other payables		117,937	101,696
Interest-bearing loans and borrowings		66,350	34,427
Lease liabilities		45,943	45,139
Provisions		-	1,120
<b>Total liabilities</b>		<b>515,680</b>	<b>447,978</b>
<b>Total equity and liabilities</b>		<b>664,824</b>	<b>620,229</b>

**SPHERA FRANCHISE GROUP SA**

**PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020 ((UNAUDITED))**

*All amounts in RON thousand, unless specified otherwise*

**PRELIMINARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 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	-	-	-	(9,666)	-	(9,666)	79	(9,587)
<b>Other comprehensive income</b>								
Remeasurement gain/(loss) on defined benefit plan			262			262		262
Translation differences				(75)		(75)	(28)	(103)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>262</b>	<b>(9,666)</b>	<b>(75)</b>	<b>(9,479)</b>	<b>51</b>	<b>(9,428)</b>
Cash dividends	-	-		(13,679)		(13,679)	-	(13,679)
<b>As at 31 December 2020</b>	<b>581,990</b>	<b>(519,998)</b>	<b>(917)</b>	<b>88,057</b>	<b>(240)</b>	<b>148,892</b>	<b>252</b>	<b>149,144</b>
	<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 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)				3,180		3,180	47	3,227
<b>As at 1 January 2019</b>	<b>581,990</b>	<b>(520,578)</b>	<b>-</b>	<b>70,428</b>	<b>20</b>	<b>131,860</b>	<b>193</b>	<b>132,053</b>
Profit for the period	-	-	-	55,226	-	55,226	236	55,462
<b>Other comprehensive income</b>								
Remeasurement gain/(loss) on defined benefit plan			(1,178)			(1,178)		(1,178)
Translation differences				(186)		(185)	(12)	(197)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(1,178)</b>	<b>55,226</b>	<b>(186)</b>	<b>53,863</b>	<b>224</b>	<b>54,087</b>
Transfer to share premium	-	580		(580)	-	-	-	-
Cash dividends	-	-		(13,673)		(13,673)	(216)	(13,889)
<b>As at 31 December 2019</b>	<b>581,990</b>	<b>(519,998)</b>	<b>(1,178)</b>	<b>111,402</b>	<b>(166)</b>	<b>172,050</b>	<b>201</b>	<b>172,251</b>

**PRELIMINARY CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31  
DECEMBER 2020 (UNAUDITED)**

	<b>2020</b>	<b>2019</b>
<b>Operating activities</b>		
Profit/(Loss) before tax	(14,095)	59,000
Adjustments to reconcile profit/(loss) before tax to net cash flows:		
Depreciation of right-of-use assets	52,438	46,377
Depreciation and impairment of property, plant and equipment	35,062	26,951
Amortisation and impairment of intangible assets	7,659	5,326
Rent concessions (Note 2)	(11,607)	-
Unrealised net foreign exchange differences	4,751	5,297
(Gain)/Loss on disposal of property, plant and equipment and right-of-use assets	(480)	228
Provisions for taxes, net	-	(10,343)
Finance income	(237)	(166)
Finance costs (interest)	14,092	12,168
<b>Working capital adjustments:</b>		
Decrease/(Increase) in trade and other receivables and prepayments	29,980	(27,743)
Decrease/(Increase) in inventories	532	(1,067)
Increase in trade and other payables	7,773	17,458
Interest received	237	166
Interest paid	(13,961)	(12,039)
Income tax paid	(2,624)	(5,038)
<b>Net cash flows from operating activities</b>	<b>109,519</b>	<b>116,575</b>
<b>Investing activities</b>		
Proceeds from sale of property, plant and equipment	125	14
Purchase of intangible assets	(2,979)	(7,065)
Purchase of property, plant and equipment	(33,378)	(69,824)
Net cash flows used in investing activities	<b>(36,231)</b>	<b>(76,875)</b>
<b>Financing activities</b>		
Proceeds from borrowings	58,313	22,062
Repayment of borrowings	(17,601)	(39,232)
Payment of lease liabilities	(35,568)	(41,767)
Dividends paid to equity holders of the parent	(13,674)	(13,671)
Dividends paid to non-controlling interests	-	(216)
<b>Net cash flows used in financing activities</b>	<b>(8,529)</b>	<b>(72,824)</b>
<b>Net increase in cash and cash equivalents</b>	<b>64,759</b>	<b>(33,125)</b>
Net foreign exchange differences	(119)	(267)
<b>Cash and cash equivalents at 1 January</b>	<b>57,272</b>	<b>90,665</b>
<b>Cash and cash equivalents at 31 December</b>	<b>121,913</b>	<b>57,272</b>

**NOTES TO THE PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR  
THE YEAR ENDED 31 DECEMBER 2020 (UNAUDITED)****1 CORPORATE INFORMATION**

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

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

The 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.

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. 239 Calea Dorobantilor Street, Bucharest, Romania.

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

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

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

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

The preliminary consolidated financial statements of the Group have been prepared in line with the accounting policies that will be used in preparing the 2020 annual consolidated financial statements which are consistent with those used in preparation of the 2019 annual consolidated financial statements, except as described herein. The final, audited, annual consolidated financial statements will be published in March 2021.

The preliminary 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 of 31 December 2019.

The Group's preliminary condensed financial statements are presented in Romanian New Lei ("RON") and all values are rounded to the nearest thousand RON, except when otherwise indicated. Accordingly, there may be rounding differences.

The preliminary condensed consolidated financial statements for the year ended 31 December 2020 included in this report are unaudited.

## General accounting policies

The accounting policies and valuation methods adopted in the preparation of the preliminary 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.

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 financial year ended 31 December 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 11,607 as if it was a variable lease payment, as follows:

	<b>2020</b>	<b>2019</b>
Variable lease payments and expenses related to short-term leases included in restaurant expenses – Rent	16,797	22,480
Rent concessions included in restaurant expenses	(11,504)	-
<b>Rent presented in Restaurant expenses</b>	<b>5,293</b>	<b>22,480</b>
Expenses relating to leases of low value assets and short-term leases included in administrative expenses	497	386
Rent concessions included in administrative expenses	(103)	-
<b>Rent in "General and administration expenses, net"</b>	<b>394</b>	<b>386</b>

### Foreign currencies

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
RON – MDL	0.2305	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

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

<b>Company name</b>	<b>Country of incorporation</b>	<b>Field of activity</b>	<b>Control 31 December 2020</b>	<b>Control 31 December 2019</b>
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 Food Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%	100.0000%

The value of non-controlling interests in USFN, CFF and ARS as of 31 December 2020 is below 1 thousand RON therefore there are no other presentations thereof.

#### 4 PAYROLL AND EMPLOYEE BENEFITS

	<b>2020</b>	<b>2019</b>
Payroll and employee benefits recognized in restaurant expenses	177,679	215,739
Government grants recognised in restaurant expenses	(27,554)	-
<b>Payroll and employee benefits recognised in restaurant expenses</b>	<b>150,124</b>	<b>215,739</b>
Payroll and employee benefits recognized in "General and administration expenses, net"	29,734	35,183
Government grants recognised in "General and administration expenses, net"	(778)	-
<b>Payroll and employee benefits recognized in "General and administration expenses, net"</b>	<b>28,955</b>	<b>35,183</b>
<b>Total Payroll and employee benefits</b>	<b>179,079</b>	<b>250,922</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 1,128 representing the value of project management and other technical activities performed by the Group's employees for the year ended 31 December 2020 (1,120 for the year ended 31 December 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 3,141 (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>2020</b>	<b>2019</b>
Third-party services	57,187	32,526
YUM penalties (Note 8)	2,762	-
Utilities	21,757	25,438
Maintenance and repairs	10,383	12,272
Cleaning supplies	6,891	8,712
Small-wares	2,262	4,060
Transport	4,328	6,966
Telephone and postage	839	940
Insurance	768	894
Net (gain)/loss on disposal of property and equipment and right-of-use assets	(480)	228
Miscellaneous expenses and income, net	2,782	1,714
<b>Total</b>	<b>109,479</b>	<b>93,750</b>

## 6 GENERAL AND ADMINISTRATION EXPENSES, NET

	<b>2020</b>	<b>2019</b>
Payroll and employee benefits	28,955	35,183
Third-party services	6,035	9,008
Depreciation, amortization and impairment of non-current assets	4,968	4,330
Impairment of goodwill	4,420	2,406
Rent	394	386
Banking charges	2,810	3,384
Transport	929	2,591
Maintenance and repairs	300	308
Small-wares	79	289
Insurance	536	603
Advertising	491	776
Telephone and postage	300	371
Provision for tax, VAT adjustments and late payment penalties	-	(10,343)
Miscellaneous expenses and income, net	915	731
<b>Total</b>	<b>51,134</b>	<b>50,023</b>

As at 31 December 2020, the Group recognised in the preliminary condensed consolidated financial statements an impairment loss of 4,420 (2019: 2,406) in relation with the goodwill recorded on acquisition of ARS.

## 7 ISSUED CAPITAL

	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Authorised shares (Sphera)</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%).

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.

## 8 EBITDA

	<b>2020</b>	<b>2019</b>
<b>Operating profit</b>	<b>3,078</b>	<b>76,372</b>
<b>Adjustments to bridge operating profit to EBITDA:</b>		
Depreciation, amortization and impairment of non-current assets included in restaurant expenses	85,770	71,917
Depreciation, amortization and impairment of non-current assets included in general and administration expenses	4,968	4,330
<b>EBITDA</b>	<b>93,816</b>	<b>152,619</b>
Normalization adjustments	7,182	(7,937)
<b>Normalised EBITDA</b>	<b>100,998</b>	<b>144,682</b>

For the year ended 31 December 2020, EBITDA was normalized to exclude the following expenses: impairment loss of goodwill (4,420), 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 (1,528) and costs related to the Italian subsidiary's development agreement terminated in 2020 (1,234). For the year ended 31 December 2019, EBITDA was normalized to exclude the following expenses: release of tax provision (10,343) and impairment loss of goodwill (2,406).

## 9 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 segments, one being 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 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.

<b>2020</b>	<b>KFC</b>	<b>Pizza Hut</b>	<b>Taco Bell</b>	<b>Other</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues from external customers	613,442	68,403	29,512	167	-	711,523
Inter-segment revenues	7	-	-	23,656	(23,663)	-
Dividend revenues				85,223	(85,223)	-
Operating expenses	595,110	83,044	31,665	42,819	(44,194)	708,444
<b>Segment operating profit</b>	<b>18,339</b>	<b>(14,641)</b>	<b>(2,153)</b>	<b>66,227</b>	<b>(64,692)</b>	<b>3,080</b>
Finance costs	14,737	2,273	1,940	1,903	(3,444)	17,410
Finance income	1,688	25	-	1,968	(3,444)	237
Income taxes	(5,218)	663	129	(83)	-	(4,508)
<b>Net profit/(loss)</b>	<b>10,507</b>	<b>(17,553)</b>	<b>(4,222)</b>	<b>66,375</b>	<b>(64,692)</b>	<b>(9,586)</b>
<b>2019</b>	<b>KFC</b>	<b>Pizza Hut</b>	<b>Taco Bell</b>	<b>Other</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues from external customers	789,402	131,728	32,627	971	-	954,728
Inter-segment revenues	-	-	-	29,389	(29,389)	-
Dividend revenues				51,239	(51,239)	-
Operating expenses	702,817	135,012	33,371	49,472	(42,315)	878,357
<b>Segment operating profit</b>	<b>86,585</b>	<b>(3,284)</b>	<b>(744)</b>	<b>32,127</b>	<b>(38,313)</b>	<b>76,372</b>
Finance costs	13,705	3,170	1,657	1,797	(2,792)	17,538
Finance income	944	10	-	2,004	(2,792)	166
Income taxes	1,403	1,560	238	337	-	3,538
<b>Net profit/(loss)</b>	<b>72,421</b>	<b>(8,004)</b>	<b>(2,640)</b>	<b>31,998</b>	<b>(38,313)</b>	<b>55,462</b>

**Geographic information:**

<b>Revenue from external customers</b>	<b>Year ended</b>	
	<b>2020</b>	<b>2019</b>
Romania	625,663	844,970
Italy	76,456	98,430
Republic of Moldova	8,678	11,328
<b>Total restaurant revenue</b>	<b>710,797</b>	<b>954,728</b>

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

Bucharest, February 26, 2021

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes