

2020 ANNUAL REPORT

S P H E R A F R A N C H I S E G R O U P



S P H E R A



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DISCLAIMER: Unless mentioned otherwise, the amounts in this report are expressed in '000 RON.

ISSUER INFORMATION

INFORMATION ABOUT THIS FINANCIAL REPORT

Type of report	Annual Report
For financial period	01.01.2020 – 31.12.2020
Date of publishing	28.04.2021
According to	Annex 15 of ASF Regulation 5/2018

ISSUER INFORMATION

Issuer's name	Sphera Franchise Group S.A.
Fiscal code	RO 37586457
Trade registry number	J40/7126/2017
Registered office	Calea Dorobanților nr. 239, 2nd floor, Bucharest sector 1

INFORMATION ABOUT FINANCIAL INSTRUMENTS

Subscribed and paid-up share capital	581,990,100 RON
Market on which the securities are traded	Bucharest Stock Exchange, Main Segment, Premium Category
Total number of shares	38,799,340
Symbol	SFG

CONTACT DETAILS FOR INVESTORS

Phone / Fax	+40 21 201 17 57 / +40 21 201 17 59
E-mail	investor.relations@spheragroup.com
Website	www.spheragroup.com

LETTER FROM THE CEO

Dear Shareholders,

the pandemic crisis has affected all and each of us and it has forced us all to change our lives. It was certainly a difficult year for everyone in HoReCa industry. Our main goals at Sphera Franchise Group were to significantly reduce operational costs, maximize revenues, and continue to be there for our customers. We end 2020 satisfied with results delivered to our shareholders and optimistic, but prudent, about the future.



Our company managed to mitigate the impact of the measures imposed to contain the spread of the pandemic in Romania, Italy, and the Republic of Moldova by focusing on developing new sales channels such as partnerships with food aggregators, promotions for the Delivery and Drive Thru channels, and, of course, serving food via KFC Delivery, KFC Drive Thru and Pizza Hut Delivery channels. The Group has so far entered into partnership with eight online food delivery platforms on all markets of activity as well as pushed the development and promotion of own digital sales channels.

Consequently in 2020, our Group significantly increased the share of orders for delivery compared to previous year. For KFC Romania, the share increased from 3% in 2019, to 23%, for Pizza Hut it doubled, going from 25%, to 50% in 2020 and for Taco Bell it surged from 2% to 37% in 2020. KFC Moldova had insignificant sales in 2019 on delivery channel, yet in 2020 the share of delivery order reached 26% of all the orders. Same happened in Italy where back in 2019, KFC Italy had insignificant (below 0.5%) number of deliveries, while in 2020, the delivery orders soared to 14%.

On top of adapting our sales strategy, our Group continued the expansion and investments that were delayed by the pandemic. Despite the challenging context, we are proud that we managed to open 5 new KFC restaurants and 1 Taco Bell in Romania as well as 3 new KFC stores in Italy. Even during these hard times, Sphera ended 2020 with more restaurants than a year ago - 158 stores, out of which 138 were based in Romania, 18 in Italy and 2 in the Republic of Moldova.

Following negotiations with our franchisor, Yum! Brands Inc., we managed to agree for a new development plan for KFC Romania, which has 6 more restaurants to open by the end of 2021. On top of the revised number of new stores, we have managed to obtain a number of favorable financial incentives the Group and all our shareholders will benefit of, as they will continue to support the growth of our network. We are optimistic towards the future, and we look forward to growing our Group in the new year.

Despite the ongoing challenges brought by the COVID-19 pandemic, our Group managed to significantly improve the sales in the second half of the year, even in the context of more prevalent restrictions on indoor dining in Q4 2020 as well as colder months that made outdoor dining challenging for the customers. The strong performance in the second half of 2020 helped offset the negative effect of weak first six months. Consequently, our 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.

Despite a challenging year, at the end of it we managed to get results that are well above the revised estimates, as communicated in October last year. We, as a team, have made the right management decisions, we managed to maximize revenues and minimize the costs, thus providing the best possible results in what was certainly the biggest hit HoReCa industry took since forever. This year, we will continue the improvements in terms of costs, development and will further focus on delivery services.



I would like to take the opportunity to thank the whole Sphera Franchise Group team for their tireless dedication through this difficult period. Together, we look forward to a better 2021!

Călin Ionescu
CEO Sphera Franchise Group

DIRECTORS' REPORT



S P H E R A

CORPORATE INFORMATION

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

Sphera Franchise Group SA (the " legal Parent", "Sphera" or the „Company") was incorporated on 16 May 2017 by the shareholders of USFN and ARS as a joint stock company and is registered at no. 239 Dorobanti Avenue, Bucharest, Romania. Sphera Franchise Group's shares floated on the Main Market of the Bucharest Stock Exchange on November 9th, 2017 after a successful Initial Public Offering. Since September 24th, 2018, the shares of Sphera Franchise Group, available under "SFG" symbol are included in the Main Index of Bucharest Stock Exchange, BET, which is the benchmark index for the Romanian capital market. Sphera Franchise Group is the first and the only foodservice operator listed on the Bucharest Stock Exchange.

The Group operates quick service and takeaway restaurant concepts (a chain of 106 restaurants as of December 31st, 2020) under the Kentucky Fried Chicken ("KFC"), spread across Romania (86 restaurants) as well as in the Republic of Moldova (2 restaurants) and in Italy (18 restaurants). The Group also operates a chain of pizza restaurants (21 restaurants as of 31 December 2020) 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 as of 31 December 2020) and one restaurant under Paul brand, in Romania. As of 31 December 2020, the Group had 4,802 employees, out of whom 153 worked at the legal Parent company, also referred to as HQ staff.

In 2017, ahead of listing on Bucharest Stock Exchange, the Group underwent reorganization that resulted in the establishment of Sphera as the legal parent company of US Food Network SA (USFN), American Restaurant System SA (ARS), US Food Network S.r.l. ("USFN Italy" or the "Italian subsidiary"), US Food Network SRL ("USFN Moldova" or the "Moldavian subsidiary") and California Fresh Flavors SRL (Taco Bell). The purpose of the reorganization was to ensure a better coordination of activities and enhance value creation, by taking advantage of the synergies at group level and by achieving economies of scale. In terms of activities, Sphera renders to the benefit of the Group entities services such as management services, marketing support, development and project management, sales support, human resources and other services.

GROUP STRUCTURE

Details of the Sphera's investments in controlled companies also representing the Group's consolidated subsidiaries as of 31 December 2020 and 31 December 2019 are as follows:

Company name	Incorporation	Field of activity	Control 31.12.2020	Control 31.12.2019
US Food Network SA	Romania	Restaurants	99.9997%	99.9997%
American Restaurant System SA	Romania	Restaurants	99.9997%	99.9997%
California Fresh Flavors SRL	Romania	Restaurants	99.9900%	99.9900%
US Food Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network S.r.l.	Italy	Restaurants	100.0000%	100.0000%

Sphera has become the parent company of USFN and ARS on 30 May 2017, following the contribution by shareholders of USFN and ARS of 99.9997% of the shares in the two companies in exchange for shares in Sphera. On 8 June 2017 and 14 June 2017, Sphera purchased the shares held by USFN in US Food Network SRL (Republic of Moldova) and respectively US Food Network S.r.l. (Italy). In June 2017, Sphera set up the newest subsidiary of the Group, California Fresh Flavors, bringing in its portfolio the Taco Bell brand.

US Food Network SA (USFN), the subsidiary which operates the KFC franchise in Romania was incorporated in 1994 as a limited liability company and further has changed the organization form as joint stock company with registered office at no. 239 Dorobanti Ave., 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 Dorobanti Ave., 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 S.r.l operating the KFC franchise in Italy was incorporated in 2016 as a limited liability company and is registered at No. 5 Viale Restelli, Milano, Italy. The Group owns 100% of the company's shares.

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

PRINCIPAL SCOPE OF BUSINESS

The Group's franchised foodservice business was launched in 1994 with the opening of the first Pizza Hut location, which was followed by the opening in 1997 of the first KFC location, both in Bucharest. As of 31 December 2020, the Group operates 158 restaurants in Romania, Italy and the Republic of Moldova.

Sphera Franchise Group's business is conducted through the following segments:

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

KFC, Pizza Hut, Pizza Hut Delivery and Taco Bell are all operated in a master franchise system, by companies owned by Sphera Franchise Group, the largest restaurant group in the full-service restaurant sector in Romania. A master franchise is a franchising contract in which the master franchisor hands over the control of the franchising activities in a specified territory to a person or entity, called the "master franchisee". Yum! is the master franchisor of Sphera Franchise Group.

ABOUT THE BRANDS



KFC is the world's second-largest restaurant chain as measured by sales. KFC is a quick-service restaurant specialized in fried chicken and chicken meals. As of December 2020, there were up to 25,000 KFC Restaurants worldwide. The first KFC restaurant was launched in Bucharest, Romania in 1997 by the Group.

Today, KFC is the leading chicken restaurant chain in Romania in terms of both total sales and number of restaurants. As of 31 December 2020, there were 86 KFC in Romania. In 2008, the Group opened the first KFC restaurant in the Republic of Moldova, and as of December 31st, 2020, the Group operated two restaurants (both in Chisinau). In 2017 the Group opened the first two restaurants in Italy. As of 31 December 2020, there were 18 KFC restaurants operated by the Group spread across the central - northern region of Italy. Of all KFC restaurants operating in Romania, Italy and Republic of Moldova, as of 31 December 2020, 65 were food court locations (in malls or

commercial centers), 23 were inline (street locations), while another 18 were Drive-Thru locations. In 2018, KFC Romania has lunched the delivery activity, which is now carried out in most of the stores.

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



PIZZA HUT is a casual dine-in restaurant, known for its Italian American cuisine. With 18,703 restaurants across the globe, it is the world's largest pizza chain in terms of locations. Restaurants serve a diverse menu which includes pizza and pasta, salads as well as side dishes and desserts. Pizza Hut entered the Romanian market in 1994, with the opening of its first location on Calea Dorobanților in Bucharest.



PIZZA HUT DELIVERY is the concept for home delivery launched by Pizza Hut. Pizza Hut Delivery has been present on the Romanian market since December 2007, with the opening of its first location in Vitan area, Bucharest.

Pizza Hut is the largest casual dine-in restaurant chain in Romania in terms of both total sales and number of restaurants. On 31 December 2020 there were 21 Pizza Hut Dine-In restaurants across the major cities of Romania and 19 Pizza Hut Delivery restaurants. Of the 21 Pizza Hut Dine-In restaurants operating in Romania as of 31 December 2020, 18 are located near food courts with our dedicated seating (in malls or commercial centers) and 3 are inline (street locations). At the same time, 7 out of the 19 Pizza Hut Delivery restaurants were located within commercial centers, while the remaining 12 were inline locations.

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



TACO BELL is the world's leading Mexican-inspired quick service restaurant (QSR). The restaurants serve a variety of Mexican inspired foods that include tacos, burritos, quesadillas, nachos, novelty and specialty items and a range of "value menu" products. The first Taco Bell store was launched in Bucharest, Romania, by Sphera Franchise Group in October 2017. As of 31 December 2020, the Group operated 11 Taco Bell restaurants based in commercial centers across Romania.

All the brands offered by Sphera Franchise Group provide a friendly working environment, focused on the potential to develop their employees' career and various culinary experiences with traditional and innovative recipes for the clients.

SHAREHOLDERS AND ISSUED CAPITAL

The share capital of Sphera Franchise Group SA on 31 December 2020 equaled to RON 581,990,100, divided into 38,799,340 ordinary shares with a nominal value of RON 15 per share. The share capital on 31 December 2019 was the same.

The shareholders of Sphera Franchise Group SA as of 31 December 2020 and 31 December 2019 are as follows:

Shareholder	Percent of shares on 31.12.2020	Percent of shares on 31.12.2019
Tatika Investments Ltd.	28.23%	27.33%
Computerland Romania SRL	20.53%	21.44%
WellKept Group SA	16.34%	16.34%
Lunic Franchising and Consulting LTD	10.85%	10.99%
Free-float	24.05%	23.90%

MANAGEMENT OF THE GROUP

BOARD OF DIRECTORS

Company is managed by the Board of Directors whose members are appointed for a mandate of 4 years. On November 25th, 2020, the Group held the Extraordinary General Shareholders Meeting during which the shareholders approved reduction of the number of the Board Members of the Company, from 7 to 5 members.

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 Cârmaci, as the Vice-Chairman of the Board. The term of Mr. Hoanca's and Mr. Cârmaci's mandates is until 2023, in line with the appointment of the whole Board of Directors.

The structure of the Board of Directors as of 31 December 2020 was the following:

Name	Date of appointment	Title	Role	Number of SFG shares held on 31.12.2020
Lucian Hoanca	25 April 2019	Chairman of the BoD	Non-executive member	-
Silviu Gabriel Cârmaci	25 April 2019	Vice-Chairman of the BoD	Non-executive member	-
Georgios Vassilios Repidonis	25 April 2019	Member of the BoD	Non-executive member	-
Valentin Arnaoutou	25 April 2019	Member of the BoD	Independent member	-
Razvan Stefan Lefter	25 April 2019	Member of the BoD	Independent member	30,000 shares

LUCIAN HOANCA

Born in 1957, Mr Hoanca is a non-executive member of the Board of Directors of Sphera Franchise Group since 2018, as well as the Chairman of the Board since October 2020. He is also chairman of the Group's Nomination and Remuneration Committee. Mr Hoanca graduated from the Faculty of Foreign Languages at the University of Bucharest, being licensed in philology. Since 1995, he has held management positions in various companies such as ANA Group, EUROM, Exclusiv Comp, Baneasa Developments, WellKept Group, Tatika Investments, Parc Hotels.

Affiliate companies: TDL Consult SRL, Parc Hotels SA, Tatika Investments Limited, Baneasa Developments SRL.

In the last 5 years, Mr Hoanca has not been banned by a court from serving as a member of the board of directors or supervisory board of a company. In the last 5 years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of some companies, of which Mr Hoanca is a member of the board of directors or supervisor. In the last 5 years, there have been no litigations or administrative procedures in which Mr Hoanca has been involved in the context of his activity within the issuer, as well as those regarding Mr Hoanca's ability to fulfil his duties within the issuer. There is no agreement, understanding or family connection between Mr Hoanca and another person due to whom he was appointed as the administrator of the company.

SILVIU GABRIEL CÂRMACIU

Bord in 1980, Mr Cârmaci has been a non-executive member of the Group's Board of Directors since May 2017, as well as Vice-Chairman of the Board since October 2020; he is also the Chairman of the Company's Audit Committee. He has a degree in economics, specializing in Finance, Banking and Accounting. He is also a graduate of postgraduate courses specializing in International Economic Relations - "Alexandru Ioan Cuza" Academy, postgraduate courses "Security and National Defense", National Defense College-National Defense University "Carol I".

Over years he graduated a series of professional training courses in Banking - European Banking Certificate (EBTN - European Banking & Financial Services Training Association; Diploma in Banking - issued by the Romanian Banking Institute and the National Bank of Romania), General Management - Open University Business School London, Coaching and Leadership, Financial Management - Financial Analysis, Financial Valuation of Companies.

Between 2006 and 2012, he held management positions and functions in various areas of banking activity, including Loans and Risk - Risk Assessment and Management, Treasury, Business Development, Customer Relationship Management, Preventing and Combating Money Laundering.

Starting with 2013, Mr Cârmaci is a director at Computerland Romania SRL, being responsible for Strategic and Financial Management. Between 2013 and May 2020, Mr Cârmaci held the position of advisor to the General Manager of Giro S.A.

Affiliate companies: Computerland Romania SRL.

In the last 5 years, Mr Cârmaci has not been banned by a court from serving as a member of the board of directors or supervisory board of a company. In the last 5 years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of some companies, of which Mr Cârmaci is a member of the board of directors or supervisor. In the last 5 years, there have been no litigations or administrative procedures in which Mr Cârmaci has been involved in the context of his activity within the issuer, as well as those regarding Mr Cârmaci's ability to fulfil his duties within the issuer. There is no agreement, understanding or family connection between Mr Cârmaci and another person due to whom he was appointed as the administrator of the company.

GEORGIOS VASSILIOS REPIDONIS

Born in 1961, Mr Repidonis is a non-executive member of the Group's Board of Directors since 2019. Mr Repidonis graduated from the Faculty of Planning and Economic Cybernetics within the Academy of Economic Studies in Bucharest. His professional career has been in the field of executive management, development projects, product marketing and accounting. Between 1994 - 1997 he was a shareholder, administrator and General Manager of Comtra Intl Distributor

in Romania, and between 2004 - 2010 he was a shareholder and General Manager of El Greco restaurant in Bucharest. Mr Repidonis was also a shareholder and responsible for the development of the Romanian franchise of the Lacoste and Gant brands between 2001 and 2015.

Since 2008 he is a shareholder, administrator, and general manager of Cafe Nescafe cafes, and since 2015 he is general manager of Casa Doina restaurant in Bucharest. Mr. Repidonis is a member of the Board of Directors and an administrator at Băneasa Developments.

Affiliated companies: Casa Doina SRL, Dyonisos Group SRL, Debt Advisory and Management SRL, Baneasa Investments SA, Midi Development SRL.

In the last 5 years, Mr Repidonis has not been banned by a court from serving as a member of the board of directors or supervisory board of a company. In the last 5 years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of some companies, of which Mr Repidonis is a member of the board of directors or supervisor. In the last 5 years, there have been no litigations or administrative procedures in which Mr Repidonis has been involved in the context of his activity within the issuer, as well as those regarding Mr Repidonis's ability to fulfil his duties within the issuer. There is no agreement, understanding or family connection between Mr Repidonis and another person due to whom he was appointed as the administrator of the company.

VALENTIN ARNAOUTOU

Born in 1956, Mr Arnaoutou is a non-executive independent member in the Board of Directors of Sphera Franchise Group since 2019. He has dual citizenship, Romanian and Greek and is a graduate of the Bucharest Construction Institute, Faculty of Technological Equipment. He was General Manager of the Hellenic-Romanian Chamber of Commerce and Industry from 2000 to 2011 and is currently the founder and General Manager of Hellenic - Romanian Business Counselors.

Affiliate companies: Hellenic - Romanian Business Counselors (non-profit).

In the last 5 years, Mr Arnaoutou has not been banned by a court from serving as a member of the board of directors or supervisory board of a company. In the last 5 years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of some companies, of which Mr Arnaoutou is a member of the board of directors or supervisor. In the last 5 years, there have been no litigations or administrative procedures in which Mr Arnaoutou has been involved in the context of his activity within the issuer, as well as those regarding Mr Arnaoutou's ability to fulfil his duties within the issuer. There is no agreement, understanding or family connection between Mr Arnaoutou and another person due to whom he was appointed as the administrator of the company.

RAZVAN STEFAN LEFTER

Born in 1980, Mr Lefter is an independent, non-executive member of the Board of Directors of the Sphera Group since November 2018. He graduated from the Faculty of Finance, Insurance, Banking and Stock Exchanges at the Academy of Economic Studies in Bucharest and holds the title of CFA (Chartered Financial Analyst) awarded by CFA Institute since 2008. He is currently Managing Partner at RSL Capital Advisors, an investment consulting firm, but also a member of the boards of directors of companies such as Mundus Services AD Bulgaria or Eurohold AD Bulgaria. He was also a member of the Boards of Directors or Supervisory Board of important companies such as SIF Muntenia, Cemacon Zalău, CONPET Ploiești, TeraPlast Bistrița. At the beginning of his career, Mr. Lefter held several positions at ING Bank, being among others an analyst at the bank's headquarters in the Netherlands, after which he was Senior Equity Sales Trader at EFG Eurobank Securities and Swiss Capital Romania.

Affiliate companies: RSL CAPITAL ADVISORS SRL, Eurohold AD, Bulgaria, Mundus Services AD, Bulgaria, Teraplast SA.

In the last 5 years, Mr Lefter has not been banned by a court from serving as a member of the board of directors or supervisory board of a company. In the last 5 years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of some companies, of which Mr Lefter is a member of the board of directors or supervisor. In the last 5 years, there have been no litigations or administrative procedures in which Mr Lefter has been involved in the context of his activity within the issuer, as well as those regarding Mr Lefter's ability to fulfil his duties within the issuer. There is no agreement, understanding or family connection between Mr Lefter and another person due to whom he was appointed as the administrator of the company.

CONSULTATIVE COMMITTEES

The BoD established an Audit Committee and a Nomination and Remuneration Committee. Both the Audit Committee and the Nomination and Remuneration Committee comprises of three members of the BoD, of which one is elected chairman.

The members of the Audit Committee are:

- Silviu Gabriel Carmaciu, Chairman;
- Razvan Lefter – member;
- Anastasios Tzoulas (until October 8th, 2020); as of December 10th, 2020, Valentin Arnaoutou – member.

The members of the Nomination and Remuneration Committee are:

- Lucian Hoanca – Chairman;
- Georgios Repidonis – member;
- Valentin Arnaoutou – member.

EXECUTIVE MANAGEMENT

The Board of Directors delegates the management of the Company to managers who fulfil their functions based on mandate contracts.

On April 23rd, 2020, Mr. Georgios Argentopoulos' mandate agreement as Chief Executive Officer was terminated by parties' mutual written consent, effective immediately. In the same meeting, the Board of Directors took note of the resignation of Mr. Georgios Argentopoulos to the mandate of director and to the office of Chairman of the Board within Sphera Franchise Group SA, which became effective starting with May 28th, 2020.

On April 24th, 2020, the Board of Directors of Sphera Franchise Group appointed Mr. Călin Ionescu as Acting Chief Executive Officer. On October 8th, 2020, the Board of Directors of Sphera Franchise Group appointed Mr. Călin Ionescu, as the Chief Executive Officer of the Company. The mandate of Mr. Călin Ionescu is effective as of October 8th, 2020, until May 1st, 2023.

The list of persons holding management positions is presented below:

Name	Title	Date of Appointment	Number of SFG shares held on 31.12.2020
Călin Viorel Ionescu	Chief Executive Officer (CEO)	October 8th, 2020 (effective October 8th, 2020)	-
Valentin-Ionut Budeş	Chief Financial Officer (CFO)	March 7th, 2019 (effective May 9th, 2019)	3,723 shares
Cristian Osiac	Chief Development Officer (CDO)	July 8th, 2019 (effective September 1st, 2019 - new mandate)	-
Oana Monica Eftimie	Chief Marketing Officer (CMO)	July 8th, 2019 (effective September 1st, 2019 - new mandate)	-

ĂALIN IONESCU

Born in 1969, Mr Ionescu has been the Chief Executive Officer (CEO) since October 2020 and the Chief Operating Officer of the Sphera Franchise Group (COO) since August 2017. Mr Ionescu studied Marketing and Management at the Romanian-American University of Bucharest. His activity in the field of restaurants started in 1994, with the opening of the first Pizza Hut restaurant managed by ARS (Romania). He held various positions in the area of operations, from Restaurant Manager to General Manager, and in 2012 he was promoted to the position of Group Chief Operating Officer. Throughout this period, he actively participated in the process of expanding KFC and Pizza Hut in Romania and the Republic of Moldova, and in 2016, he laid the foundations for the development of KFC in northeastern and northwestern Italy. Under his supervision, the performance of the KFC and Pizza Hut brands in Romania was consistently in the top three countries according to the operational performance standards of Yum!. In addition, Mr Ionescu coordinates and holds executive and operational positions in other companies operating restaurant brands in Romania, such as Hard Rock Café and Cinnabon Bakery.

VALENTIN BUDEŞ

Born in 1983, Mr Budeş is the Chief Financial Officer (CFO) of Sphera Franchise Group since May 2019. Valentin Budeş attended the Faculty of Economic Studies in Foreign Languages, French section, at the Academy of Economic Studies in Bucharest and holds a master's degree in "International Accounting" from same university. Mr Budeş is a senior member of the Association of Chartered and Certified Accountants (ACCA) and holds a certification in risk management issued by the Institute of Internal Auditors of the United States of America. In Romania, Valentin Budeş is a CECCAR member, an accounting expert, and an insolvency practitioner, being a UNPIR member.

Before working in the field of restaurants, Valentin Budeş worked in the field of financial consulting at KPMG Romania; the financial division within the telecommunications companies of the Telekom Romania group (Cosmote, Telemobil, Germanos and Nextgen); and before joining the Sphera Franchise Group he was responsible for approximately 3 years for the financial activities of the Medicover Romania Group.

CRISTIAN OSIAC

Born in 1968, Mr Osiac has been the Group's Development Director since June 2017 and was a member of Sphera's Board of Directors between May 2017 and April 2019. He studied at the Faculty of Electronics and Telecommunications at the Polytechnic University of Bucharest. Cristian Osiac joined the Group in 1994, as Technical Director, and was responsible for opening the first Pizza Hut unit in Romania. In 1997, as Development Director, he was responsible for the opening of the first KFC restaurant in Bucharest and, in this capacity, Mr. Osiac coordinated the

main development activities and operations for all the Group's brands. After 2007, Mr. Osiac has also held executive positions in other companies that manage restaurant brands or other food services in Romania, such as Paul bakeries and Cinnabon pastries, being responsible for development activities. He also actively participated in the development process of the Hard Rock Café restaurant in Bucharest. Moreover, in 2008, he was appointed Chairman of the Board of Directors of ARS (Romania) and USFN (Romania). Throughout this period, Mr. Osiac coordinated and supervised the expansion of the KFC and Pizza Hut brands in Romania, the Republic of Moldova and, most recently, in northern Italy.

MONICA EFTIMIE

Born in 1979, Mrs Eftimie has been the Group's Director of Marketing (CMO) since August 2017. She is a graduate of Northwestern University and has a master's degree in business administration from Georgetown University. Since 2013, she has been the Marketing Director of ARS (Romania) and USFN (Romania), and in this capacity she coordinated the marketing activities for the brands KFC, Pizza Hut, Pizza Hut Delivery and developed and implemented local marketing campaigns for these brands. Mrs Eftimie also held the position of Marketing Director in the company that operates the Paul brand in Romania. With over 10 years of experience in the food industry, Mrs Eftimie started her marketing career with internships at Accor Group (France) and Saatchi & Saatchi Advertising. She later developed complex marketing campaigns for some of the most well-known names in the food industry, such as McDonald's.

None of the members of executive team were in the past 5 years forbidden by the court to fulfil the position of a Member of a Board of Directors or Supervisory Board. In past 5 years, there were no cases of insolvency, liquidation, bankruptcy, or special administration of companies where the executive members sat on the Board of Directors or Supervisory Board. None of the executive managers carries professional activity which would compete with that of the issuer.

CONSOLIDATED FINANCIAL RESULTS

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 consolidated financial statements of Sphera, please refer to the 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, 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 a 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 on October 22nd, 2020. Appropriate business decisions 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 as compensation 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 increased by 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 a 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 2.4 million.

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

Data in RON'000	31-Dec 2020 (unaudited)	31-Dec 2019 (unaudited)	Y/Y % 2020/2019	% of Sales		
				2020	2019	Δ%
Restaurant sales	710,797	954,728	-25.6%			
Other income	726	0				
Restaurant expenses	662,256	830,448	-20.3%	93.2%	87.0%	6.2%
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	36,889	28,640	28.8%	5.2%	3.0%	2.2%
Restaurant operating profit	49,267	124,281	-60.4%	6.9%	13.0%	-6.1%
General & Admin expenses, net	50,904	50,519	0.8%	7.2%	5.3%	1.9%
Operating Profit/(Loss)	(1,637)	73,761	-102.2%	-0.2%	7.7%	-7.9%
Finance costs	5,256	5,980	-12.1%	0.7%	0.6%	0.1%
Finance income	237	166	43.2%	0.0%	0.0%	0%
Profit/(Loss) before tax	(6,656)	67,946	-109.7%	-0.9%	7.1%	-8.0%
Total tax expense/(credit)	(4,283)	3,779	-213.3%	-0.6%	0.4%	-1.0%
Profit/(Loss) for the year	(2,373)	64,167	-103.6%	-0.3%	6.7%	-7.0%
EBITDA	36,907	103,926	-64.5%	5.2%	10.9%	-5.7%
Normalized EBITDA*	44,088	95,989	-54.1%	6.2%	10.1%	-3.9%

(*) 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 Consolidated Financial Statements – results and evolution presented with and without IFRS 16 impact:

Data in RON'000	2020		2019		Change (%)	
	(1)	(2)	(1)	(2)	2020/2019 (1)	2020/2019 (2)
Restaurant sales	710,797	710,797	954,728	954,728	-25.6%	-25.6%
Other income	726	726	-	-		
Restaurant expenses	657,425	662,256	828,333	830,448	-20.6%	-20.3%
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	93,750	93,755	16.8%	17.3%
Depreciation and amortization	85,884	36,889	71,917	28,640	19.4%	28.8%
Restaurant operating Profit / (Loss)	54,098	49,267	126,395	124,281	-57.2%	-60.4%
General & Admin expenses, net	51,140	50,904	50,023	50,519	2.2%	0.8%
Operating Profit/(Loss)	2,958	(1,637)	76,372	73,761	-96.1%	-102.2%
Finance costs	17,314	5,256	17,538	5,980	-1.3%	-12.9%
Finance income	237	237	166	166	43.2%	43.2%
Profit/(Loss) before tax	(14,118)	(6,656)	59,000	67,946	-123.9%	-109.7%
Total tax expense/(credit)	(4,508)	(4,283)	3,538	3,779	-227.4%	-213.3%
Profit/(Loss) for the period	(9,610)	(2,373)	55,462	64,167	-117.3%	-103.6%
EBITDA	93,810	36,907	152,619	103,926	-38.5%	-64.5%
Normalized EBITDA*	100,992	44,088	144,682	95,989	-30.2%	-54.1%

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 2020, USFN Romania (KFC Romania) managed to reach a 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 the 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.

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

Data in RON'000	2020							
	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons. Adj.	SFG Cons
Restaurant sales	527,588	68,403	8,678	76,456	29,512	23,823	(23,663)	710,797
Dividends revenue	-	-	-	-	-	85,223	(85,223)	-
Other income	-	-	-	726	-	-	-	726
Restaurant expenses	457,176	76,820	7,576	93,061	29,348	483	(2,208)	662,256
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	6,457	343	8,558	2,324	-	-	36,889
Restaurant operating profit/(loss)	70,412	(8,418)	1,102	(15,879)	164	108,564	(106,678)	49,267
G&A expenses, net	33,598	6,327	283	7,874	2,339	42,468	(41,985)	50,904
Operating profit/(loss)	36,815	(14,745)	818	(23,753)	(2,175)	66,096	(64,693)	(1,637)
Finance costs	3,485	1,045	166	2,889	1,490	1,639	(5,458)	5,256
Finance income	3,701	25	-	1	-	1,968	(5,458)	237
Profit/(Loss) before tax	37,030	(15,764)	652	(26,641)	(3,665)	66,425	(64,693)	(6,656)
Total tax expense/(credit)	2,100	663	72	(7,165)	129	(83)	-	(4,283)
Profit/(Loss) for the period	34,930	(16,428)	580	(19,476)	(3,795)	66,508	(64,693)	(2,373)
EBITDA	56,708	(8,110)	1,199	(15,171)	221	66,753	(64,693)	36,907
Normalized EBITDA	66,144	(6,583)	1,199	(13,937)	221	82,379	(85,336)	44,088

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 is 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	2020	2019	2019	
	(1)	(2)	(1)	(2)	2020/ 2019 (1)	2020/ 2019 (2)	(1)	(2)	(1)	(2)
General and administration (G&A) expenses, net	51,140	50,904	50,023	50,519	2.2%	0.8%	7.2%	7.2%	5.2%	5.3%
Payroll and employee benefits	28,955	28,955	35,183	35,183	-17.7%	-17.7%				
Third-party services	6,041	6,041	9,008	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*	2,623	2,623	(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	Q2-20	Q2-19	Q3-20	Q3-19	Q4-20	Q4-19	2020	2019	Δ '20/'19
Sales by region											
Romania	176,764	194,780	93,821	206,180	169,260	216,175	185,816	227,836	625,663	844,970	-26%
Italy	19,205	17,203	11,435	21,993	26,232	29,772	19,584	29,463	76,456	98,430	-22.3%
Rep. Moldova	2,345	2,742	1,009	2,669	2,371	2,803	2,953	3,114	8,678	11,328	-23.4%
Total sales	198,314	214,725	106,266	230,842	197,865	248,750	208,352	260,412	710,797	954,728	-25.6%

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 lost revenues. Subsequently, the Group closed 2020 with an 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
USFN	All Stores	-9.9%	-51.6%	-17.1%	-11.5%	-31.4%	-14.2%	-22.4%
	o/w Same Stores	-14.7%	-53.5%	-23.6%	-17.3%	-34.6%	-20.4%	-27.2%
ARS	All Stores	-15.8%	-68.8%	-51.4%	-55.8%	-42.0%	-53.7%	-48.1%
	o/w Same Stores	-15.8%	-68.8%	-51.4%	-55.8%	-42.0%	-53.7%	-48.1%
CFF	All Stores	46.0%	-55.9%	-3.0%	-9.2%	-14.0%	-6.3%	-9.5%
	o/w Same Stores	-10.3%	-64.4%	-24.1%	-22.9%	-38.8%	-23.5%	-30.4%
USFN IT	All Stores	11.4%	-48.1%	-11.7%	-33.5%	-22.0%	-22.5%	-22.3%
	o/w Same Stores	-29.5%	-64.5%	-27.0%	-52.7%	-47.2%	-39.7%	-43.1%
USFN MD	All Stores	-14.4%	-62.1%	-15.4%	-5.3%	-37.9%	-10.1%	-23.4%
	o/w Same Stores	-14.4%	-62.1%	-15.4%	-5.3%	-37.9%	-10.1%	-23.4%
TOTAL	All Stores	-7.7%	-54.0%	-20.4%	-20.0%	-31.7%	-20.2%	-25.6%
	o/w Same Stores	-16.0%	-57.0%	-27.6%	-26.1%	-36.9%	-26.9%	-31.7%

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 – higher compared to Q3 2020 but lower compared to Q2 2020 when amid restrictions, almost half of orders were for delivery. In Q4, the increase in orders for delivery was dictated by colder weather and the lack of indoor dining option in the 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 orders reached 26%. USFN Italy had insignificant (below 0.5%) number of deliveries in 2019; in 2020, the delivery orders reached 14%.

Sales by entity, by Country		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20
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 aggregators fees grew 1,136%, reaching a total of RON 26.7 million. The highest increase in the fees due to third-party platforms was registered by USFN Romania (+1,883% compared to 2019), followed by CFF (+507%), ARS (+226%), USFN Moldova (+145%).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In terms of consolidated balance sheet, out of total assets, 77% were non-current assets, an increase of 1.1% - a result of opening new restaurants. The current assets increased significantly, reaching RON 153.5 million, a 36.9% Y/Y growth mainly determined by a stronger cash position by 113% Y/Y reaching RON 121.9 million. The increase was partially offset by a 53% Y/Y decrease in trade and other receivables (the VAT recovered from the state budget) up to RON 18.3 million.

Consolidated total equity decreased 13.4% Y/Y, down to RON 149.1 million, as a result of the loss registered by the Group (9.6 million) and of the dividends paid to shareholders in the course of 2020 (13.7 million).

Consolidated total liabilities increased 15.7% Y/Y to RON 518.1 million, out of which 29% were accounted for interest bearing loans that increased to RON 150.2 million as an effect of new loans activated and postponement of loan principal repayments. 23% of total liabilities were accounted as trade payables that increased 18.1% Y/Y up to RON 120 million, mainly due to payment rescheduling for 12 months of the principal fiscal obligations to the amount of RON 27.1 million.

A summary of consolidated financial position as of ended 31 December 2020 and 31 December 2019, respectively is presented below:

Data in RON'000	31-Dec-20	31-Dec-19	Δ '20/'19
Non-current assets Total	513,794	508,147	1.1%
Non-current assets	283,340	279,026	1.5%
Right-of-use assets	230,454	229,121	0.6%
Current assets Total	153,481	112,082	36.9%
Total assets	667,275	620,229	7.6%
Total equity	149,121	172,251	-13.4%
Non-current liabilities Total	285,450	265,596	7.5%
Non-current liabilities	88,567	75,523	17.3%
Lease liabilities (IFRS 16)	196,883	190,073	3.6%
Current liabilities Total	232,704	182,381	27.6%
Current liabilities	184,854	137,242	34.7%
Lease liabilities (IFRS 16)	47,850	45,139	6.0%
Total liabilities	518,154	447,978	15.7%
Total equity and liabilities	667,275	620,229	7.6%

STANDALONE FINANCIAL RESULTS

Sphera Franchise Group's individual revenues include dividend income from subsidiaries (US Food Network SA) and revenues from services rendered. Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established which is generally when shareholders approve the dividend.

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

Net profit for the year was 66,375 (2019: 31,998), the increase being determined by the 66.3% increase in dividends and the 19.1% decrease in the payroll and employee benefits.

Details of the investments in subsidiaries as at 31 December 2020 and 31 December 2019, respectively, are as follows:

Data in RON'000

Company	Share interest percent	31 December 2020			31 December 2019		
		Investment at cost	Accumulated impairment loss	Carrying value	Investment at cost	Accumulated impairment loss	Carrying value
US Food Network SA (Romania)	99.9997%	519,704	-	519,704	519,704	-	519,704
American Restaurant System SA (Romania)	99.9997%	88,786	50,888	37,898	60,786	35,262	25,524
California Fresh Flavors SRL (Romania)	99.9900%	100	-	100	100	-	100
US Food Network SRL (Moldova)	80.0000%	1,735	-	1,735	1,735	-	1,735
US Food Network SRL (Italy)	100.0000%	56,417	-	56,417	29,641	-	29,641
Total		666,742	50,888	615,854	611,966	35,262	576,704

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

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

- Despite of the COVID-19 pandemic, USFN and USFN Moldova's activities in 2020 have continued in line or at better performance than anticipated through the cash flow projections at the commencement of the COVID 9 pandemic; USFN is in a profit position, therefore no impairment indicator was identified;
- USFN Italy, that started activity during 2017, was affected by the COVID 19 outbreak due to the severe impact of the pandemic in Italy. As such, management has decided to perform an impairment analysis as at 31 December 2020; Management estimated the recoverable amount of the investment based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2021-2025). The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor. (This fair value measurement is on level 3 of the fair value hierarchy). Consequently, the FVLCD versus carrying amount analysis shows that there is enough headroom and no impairment need to be recorded.
- Taco Bell opened 1 new restaurant in 2020 (in addition to the 10 already opened as at 31.12.2019). During 2020 there were ongoing discussions with the franchisor in order to update and prolong the development plan for future periods. Further to the negotiations, the parties have agreed that for the period 2020 - 2021, CFF will benefit of progressive financial incentives, depending on the number of net new restaurants being opened. Thus, we consider that there are no impairment indicators.
- Pizza Hut's performance in 2020 was below the cash flow projections, the subsidiary being more affected by the pandemic due to the restrictions on indoor dining. Management estimated the recoverable amount of the investment at 47,815 (2019: 57,274) based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2021-2025). The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor.

As a result of the analysis, as compared to the investment carrying value of 88,786 and also considering the loan granted to ARS of 9,917 (2019: 31,750) and the accumulated impairment loss

already recognized in the financial statements as at and for the year ended 31 December 2019 of 35,262, there was a decrease of the investment's recoverable amount of additional 15,626 for which the Company recognized an impairment loss in the financial statements as at and for the year ended 31 December 2020. This impairment loss may be reversed in the future financial years, subject to improving performance of the subsidiary.

In what regards the financial position, the main elements of the balance sheet as of 31 December 2020 are detailed below.

FY Standalone Financial Statements

	2020	2019	Δ '20/'19
Dividend revenues	85,223	51,239	66.3%
Revenue from service contracts with related parties	23,823	30,360	-21.5%
Payroll and employee benefits	20,804	25,717	-19.1%
Impairment loss of investments in subsidiaries	15,626	15,457	1.1%
Other expenses	6,389	8,297	-23.0%
Operating profit	66,277	32,128	106.3%
Financial result	65	207	-68.6%
Profit before tax	66,292	32,335	105.0%
Income tax expense	(83)	337	-124.6%
Profit for the period	66,375	31,998	107.4%

On the balance sheet, besides cash, current assets refer to loans and related interest granted to the subsidiaries of RON 26,121 (31 December 2019: 65,429), dividends to be received RON 79,233 (31 December 2019: 0) amounts invoiced to related parties for management and support services of RON 7,235 (31 December 2019: 8,750) and tax receivables of RON 2,333 (31 December 2018: 4,044).

Non-current assets comprise mainly net investments in subsidiaries of RON 615,854 (31 December 2019: 576,704). Current and non-current liabilities are mainly in relation to the lease liabilities from lease of office premises and administrative vehicles, the bank loan and loan from one of its subsidiaries, US Food Network SA.

Other non-current assets refer to trade and other receivables RON 7,025 (31 December 2019 7,043), property, plant and equipment and intangible assets RON 2,512 (31 December 2019: 2,659), right-of-use assets resulting from adoption of IFRS 16 of RON 4,959 (31 December 5,963) and deferred tax asset recognized for the fiscal loss carried forward RON 1,082 (31 December 2019: 999).

	31-Dec 2020	%	31-Dec 2019	%
Data in RON'000				
Assets				
Non-current assets	631,432	85%	593,368	87%
Current assets	113,470	15%	91,197	13%
Total assets	744,902	100%	684,565	100%
Total equity	682,354	92%	629,658	92%
Non-current liabilities	46,870	6%	38,423	6%
Current liabilities	15,678	2%	16,484	2%
Total liabilities	62,548	8%	54,907	8%
Total equity and liabilities	744,902	100%	684,565	100%

MAIN FINANCIAL RATIOS

The main financial ratios of Sphera Franchise Group (consolidated result) as of December 31st, 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>	FY 2020(1)	FY 2020(2)	FY 2019(1)
Current ratio			
Current assets	153,481	156,605	112,082
Current liabilities	232,704	190,688	182,381
	= 0.66	= 0.82	= 0.61
Debt to Equity ratio			
Interest-bearing debt (long term)	280,741	84,099	263,690
Equity	149,121	161,839	172,251
	= 188%	= 52%	= 153%
Interest-bearing debt (long term)	280,741	84,099	263,690
Capital employed	429,862	245,939	435,941
	= 65%	= 34%	= 60%
Trade receivables turnover (days)			
Average receivables	28,825	28,825	27,867
Sales	711,523	711,523	954,728
	= 14.6	= 14.6	= 10.5
Fixed asset turnover			
Sales	711,523	711,523	954,728
Net fixed assets	492,745	264,319	493,371
	= 1.44	= 2.7	= 1.94

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

BRAND & SALES PERFORMANCE

KFC ROMANIA – in the context of the COVID-19 pandemic and the lockdowns ordered at national level (March-May 2020) and later at regional level, throughout the remaining of the year, the sales performance of KFC Romania (USFN Romania) in 2020 was severely affected.

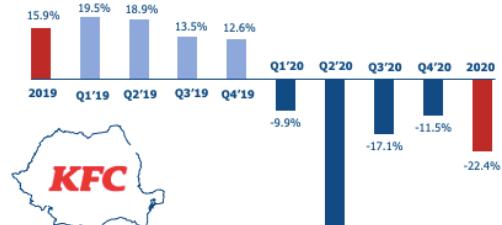
The worst performance was registered in April 2020 (-73.2% Y/Y), but the Group saw gradual recovery starting from May 2020. New KFC locations opened in H2 2020 and their solid performance in Q3 & Q4 2020 increased sales with 14.2pp in H2 compared to H1 2020. Q4 2020 was the best quarter of the year for KFC Romania as all store performance recovered 5.6pp QOQ. Q4 2020 performance was also good when analyzing like-for-like figures, as same store sales improved 6.3pp QOQ.

KFC Romania's turnover dropped 22.4% y-o-y, while like-for-like performance declined 27.2% y-o-y. Yet, USFN Romania managed to reach normalized EBITDA margin of 12.5% in 2020 (vs 13.7% margin in 2019) and closed the year profitable (RON 34.9 mn).

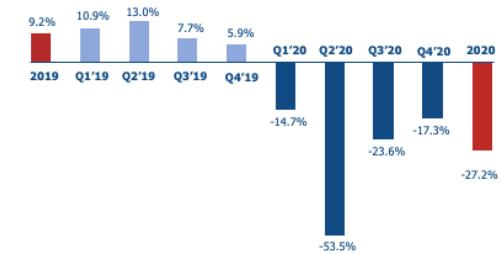
KFC ITALY – 2020 was a challenging year for KFC Italy (USFN Italy) as the Italian market was severely impacted by the COVID-19 pandemic in the first half of the year, and later, in Q4 2020 because of severe restrictions implemented in the context of the aggravating pandemic. Consequently, sales across all KFC Italy stores dropped 33.5% in Q4 2020, which was the second worst quarter in the year for the Italian subsidiary, deepening the y-o-y decline to 22.3%. Like-for-like performance in Italy in Q4 dipped 52.7%, a decline of 25.7pp QOQ and consequently, the Group ended 2020 with a like-for-like decline of 43.1%. USFN Italy ended the year with a negative EBITDA, on loss.

KFC MOLDOVA – The performance in the Republic of Moldova declined throughout 2020, with the worst performance recorded, in line with the sister brands, in Q2 2020. In the context of the pandemic, the Group had limited sales capacity and consequently the store performance dipped 62.1% in that period. Since then, the Group has been recovering and ended the year with Q4 being the best quarter of the year as sales declined by mere 5.3% QOQ. Strong Q4 2020 helped recover 11.2pp of decline from 9M 2020, consequently KFC Moldova ended 2020 with a turnover drop of 23.4%. Consequently, USFN Moldova had 13.8% EBITDA margin in 2020 (vs 17.2% in 2019) and closed the year profitable (RON 0.6 mn).

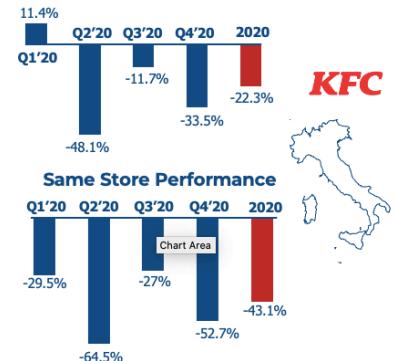
All Store Performance



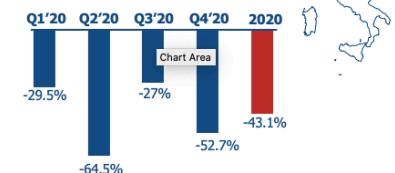
Same Store Performance



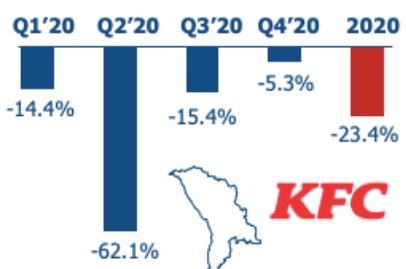
All Store Performance



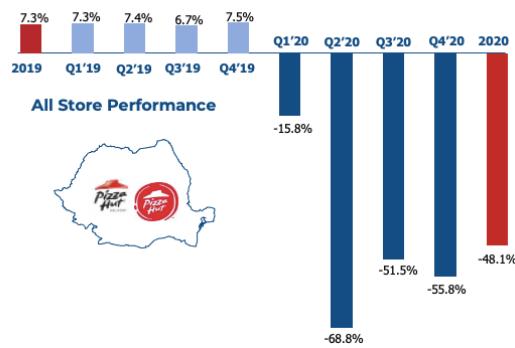
Same Store Performance



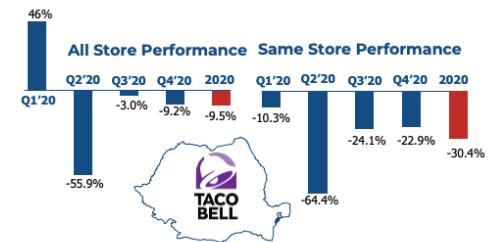
All Store Performance



PIZZA HUT – Because of the dine-in concept of Pizza Hut, the performance of the brand was the one most affected of all the Group's brands. The sales dipped 68.8% in Q2 2020 amid restrictive lockdowns, followed by slight recovery in Q3 2020 when sales dropped by 51.5% compared to same period of last year. Due to continued indoor dining restrictions in Q4, paired with the colder weather, Pizza Hut's results dipped 4.3pp QOQ in the last quarter of the year. In the same period, sales for delivery increased 11pp QOQ, reaching 63% of turnover for the period as indoor dining took a hit. Pizza Hut ended 2020 with a drop of 48.1% in turnover, and a negative EBITDA.



TACO BELL – Taco Bell had a solid performance in 2020. CFF ended 2020 with a 9.5% y-o-y decline in sales and with a positive EBITDA of RON 0.2 mn. In 2020, the Group opened 1 new Taco Bell unit that helped recover a significant part of the lost turnover. Thanks to partial relaxation of the restrictions, since Q2 2020, when Taco Bell registered the worst performance in the year, the brand saw significant recovery, with the best all store performance registered in Q3 2020 and best same store performance in Q4 2020.



Marketing activities – Following the onset of the coronavirus pandemic in Romania and across the world in mid-March 2020 and throughout the rest of 2020, the marketing budget of the Group was adjusted to match the level of sales. The plans were adapted continuously to the changing market conditions and enabled Sphera to retain loyal customers and gain new clients, especially in the delivery segment. The communication campaigns focused on delivery and take-away and promoted the safety measures taken by Sphera in the context of the pandemic. Specific communications campaigns were developed and executed by Sphera to promote core products, value offers, and familiarity with the product range, to engender continuity, stability, and availability of the same high-quality offerings.

Collaboration with food aggregators – Collaboration with local food aggregators, FoodPanda, Glovo, Tazz (EuCeManac) and TakeAway in Romania; Glovo, Deliveroo, Just Eat and UberEats in Italy; Straus and iFood in the Republic of Moldova became an essential pillar of the revised business and marketing strategy. In March 2020, the Group focused on renegotiating the contracts and enhancing the cooperation with local food aggregators as well as jointly running dedicated marketing campaigns for promoting delivery.

The companies of Sphera Group concluded partnerships with aggregators under one of the following two models:

- the restaurants use the aggregator platform as a **marketplace**, where they sell the products and handle the delivery of the order to the client using own delivery services. The fee paid to the aggregator varies around the level of a single-digit percentage of the total value of the order. The exact percentage value is confidential and cannot be disclosed publicly due to contractual requirements; and
- the restaurants work **end-to-end** with the aggregator platform, meaning that the orders are placed with the platform and delivered by its collaborators. For this service, the restaurant pays a two-digit percentage of the value of the order to the platform.

Depending on the brand, the terms of cooperation between the restaurants and food aggregators differ. For KFC, sales for delivery are partly made through the aggregators, partly through the call center and delivered through its own service. The partnership with aggregators for KFC is hybrid, and it entails using the platforms both as a marketplace and end-to-end. The

decision to work with the platforms under the marketplace or end-to-end model depends on the restaurant's location and the capability to handle an increased number of deliveries. In some parts of Bucharest as well as outside of the capital city, KFC orders can only be delivered through the food aggregators.

For Pizza Hut, sales for delivery are made partly through the aggregators for restaurant locations, and partly through its own delivery services, Pizza Hut Delivery. Pizza Hut Delivery uses a Sphera developed e-commerce platform for direct, non-commissioned, deliveries. The partnership with aggregators for Pizza Hut is hybrid, and it entails using the platforms both end-to-end as well as a marketplace.

For Taco Bell, all the deliveries are managed end-to-end through food aggregators as Taco Bell does not have its own order placement and delivery capability.

The results registered starting from March 2020 until the rest of the year, through the partnership with the aggregators had a significant role in recovering part of revenues lost due to restaurants closing. Similarly, with the approaches of the direct competitors present in the Romanian market, the prices of products available through the third-party aggregator platforms were not increased compared to the standard in-store prices. However, dedicated menus, products and bundles were developed specifically for the aggregators to offer the Group higher margins than the traditional products sold in the store.

Sales from delivery covered a part of revenue lost from closed restaurants. The silver lining is the fact that a new significant sales channel was developed by the Group in 2020 that helped access a considerable pool of new clients to the Group. Regardless of how the sanitary crisis evolve, the management considers the progress made in the digital area as crucial for the future and for gaining new clients as well as retaining the loyal customers, translating into higher revenues due to widespread availability of the Group's products.

With the switch to digital services, it is now easier than ever to better track customers' preferences and better understand their behavior and critical decision drivers. With OOH and traditional advertising, the capability of brands to understand customer behaviors are limited and less precise. Digital services help track the full customer journey – from the moment they click on the ad, open the website, place the order and whether they come back in the future, making the conversion much easier to track. This approach was especially helpful in the past months as it helped assess the effectiveness of the campaigns in real-time and when necessary, adjustments were made daily to bring better results.

The COVID-19 pandemic is expected to continue to take a toll on the business in 2021. Consequently, both the like-for-like as well as all store performance is expected to be influenced by the lockdowns, possibly declining purchasing power of the population, limit on the dining-in option, but positively influenced by increase of the delivery (which grew already significantly in 2020), lowered competition as a result of the 2020 HoReCa crisis as well as increased awareness of our brands across the territories on which the Group operates.

For 2021, the Group expects KFC Romania to be the main contributor to the Group's performance, both in terms of store count and revenues generated, in line with the historical performance.

KEY EVENTS IN 2020

Throughout 2020, the number of restaurants open by the Group fluctuated, differing from month to month, depending on the evolution of the COVID-19 pandemic. During the year, in order to respond to the challenging market conditions, the Group has focused on expanding the 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.

Despite the challenging context, the Group continued to implement the plan for opening new restaurants as well as identifying new locations for future developments.

COVID-19 evolution on key markets of activity – On March 16th, 2020, Romanian President issued the decree establishing the state of emergency in Romania, which included the temporary closure of restaurants, hotels, cafes, clubs, shopping malls, gradual closure of borders as well as limiting or prohibiting the movement of vehicles or people in/to certain areas. The order permitted the selling of food and alcoholic and non-alcoholic beverages that do not require clients to remain in the spaces destinated to consumption, as „drive-in”, „room-service” or customer delivery services. The decree was adopted unanimously by the Romanian Parliament on March 19th. The state of emergency was in place in Romania until May 14th, when a thirty-day state of alert was decreed, starting the following day, thus ending the stricter state of emergency. The state of alert is still in place in Romania at the date of publishing this report.

Sphera Franchise Group restricted its restaurant operations in Romania on March 18th, following the order issued by the Ministry of Internal Affairs prohibiting the serving of food in closed spaces. Following the closing of the restaurants, Sphera shifted its focus onto delivery services and signed new or renegotiated partnerships with the major food delivery aggregator platforms including FoodPanda, Glovo, Tazz (former EuCeManac, rebranded by eMAG in April 2020) and TakeAway.

The partial reopening of the restaurants in Romania begun on May 15th when restaurants with outdoor seating were reopened. On June 15th further restrictions were lifted, with shopping malls reopening however without allowing consumption of food in the closed-space food courts. Throughout the rest of 2020, the local lockdowns were ordered in municipalities across Romania, depending on the number of COVID-19 cases in a given zone that required dynamic adjustments at the level of the Group.

In Republic of Moldova, the State of Emergency for the entire territory was declared by the Parliament on March 17th for a period of 60 days, later extended through other decisions. On March 15th, 2020, the National Extraordinary Commission of Public Health (NECPH) of the Republic of Moldova disposed that dine-in bars and restaurants would be closed and limited to takeout orders and delivery until April 1st. Starting April 22nd take-away was allowed for all street locations and on June 16th, all food service venues, except for commercial centers and markets, were allowed to re-open with the provision of supplementary social distancing and sanitary protection rules. In 2020, Sphera collaborated with two food aggregators in the Republic of Moldova – Straus and iFood.

Italy introduced lockdown on March 7th, initially in the North, where the Group's stores are located, then nationwide. In early May, some restrictions were relaxed and on May 18th, the restaurants were allowed to open again, with a set of social distancing rules strictly observed including that only half of indoor seating space was available. On June 3rd, free movement within the whole national territory of Italy was restored, de facto ending the lockdown started in March. On October 25th, Italian government introduced new restrictions, imposing the closing of bars and restaurants by 6PM. Local lockdowns were also ordered at municipal or regional levels as of October 2020, in force to the present day. In 2020, the Group collaborated with four aggregators in Italy: Glovo, Deliveroo, Just Eat and UberEats.

Since the onset of the pandemic and throughout 2020, for the Group to operate as smoothly as possible while observing all the necessary safety regulations, detailed procedures to mitigate the risk of infection among the employees and clients were introduced in all restaurants, including:

- Monitoring the health of the Group's employees, customers and collaborators upon the entry to the restaurants;
- Strengthening the already stringent hygiene, cleaning and sanitation procedures;
- Promoting contactless payment options that protect the employees, customers as well as collaborators;
- Providing all the restaurant employees with readily available and unlimited supplies of personal protection and hygiene supplies;
- For employees in the headquarters, moving to the full or partial work from home model and limiting face-to-face meetings.

In 2020, the management actively monitored the performance of individual stores to determine which stores remain open, fully or partially, and which ones should close. The general rule was that only restaurants that could cover their operating costs by taking advantage of the open-air dining option and/or by concentrating on delivery remained open.

Restaurant development – In 2020, the net number of stores increased by 3, reaching 158 restaurants on December 31st, 2020. Out of 158 stores, 138 were based in Romania, 18 in Italy and 2 in the 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 & the network rollout plan – 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.

In the 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.

There is no network development commitment currently in place for KFC Italy yet the Group remains committed to opening new stores in the Northern and Central part of Italy. Negotiations regarding Pizza Hut development plan are ongoing.

Even in the context of the global pandemic, the Group continued and will continue the expansion of the restaurant network. In 2020, the new store openings contributed to the Group's revenue recovery and will continue to materially affect the results of operations for the foreseeable future. The expansion of the Group's network of stores in 2021 will focus on KFC Romania, KFC Italy as well as Taco Bell Romania.

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 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 2020 Sphera Franchise Group benefitted from state aid in the countries where the Group operates in the total amount of RON 27.6 million for restaurant staff and 0.8 million that were recognized under G&A expenses. The supportive measures covered 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 Aid from Romanian state). 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 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. The total amount of discounts on fixed rent granted in 2020 to the Group equaled RON 11.6 million.

Financial measures – Throughout 2020, the Group has strived to optimize the financing structure and focused on improving the overall liquidity. Consequently, In H1 2020, the Group has activated existing working capital line with house bank that was not utilized until the beginning of the pandemic, in the amount of RON 20.3 million, as well as has secured new working capital lines totaling RON 10 million. Additionally, the Group has refinanced the investments with the house bank in the amount of EUR 2.7 million in Q2 2020. To improve the cash-flow, the Group has accelerated the recoverability of the amounts due from the state in 2020, Sphera recovered RON 24.9 million of VAT (for USFN Romania and CFF) and approximately RON 2.5 million of medical leave indemnity for USFN Romania.

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 31st, 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, but the total aid received by a firm and other scheme should not exceed EUR 1.8 million (the new threshold set by the European Commission in the temporary framework). The total budget for this measure amounts to RON 1 billion. The initial deadline to pay aid has been extended and is currently due on June 30th, 2022. The money will no longer be granted on the “first come/first served” principle, but the financing will be granted to all applicants. If there are more applications than the budget, each participant will receive an amount less than the 20% percentage applied to the amount by which its turnover decreased.

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.

Digitalization – At the end of September 2020, KFC Romania launched a dedicated online delivery/order platform, www.delivery.kfc.ro, with a strategic goal to further strengthen the delivery service in Bucharest as well as around the country.

During Q4 2020 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 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.

Donations – In 2020, the Group remained close to the local community by supporting various causes. Specifically:

- on 1 April 2020, Sphera donated EUR 100,000 (RON 484,000) to the Romanian Red Cross for the acquisition of medical ventilators for coronavirus patients and protective suits for health care workers;
- throughout H1 2020, KFC and Pizza Hut provided food donations for part of the employees of the Public Health Direction Bucharest and the medical staff from the National Institute of Infectious Diseases, Prof. Dr Matei Balș; and Sphera donated part of the raw materials (food products) to different organizations in Bucharest and in the country, supporting

people from disadvantaged environments. To-date, these donations of food and raw materials are worth a total of RON 572,391.

Other than the dynamically developing situation related to local lockdowns and orders at city or region level related to closing of indoor dining facilities, there were no significant events registered after closing of the year and between the publishing of this report that can have a major impact on the business.

DIVIDENDS

Data in RON'000

	2020	2019
Dividends declared and paid during the period:		
To shareholders of Sphera Franchise Group SA	13,679	13,673
To non-controlling interests	-	216
Total dividends for the period	13,679	13,889
Dividends per share (RON/share) – Sphera's shares	0.3525	0.3524

For the year ended 31 December 2020, the Board of Directors has proposed to the shareholders' approval, the following allocation of the net profit of Sphera Franchise Group SA as presented in its separate financial statements as at and for the year ended 31 December 2020:

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

As of 31 December 2020, the value of the retained earnings of Sphera Franchise Group SA has reached the value of 93,443, as presented in the separate financial statements.

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

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

The shareholders can access the Group's dividend policy [at the following link](#).

KEY FACTORS AFFECTING GROUP'S RESULTS

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

General economic environment in the markets – The results of the Group can be directly affected by economic conditions, especially employment levels, inflation, real disposable income, consumption, access to consumer credit, consumer confidence, applicable taxes, and consumer's willingness to spend money in the markets and geographic areas in which it operates. In an unfavorable economic environment with a decrease in disposable income, the Group's customers may reduce the frequency with which they dine out or order-in or may choose more inexpensive dining options. This risk is especially highlighted for 2021 as there is a consensus amongst the economists that the novel coronavirus pandemic will continue to negatively affect the global economy. A decrease in disposable income may affect the customer traffic, frequency,

average ticket size as well as the Group's ability to pass the cost increases onto its customers. Nonetheless, this trend is offset by the overall affordability of the Groups products, which may also lead to the Group attracting new clients, amongst the customers who may substitute more expensive dining options with Group's products.

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

The presence of food-aggregators contributes also to the increase of the competition on a segment where the Group had a relatively safe position. In 2020, the Group has decided to include the food aggregators in its sales strategy to increase the customer base and extend the delivery coverage while avoiding the increase in personnel costs. This decision has allowed the Group to recover part of the revenues lost due to the temporary closing of the restaurants in the course of the year.

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 rapid change in the strategy of the Group in 2020 and the almost complete reliance on the delivery and take-out services in Q2 2020 to generate revenues have prepared the Group for another potential lockdown, thus lowering the extent of the negative impact of this risk.

Limited access to foodstuffs and the variability of their cost – The Group needs to ensure frequent deliveries of fresh agricultural products and foodstuffs. The Group cannot rule out the risk related to delivery deficits or interruptions caused by factors such as unfavorable weather conditions, changes in legal regulations or withdrawing some foodstuffs from trading. The demand for certain products paired with a limited supply may lead to difficulties in obtaining them as well as price increases, thus having an adverse effect on the Groups results. There is a risk related to the fact that a limited portion of Sphera's supplies comes from the UK and following the Brexit, an increase in prices of those supplies might be registered. To mitigate this risk, the Group's procurement division has prepared to switch to alternative providers after the Brexit.

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

The Group seeks to procure its principal inputs from multiple suppliers, in the event that the Group's primary suppliers cannot deliver the components in the contracted amounts and specifications, the Group's requirements exceed the Group's minimum contracted amounts, or the Group is subjected to unanticipated price increases. Prices of the Group's raw materials are generally set by market conditions and the Group is not always able to pass these changes along to the Group's customers, particularly in the short term. The Group seeks to manage factors which put pressure on the Group's gross margin. For example, the Group maintains relationships with additional suppliers. In the context of the COVID-19, in 2020 there were no significant disruptions on supply chain procurement however a possible risk these could occur still exists.

Payroll – Cost of labor represents the second most important expense for the Group and was the fastest growing expense item at restaurant level over the past years. It is expected for the personnel costs to grow proportionally with the growth of the number of the restaurants and the restaurant revenue. Factors that influence fluctuations in the labor costs include minimum wage and payroll tax legislation, the frequency and severity of labor-related claims, health care costs, the performance of restaurants, new openings and whether new employees are fixed overhead costs or are restaurant hires.

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

The effectiveness of the marketing and advertising activities can vary from one year to another and from one campaign to another, depending on the products under promotion, the quality of our communication as well as on the ability of our employees to communicate to customers the ongoing campaigns and promote trade-up products. The Group monitors closely the expenditure and frequency of marketing and advertising campaigns by the Group's competition and seeks to maintain a relatively constant presence in the market.

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

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

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

Product liability claims and health pandemics – Product liability claims and health pandemics, especially poultry-related, could harm consumers' confidence in the safety and quality of our products. The Group may be involved in product liability claims typical for the food industry, such as product alteration or injury following consumption.

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

products irrespective of who is offering them. This would result in a decrease in the number of clients for the Group's restaurants.

Furthermore, the Group's reliance on third-party food suppliers and distributors increases the risk of food-borne illness incidents to all the Group's restaurants that are served by the respective suppliers and distributors. Power outages and other issues beyond the Group's control can result in costly spoilage or contamination of food. Also, any media news or reports of inspection authorities released to the public identifying unsanitary preparation or preservation of food products in restaurants that are not related to the Group or that are not under the Group's control may change the perception of its customers about the quality of the products in restaurants in general. Adverse publicity may negatively impact our reputation, regardless of whether the allegations are valid.

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

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

Dependency on the franchisor – Sphera manages KFC (in Romania, Italy and Moldova) and Pizza Hut and Taco Bell (in Romania), as a franchisee, and therefore a number of factors and decisions related to the business activities conducted by Sphera depend on the franchisors' decisions or on their agreement. The duration of the franchising agreements related to the KFC, Pizza Hut and Taco Bell brands is 10 years. Sphera has the option of extending this period for the next 10 years provided that it meets the conditions specified in the franchising agreements and other requirements, including the payment of the related continuing and marketing fees, and further the renewal fees. Despite meeting the above-mentioned terms, there is no guarantee that after the expiry of these periods a given franchising agreement will be prolonged to the next period. In the case of KFC restaurants, the first period commenced in 1997, the first Pizza Hut restaurant opened on the Romanian market in 1994, while for Taco Bell, the first period commenced in 2017 with the opening of the first restaurant of this brand. Sphera and Yum are constantly in touch with respect to current and further cooperation.

Investors should consider that the factors presented above are the most significant risks that Sphera Franchise Group is aware of at the time of redacting this report. However, the risks presented in this section do not include all the risks associated with the issuer's activity, and the Group cannot guarantee that it includes all the relevant risks for 2021. There may be other risk factors and uncertainties of which the Group or the companies within the Group is not aware at the time of preparing this report and which may in future modify the actual results, financial conditions, performances, and achievements of the issuer and may lead to a decrease in the price of the Group's shares. Investors should undertake pre-requisite checks to prepare their investment opportunity assessment. The management recommends investors to read a more elaborated list of risks that Sphera Franchise Group is subject to, that was included in the Listing Prospectus, available [here](#), which nonetheless cannot be treated as exhaustive.

FINANCIAL INSTRUMENTS RISK MANAGEMENT

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

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

Interest rate risk – The Group's income and operating cash flows are substantially independent of changes in market interest rates. Trade and other receivables and payables are non-interest-bearing financial assets and liabilities. The borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term and short-term credit facilities. Interest rates on the Group's debt finance are variable. Changes in interest rates impact primarily loans and borrowings by changing their future cash flows (variable rate debt). Management policy is to resort mainly to variable rate financing. However, at the time of rising new loans or borrowings management uses its judgment to decide whether it believes that fixed or variable rate would be more favorable to the Group over the expected period until maturity. The Group does not hedge its interest rate risk.

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

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

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

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

Credit risk – The Group is not significantly exposed to credit risk as the majority of its sales are on a cash basis. The Group's credit risk is primarily attributed to trade and other receivables and balances with banks. The carrying amount of trade and other receivables, net of allowance for impairment and deposits for rent guarantee as per statement of financial position plus balances

with banks, represent the maximum amount exposed to credit risk. Management believes that there is no significant risk of loss to the Group beyond the allowances already recorded.

The Group invests cash and cash equivalents with highly reliable financial institutions. The Group has only plain vanilla deposits with reputable banks, none of which has experienced any difficulties in 2020 or up to the date of these consolidated financial statements. The majority of cash is transacted through and placed with Alpha Bank Romania, member of Alpha Bank Group from Greece and Banca Romana de Dezvoltare (BRD), a member of Societe Generale Group from France, Banca Transilvania, as well as with Unicredit Bank Italy. The long-term credit rating of Alpha Bank Greece is Ca1 as provided by Moody's rating agency, no credit rating being available for its Romanian subsidiary. The long-term credit rating of BRD is Baa3, while the one for Unicredit is Ba1, both provided by Moody's. The long-term credit rating of Banca Transilvania provided by Fitch Ratings is BB+.

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

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

Liquidity risk – The Group has adopted a prudent financial liquidity management approach, assuming that sufficient cash and cash equivalents are maintained, and that further financing is available from guaranteed funds from credit lines. As of 31 December 2020, the Group had available RON 55,381 of undrawn uncommitted borrowing facilities (31 December 2019: 87,087), thus being able to respond to any unforeseen higher cash outflow needs.

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

Capital management – Capital of the Group includes the equity attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

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

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

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

Calculation of consolidated gearing ratio is presented below:

	31	
	December	
	2020	2019
Data in RON'000		
Interest-bearing loans and borrowings	150,209	108,044
Leases in relation to IFRS 16	242,826	235,212
Financial trade and other payables	58,780	68,257
Less: cash and short-term deposits	121,913	57,272
Net debt	329,902	354,241
Equity	149,144	172,251
Capital and net debt	479,046	526,492
Gearing ratio:	69%	67%

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

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 31 December 2019.

Fair values – The Group has no financial instruments carried at fair value in the statement of financial position. The carrying amount of the interest-bearing loans and borrowings approximate their fair value. Management estimates that the margin applicable over Euribor at the balance sheet date would be similar to the ones at the dates of each previous withdrawal, due to the fact that the Group maintained over the past years a low gearing ratio and a stable financial condition, and also based on statistics published by the National Bank of Romania.

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

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

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

INTERNAL CONTROL

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

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

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

- Compliance with the applicable laws and internal regulations;
- Reliability of financial reporting (accuracy, completeness and correctness of the information);
- Prevention and detection of fraud and error;
- Protection of the Group's resources against losses due to waste;
- Effective and efficient business operations.

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

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

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

- Selecting and interviewing candidates;
- Performing background/reference checks;

- Setting certification expectations.

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

The Board of Directors including the Audit Committee (the "Board") oversees management's performance of internal control and retain objectivity in relation to management. The board monitors the functioning of internal controls by performing periodical analysis on the profit and loss accounts, execution of the budget, internal and external audit reports. The board demonstrates an appropriate level of skepticism of management's assertions and judgments that affect financial reporting. In particular, the Audit Committee seeks clarification and justification of the Group's process for:

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

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

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

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

NON-FINANCIAL TOPICS & DIVERSITY POLICY

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

Environmental protection – The Company's philosophy is to minimize the impact on the environment and leave the smallest footprint possible. There is a strong commitment to create a

sustainable business, starting from the way of source the food products to the design, packaging of the final products and how the restaurants are built.

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

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

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

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

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

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

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

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

Extensive information on the Group's sustainability strategy, products, environment, people, and community may be found in the annual Sustainability Report which is available on the Company's website www.spheragroup.com.

In the context of the COVID-19 pandemic, the Group has decided that it will not issue the 2020 Sustainability Report in 2021 and instead, the next report due, which will be issued in 2022, will include both 2021 and 2022 assessment.

COMMITMENTS AND CONTINGENCIES

Group as lessee - lease commitments

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

Other commitments

Per the Romania new network development plan signed in October 2017, the Group has agreed with KFC Europe to open a minimum of 39 new KFC locations (out of which 29 standard format restaurants and 10 smaller format restaurants meaning rural drive-thru or an agreed small box design) during the years 2017-2022 (out of which 8 units in 2020). Given the pandemic situation, the parties have negotiated in 2020 the resize of the restaurant development plan for the period 2020-2021, from 17 net new stores to 10 net new stores, out of which 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.

The target for 2022 for KFC Romania remains unchanged and includes opening of 9 new restaurants.

Should the Group fail to achieve these targets, the Group might pay KFC Europe a penalty for each such location; the Group has not paid such penalties to date, being in line with the committed development plan.

The Group has agreed to open a minimum of 34 outlets (restaurants and pizza delivery) during the years 2017- 2021 (out of which 8 in 2020) as included into the new network development plan concluded with Pizza Hut Europe (Master Franchisor) in October 2017. Should the Group fail to achieve these targets, the Group pays PH Europe Sarl a penalty for locations not opened.

For the years ended 31 December 2019 and 31 December 2020, the Group has postponed the committed openings for the next years and recognized in the consolidated financial statements a liability for the initial fees due to YUM related to the committed stores not yet realized until the end of the financial years. Starting 2020, the assumed continuing fees for the restaurants committed for 2019 and postponed for future period were accrued according to the development plan agreement in force.

As at 31 December 2020, following the renegotiations carried out by the Group with the franchisor, the parties are going to sign a revised development agreement.

According to the network development plan concluded with TB International Holdings II SARL (the Franchisor) in April 2017, the Group has agreed to open a minimum of 10 Taco Bell restaurants during the years 2017- 2019 (2 restaurants in 2017, 3 restaurants in 2018 and 5 restaurants in 2019). According to the initial restaurant rollout plan, CFF had no more obligation to open new restaurants in 2020. Nonetheless, CFF continued the development of the Taco Bell network in Romania in the course of 2020 and has opened one new restaurant. Further to the negotiations with Taco Bell Europe, the parties have agreed that for the period 2020 - 2021, CFF will benefit of progressive financial incentives, depending on the number of net new restaurants being opened.

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

At the beginning of 2020, the Group agreed with Yum Italy to terminate existing development agreements for the two regions signed (Tri Veneto and Piemonte) and entered into negotiations for new development agreements. In 2020, the Group has signed a development incentive agreement with the franchisor for the period 1 July 2020-31 March 2021 to open a minimum one new store during the term. The Group will benefit of financial incentives for any new openings exceeding the agreed target. The Group has inaugurated four new stores in 2020, one of them being counted under the new development agreement. Another one was opened in February 2021.

Bank letter of guarantees

The Group has issued bank letters of guarantee in favor of suppliers as at 31 December 2020 in amount of 12,908 (31 December 2019: 15,595). Letters of guarantee as at 31 December 2019 include a bank letter of guarantee in amount of 3,495 issued in favor of tax authorities, that was released at the beginning of the year 2020.

Other contingencies

Taxation

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

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

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

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

Transfer pricing

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

The Group has prepared transfer pricing files.

Legal proceedings

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

In 2019, USFN, alongside the owner of the building where one of the KFC drive-through restaurant is operating, has been sued by a third party acting as plaintiff in connection with utilities pipes (electrical, gas and water) [sub]crossing plaintiff's plot in absence of a pre-agreement. Plaintiff requests from USFN and the landlord, *inter alia*, payment of liquidated damages in amount of approx. 705. To date, the court file is in the stage of evidence taking. However, US Food Network SA submitted a call for guarantee against the Landlord and, therefore, in case USFN will be held primarily accountable by the Court with regards to the liquidated damages, then the USFN will be able to claim the payments from the Landlord. The call for guarantee has been admitted in principle. Further, given not all the evidence has been submitted and analyzed by the Court, the Group cannot anticipate on the manner the Court may rule. Based on lawyer confirmation it is more probably than not to have a favorable decision.

ENVIRONMENTAL MATTERS

As of 31 December 2020, the Company incurs no debts relating to anticipated costs relating to environmental aspects. The Company does not consider that costs relating to environmental aspects are significant.

Chairman of the Board of Directors
Lucian Hoanca

L.S.

CORPORATE GOVERNANCE



S P H E R A

BVB CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

PROVISION OF THE BUCHAREST STOCK EXCHANGE CORPORATE GOVERNANCE CODE ¹	COMPLIANT	NON-COMPLIANT	COMMENT
Section A - Responsibilities			
A.1. All companies shall have Internal Rules for the Board of Directors (the "Board"), which shall include the terms of reference/responsibilities of the Board and the key management functions of the Company and which shall apply, inter alia, the General Principles of this Section.	X		<p>As of May of 2017 (since its establishment), SPHERA has been managed as a unitary system by a Board of Directors, which has delegated the management of the day-to-day activity of the Company to the Chief Executive Officer and Executives.</p> <p>The structure and principles of corporate governance of the Company, as well as the powers and responsibilities of the General Shareholders' Meeting, of the Board of Directors, of the Chief Executive Officer, and of the Executives, are described in the Articles of Association of the Company, the Rules and Procedures of the General Shareholders' Meeting (GSM), the Internal Rules of operation of the Board of Directors, as well as other relevant documents.</p>
A.2. Provisions for the management of conflicts of interest shall be included in the Rules of the Board. In any event, Board members shall notify the Board of any conflicts of interest that have arisen or may arise and shall refrain from taking part in the discussions (including by non-attendance, unless the failure to attend prevents the establishment of the quorum) and from voting for passing a resolution on the issue giving rise to the relevant conflict of interest.	X		<p>Board members have, under the law, duties of care and loyalty to the Company, stipulated not only in the Articles of Association of the Company, but also in other internal regulations of the Company.</p> <p>The Company has also implemented internal regulations on the ways to address situations of conflicts of interest.</p>
A.3. The Board shall consist of at least 5 (five) members.	X		<p>The Board consists of 7 (seven) members elected by the Ordinary General Shareholders' Meeting (OGSM), in accordance with the provisions of the Companies Act and the Articles of Association of the Company. As of November 2020, the Board has decreased the number from seven (7) to five (5) members by way of decision of the Extraordinary General Shareholders Assembly.</p>
A.4. Most Board members shall not have an executive function. In the case of companies in the Premium Category, no less than two non-executive members of	X		<p>The governance of SPHERA is achieved through a unitary system in which the Board ensures the Company management, and the day-to-day</p>

¹ The Statement summarizes the principles of the Corporate Governance Code; the full version of the Code may be read on the website of the Bucharest Stock Exchange: www.bvb.ro.

<p>the Board shall be independent. Each independent Board member shall issue a statement at the time of nomination thereof for election or re-election, and whenever any change arises in the status thereof, indicating the elements on the basis of which the same is to be deemed independent in terms of character and judgment.</p>		<p>management is delegated to the Chief Executive Officer and the Executives. The Board consists of 7 (seven) members, out of which one (1) was an executive member. As of November 2020, the Board consists of five (5) members out of which all of them are non-executive members.</p> <p>On the occasion of each (re)appointment of a Board member, the Company performs an assessment of the independence of its members on the basis of the independence criteria set out in the Corporate Governance Code (which are essentially similar to those laid down in the Companies Act), consisting of an individual assessment conducted by the relevant Board member, followed by an external assessment.</p> <p>Moreover, in view of the preparation of the Corporate Governance Report of the Annual Report, the Company reconfirmed with all Board members their independence or non-independence on 31 December 2020.</p> <p>This assessment showed that, in 2020, at least two Board members met all the criteria of independence set out in the Corporate Governance Code.</p> <p>As at the date hereof, 2 (two) Board members are independent.</p> <p>Information on the independence of the Board members is available at the Company headquarters.</p>
<p>A.5. Any other relatively permanent professional commitments and obligations of a member of the Board, including executive and non-executive positions in the Board of companies and non-profit institutions, shall be disclosed to the shareholders and prospective investors prior to nomination and during the term of office thereof.</p>	X	<p>Information on the permanent professional commitments and obligations of the Board members, including executive and non-executive positions within companies and non-profit institutions, can be found in the CVs of the Board members, available at the Company headquarters.</p>
<p>A.6. Any member of the Board shall present the Board with information on any relation with a shareholder holding, either directly or indirectly, shares representing more than 5% of all voting rights.</p>	X	<p>The Board members and the Executives have, under the law, duties of care and loyalty to the Company, stipulated in the Articles of Association of the Company and in other internal regulations of the Company. The Company has also implemented internal regulations on the ways to address situations of conflicts of interest.</p>
<p>A.7. The Company shall appoint a Secretary of the Board to be in charge of supporting the activity of the Board.</p>	X	<p>The Company has a General Secretary who supports the Board activities.</p>
<p>A.8. The Corporate Governance Statement shall stipulate whether a Board assessment has taken place under the direction of either the Chairperson or the Nomination Committee and, if so, shall summarize the key measures and the resulting changes. The</p>	X	<p>The Company has a Board Self-assessment Guide that stipulates the purpose, criteria and frequency of such an assessment. Based on this guide, the Board conducted a self-assessment process for the financial year of 2020 under the direction of the Chairperson of the Board.</p>

Company shall have a policy/guide regarding Board assessment, including the purpose, criteria and frequency of the assessment process.			
A.9. The Corporate Governance Statement shall contain information on the number of Board and Committee meetings over the past year, the participation of the directors (in person and in default) and a Report by the Board and Committees on their activities.	x		The Company executives shall meet at least once a week and the Board shall meet whenever necessary, but at least once every three months. During 2020, given the pandemic crisis, 30 Board meetings took place, 7 meeting for Audit Committee (1 meeting held with only 2 out of 3 members) and 4 meeting for Nomination and Remuneration Committee (full attendance).
A.10. The Corporate Governance Statement shall include information on the exact number of independent members of the Board.	x		The assessment of the Board members' independence on the basis of the independence criteria set out in the Corporate Governance Code (which are essentially similar to those provided for by the Companies Act) showed that, in 2020, three (3 as of November 2020, two (2)) Board members met all the criteria of independence provided for by the Corporate Governance Code and thus 3, respectively 2 Board members of SPHERA were/are independent.
A.11. The Board of companies in the Premium Category shall set up a Nomination Committee, consisting of non-executive members, to direct the nomination of any new Board members and to submit recommendations to the Board. Most members of the Nomination Committee shall be independent.		x	<p>The members of the Board are appointed by the Ordinary General Shareholders' Meeting, on the basis of a transparent proposal procedure and by the majority of the shareholders' votes, as laid down in the Company Articles of Association and the applicable laws.</p> <p>Before holding the Ordinary General Shareholders' Meeting, the candidates' CVs are available for consultation by the shareholders, and the shareholders can supplement the list of candidates for Board membership.</p> <p>The Company has a Nomination & Remuneration Committee composed of 3 (three) members, elected by the Board from among its members, and one of the members of the Nomination Committee is elected as the Chair. The main role of the Nomination Committee is to submit recommendations concerning the nomination of candidates for appointment to the Board.</p> <p>In the perspective of the Corporate Governance Code, the Nomination Committee does not fully comply with the compliance requirements, which places the company in the area of "partial compliance" as most of the nominating committee members are not independent, but all are non-executive members.</p>
Section B – The risk management and internal control system			
B.1. The Board shall set up an Audit Committee, in which at least one member shall be independent and	x		The Board of SPHERA has set up an Audit Committee composed of part of its members. Therefore, the members of the Audit Committee are all non-

<p>non-executive. Most members, including the Chair, shall have proven appropriate qualification relevant to the functions and responsibilities of the Committee.</p> <p>At least one member of the Audit Committee shall have proven adequate experience in auditing or accounting. In the case of companies in the Premium Category, the Audit Committee shall consist of at least three members and most members of the Audit Committee shall be independent.</p>			<p>executives.</p> <p>In 2020, the Audit Committee was made up of three members of the Board, of which two members met all the criteria of independence set out in the Corporate Governance Code.</p> <p>The Audit Committee includes members with proper certifications corresponding to the functions and responsibilities held in the Audit Committee, and only one member also has the necessary certifications in the financial, auditing and accounting area.</p>
<p>B.2. The Chair of the Audit Committee shall be an independent non-executive member.</p>		X	<p>As members of the Board, all members, including the Chair of the Audit Committee, are non-executive.</p> <p>The independence assessment showed that, in 2020, two members of the Audit Committee met all the criteria of independence set out in the Corporate Governance Code.</p> <p>From the perspective of the Corporate Governance Code, the Audit Committee does not fully comply with the conditions of compliance, placing the Company in the “partial compliance” area seeing as the Chair of the Audit Committee only meets the non-executive member condition, but not the independent member condition.</p> <p>The Company is going to resume compliance with this provision in the near future, by taking into account and analyzing possible alternatives.</p>
<p>B.3. As part of its responsibilities, the Audit Committee shall carry out an annual assessment of the internal control system.</p>	X		<p>The Terms of Reference for the Audit Committee detail the role and duties of the Audit Committee, which primarily consist of:</p>
<p>B.4. The assessment shall take into account the effectiveness and scope of the internal audit function, the adequacy of the risk management and internal control reports submitted to the Board Audit Committee, the promptness and effectiveness with which the executive management addresses any deficiencies or weaknesses identified as a result of the internal control and the submission of relevant reports to the Board.</p>	X		<ul style="list-style-type: none"> (i) Reviewing and revising the individual and consolidated annual financial statements and the profit sharing proposal; (ii) Reviewing and submitting recommendations on the appointment, re-appointment or revocation of the external independent financial auditor for approval thereof by the Ordinary General Shareholders' Meeting; (iii) Carrying out an annual assessment of the internal control system, taking into account the effectiveness and purpose of the internal audit function, the adequacy of the risk management and internal control reports submitted to the Audit Committee, the promptness and effectiveness with which the executive management addresses any deficiencies or weaknesses identified as a result of the internal
<p>B.5. The Audit Committee shall assess any conflicts of interest in connection with the transactions of the Company and its subsidiaries with related parties.</p>	X		

B.6. The Audit Committee shall assess the effectiveness of the internal control and risk management systems.	X		(iv) control and the submission of relevant reports to the Board; (v) Assessing any conflicts of interest in connection with the transactions of the Company and its subsidiaries with related parties; (vi) Assessing the effectiveness of the internal control and risk management systems; (vii) Monitoring the application of the legal standards and generally accepted internal audit standards; (viii) Receiving, on a regular basis, a summary of the main findings of the audit reports, as well as other information on the activities of the Internal Audit Department and assessing the reports of the internal audit team; (vii) Reviewing and revising the transactions with related parties that exceed or are expected to exceed 5% of the Company net assets from the previous financial year, prior to their submission to the Board for approval purposes, in accordance with the Policy on Related Party Transactions.
B.7 The Audit Committee shall monitor the application of the legal standards and generally accepted internal audit standards. The Audit Committee shall receive and assess the reports of the internal audit team.	X		
B.8. Whenever the Code mentions reports or analyses initiated by the Audit Committee, these shall be followed by regular reports (at least annual reports) or ad hoc reports to be subsequently submitted to the Board.	X		The Audit Committee regularly presents the Board with reports on the specific issues that have been assigned to it.
B.9. No shareholder may be granted preferential treatment over other shareholders in connection with transactions and agreements entered into by the Company with the shareholders and affiliates thereof.	X		The Company grants equal treatment to all its shareholders. Related party transactions are treated objectively, in accordance with the usual industry standards, and the applicable laws and corporate regulations.
B.10. The Board shall adopt a policy to ensure that any transaction of the Company with any of the companies with which it has close ties, whose value is equal to or greater than 5% of the Company net assets (according to the latest financial report), is approved by the Board following a binding opinion of the Board Audit Committee and is properly disclosed to the shareholders and prospective investors to the extent that such transactions fall within the category of events subject to reporting requirements.		X	The Company has adopted the key principles for reviewing, approving, and publishing transactions with related parties in accordance with the applicable regulations and Company corporate documents, including the fact that Company transactions with related parties that exceed or are expected to exceed, either individually or in aggregate, an annual value of 5% of the Company net assets from the previous financial year, shall be approved by the Board, based on the opinion of the Audit Committee, and it will formalize in the near future the aforementioned key principles in the relevant Policy on Related Party Transactions (as at the date hereof, as regards this issue, the status is "partial compliance"). SPHERA submits regular and voluntary reports on related party transactions to the Financial Supervisory Authority and the Bucharest Stock

			Exchange. These reports are reviewed by an independent financial auditor in accordance with the relevant legislation in force.
B.11. Internal audits shall be performed by a structurally separate division (the Internal Audit Department) within the Company or by hiring an independent third party.		X	At the end of 2020, the Internal audit function has not been occupied..
B.12. In order to ensure the fulfilment of the primary functions of the Internal Audit Department, functionally speaking, it shall report to the Board by means of the Audit Committee. For administrative purposes and as part of the responsibilities of the management to monitor and reduce risks, it shall report directly to the Chief Executive Officer.	X		The reporting lines are respected, the Audit Department having a reporting line to the Director General and the Board of Directors, through the Audit Committee.
Section C – Fair reward and motivation			
C.1. The Company shall publish the Remuneration Policy on its website and shall include a statement on the implementation of the Remuneration Policy in the Annual Report during the annual period under review. Any key change in the Remuneration Policy shall be published on the Company website in a timely manner.	X		The Company has a Remuneration Policy in place and consistently applies the remuneration principles with respect to Board members, Executives, the senior management, and other personnel categories. These basic remuneration principles are listed in the Corporate Governance Report. So far, there have been no changes to the Remuneration Policy that might lead to updates to the Policy published on the Company website.
Section D – Adding value by way of the investor relations			
D.1. The Company shall organize an Investor Relations Service - indicating to the general public the officer(s) in charge or the relevant organizational unit. In addition to the information required by law, the Company shall include on its website a section dedicated to Investor Relations, in both Romanian and English, with all the relevant information of interest to investors, including: <ul style="list-style-type: none"> • The main corporate regulations: Articles of Association, the procedures regarding the General Shareholders' Meetings (GSM); • The professional CVs for the members of the Company management bodies, other professional commitments of the Board members, including executive and non-executive positions in the Boards of Directors of companies or non-profit institutions; • Current and regular reports (quarterly, half- 		X	<p>All the information as specified by the D1 provision is provided on the issuers website except for the CVs of the members of the Company's professional management bodies.</p> <p>Sphera Franchise Group is currently in the process of implementing a new website which will remedy the current situation and ensure full compliance with the provision.</p>

<p>yearly and annual);</p> <ul style="list-style-type: none"> • Information on the General Shareholders' Meetings; • Information on the corporate events; • The name and contact details of a person who can provide relevant information, on request; • Company presentations (e.g., investor presentations, quarterly result presentations, etc.), financial statements (quarterly, half-yearly, annual), Audit Reports, and Annual Reports. 			
<p>D.2. The Company shall have a policy on the annual distribution of dividends or other benefits to the shareholders. The principles of the policy of annual distribution to the shareholders shall be published on the Company website.</p>	X		<p>The Company Dividend Policy is published on the Company website, in the Investor Relations section, the Corporative Governance Subsection.</p>
<p>D.3. The Company shall adopt a policy regarding forecasts, whether they are made public or not. Forecasts mean quantified conclusions of various studies aimed at determining the overall impact of a number of factors for a future period (the so-called assumptions): by its nature, a forecast has a high level of uncertainty, and the actual results can vary significantly from the original forecasts. The Forecast Policy shall determine the frequency, period considered and content of the forecasts. If published, the forecasts may only be included in the annual, half-yearly or quarterly reports. The Forecast Policy shall be published on the Company website.</p>	X		<p>The Company has a Forecast Policy, which is published on the Company website, in the Investor Relations section, the Corporative Governance Subsection.</p>
<p>D.4. The rules of the General Shareholders' Meetings shall not limit the participation of shareholders in the general meetings or the exercise of their rights. Any amendments to these rules take effect, at the earliest, starting with the next Shareholders' Meeting.</p>	X		<p>Information on the organization of the General Shareholders' Meetings is mentioned in the Company Articles of Association, as well as the Corporate Governance Report, in brief. SPHERA also publishes detailed convening notices for each GSM, describing in detail the procedure to be followed during each GSM. Thus, the Company ensures that the General Shareholders' Meetings are properly managed and organized, and the shareholders' rights are respected.</p>
<p>D.5. Independent financial auditors shall be present at the General Shareholders' Meeting when their reports are presented at these meetings.</p>	X		<p>The independent financial auditors participate in the Ordinary General Shareholders' Meetings where the individual and consolidated annual financial statements are subject to approval.</p>
<p>D.6. The Board should present to the annual general meeting of shareholders a brief assessment of the</p>		X	<p>The information about the internal controls and significant risk management system is provided in the Annual Report.</p>

internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.			
D.7. Any specialist, consultant, expert, or financial analyst may take part in Shareholders' Meetings on the basis of a prior invitation from the Chairperson of the Board. Accredited journalists may also attend General Shareholders' Meetings, unless otherwise decided by the Chairperson of the Board.	X		The GSM Rules and Procedures provide for the possibility for any specialist, consultant, expert, financial analyst or accredited journalist to participate in the GSM on the basis of a prior invitation from the Chairperson of the Board.
D.8. The quarterly and half-yearly financial reports shall include information in both Romanian and English on the key factors that influence change in terms of sales levels, operating profit, net profit and other relevant financial indicators, from one quarter to the next, and from one year to the next.	X		The quarterly and half-yearly financial reports include information in both Romanian and English on the key factors that cause changes in terms of sales levels, operating profit, net profit and other relevant financial indicators, from one quarter to the next, and from one year to the next.
D.9. A Company shall hold at least two meetings/teleconferences with analysts and investors each year. The information presented on these occasions shall be published in the Investor Relations section of the Company website at the time of the meetings/teleconferences.	X		SPHERA holds individual meetings and teleconferences with financial analysts, investors, brokers, and other market specialists on a quarterly basis in order to present the financial elements which are relevant to the investment decision. Investor presentations, updated on a quarterly basis, are made available at the time of the meetings/teleconferences and on the Company website, in the Investor Relations section.
D.10. If a Company supports various forms of artistic and cultural expression, sporting, educational or scientific activities and deems their impact on the Company innovation and competitiveness to be part of its mission and development strategy, it will publish its policy on its activity in this field.	X		SPHERA carries out various activities related to social and environmental responsibility. For further details, please also go to the section of the Annual Report on the Consolidated Non-financial Statement.

CONSOLIDATED NON-FINANCIAL STATEMENT



S P H E R A

CONSOLIDATED NON-FINANCIAL STATEMENT

This non-financial statement is based on the Romanian legislation, Order no. 1.938 of August 17, 2016 on the Amendment and Completion of Accounting Regulations (adaptation of Directive 2014/95/EU on disclosure of non-financial and diversity information by large companies and groups).

THE GROUP BUSINESS MODEL

Sphera Franchise Group was established in May of 2017 with the aim of consolidating under one entity several companies that held (and hold) the rights of franchise operation of the KFC® and Pizza Hut® brands in Romania, the Republic of Moldova and two other regions in Northern Italy.

Thus, as a top-level group in the food service area in Romania, Sphera operates a portfolio of successful international brands, i.e. KFC®, Pizza Hut®, Pizza Hut Delivery® and Taco Bell®, through its subsidiaries in Romania, the Republic of Moldova and Northern Italy; thanks to these successful world-famous brands, the success of key locations, the marketing policies and the product quality, Sphera holds top positions in both QSR and FSR.

APPLIED DUTY OF CARE PROCEDURES

In 2020, there were no duty of care procedures specifically formalized and/or taking the form of policies at Group level, and the duty of care issues were pursued on a case-by-case basis and/or for various activities, as reflected in the usual practices of the relevant market in which the Group operates, in the spirit of art. 803 of the Civil Code. In spite of the lack of a duty of care procedure and/or policy at Group level, business (and other) decisions were based on the best strategies and principles for reducing any related risk, as well as the rules of honesty and loyalty.

SOCIAL RESPONSIBILITY; SOCIAL, ENVIRONMENTAL AND DIVERSITY-RELATED ISSUES

The Group constantly engages in social responsibility activities; both prior to the establishment of Sphera, by means of its subsidiaries, and afterwards, every year, either directly or through specialized foundations/associations, the disadvantaged groups in the community where the Group operates have been supported. Furthermore, Sphera and/or its subsidiaries have been involved and contributed to supporting scientific, cultural, sports, medical, educational, and environmental actions, and national events.

The Sphera Group does not have an Integrated Environmental and Social Governance Policy or Procedure but covers relevant issues in this area in various corporate documents applicable to each company, for specific aspects of their activity. However, the Group takes interest in the environmental and social risks and the methods of mitigating them.

Moreover, in the day-to-day business, the fundamental social objective of Sphera and its subsidiaries is to maintain an organizational culture by ensuring suitable working conditions for the employees, competitive pay levels on the relevant market, work incentive and reward systems, means of evaluation and measurement of positions and of work norming, information and control systems and means of correction, a method of making customer relations permanent through quality, sustainability, flexibility, the price of the products and services offered, the willingness to change, and to assume responsibility, as well as to clarify any counterproductive situations, and the full and effective use of the working time.

In 2020, there was no formalized diversity policy with respect to the administrative and management bodies of Sphera and/or its subsidiaries on issues such as age, gender or education and professional experience. However, in order to promote equality and diversity, the Group has

set up a series of policies which it monitors and assesses using various tools, constantly monitoring their progress. We believe that the most appropriate way to manage equal opportunities and diversity is for these to be present in every process and function. Moreover, they must be considered an integral part of the decision-making in terms of policies and must be present in the Group program planning. In 2019, Sphera joined the Diversity Charter.

Therefore, the Group activities include developing relations with people from different cultural contexts, and promoting equal opportunities through the following policies and tools:

- **Policy of equal opportunities** - By means of our Policy of Equal Opportunities, we make sure that there is no undue discrimination in the recruitment, retention and training of employees based on, but not limited to gender, civil status, sexual identity, religion and belief, political options, ethnicity/race, working time, age, disabilities, social & economic context, past convictions.
- **Diversity strategy** - Our diversity strategy is based on the idea that external relationships with customers, consumers and partners should reflect the standards and behaviors on the basis of which we direct diversity internally. The strategy matches the vision of inclusion and diversity, whereby each individual is able to fulfil his/her potential and to make his/her contribution to the Company.
- **Internal human resources policies** - which support recruitment in order to enhance the diversity of the workforce. The recruitment process actively supports and promotes diversity, for example, by asking applicants to be open, to be able to speak more than one foreign language, to have multicultural experience, as well as an attachment to equal opportunities, etc.
- **The policies on equal opportunities** -
 - Actions supporting employees to set up support networks;
 - Support people for employees with disabilities;
 - Inclusion in the internal human resources audit of the indicators on: gender, education level, age,
 - employee ethnicity.
- **Training and development** -
 - Mentoring programs for the employees of under-represented groups;
 - Workshops for the managers on the management of the employees' cultural diversity and differences;
 - Operationalization and development of "skills" such as: empathy, self-assessment and reflection, openness, flexibility, and emotional stability;
 - Identification of stereotypes that can be found in both employees and managers and inclusion of activities addressing them in the training ;
 - Training programs for the managers teaching them to identify different employee needs and ways to make them feel valued;
 - Training for the managers in adequately managing situations in which an employee has different opinions than the manager's with respect to a task or decision;
- **Evaluation**
 - Introducing in the managers' performance evaluation, specific indicators regarding the equal opportunities given to the employees, and the adequate management of the employees' different needs behaviors;
 - Identifying the employees' needs (of appreciation, recognition, control, development) and the extent to which managers manage the work teams taking these needs into account;
 - Analyzing the human resources processes (recruitment, performance evaluation, promotion) from the perspective of the extent to which the employees' different behaviors and attitudes are respected and integrated into decisions and actions;
 - Establishing measurable indicators for the evaluation of employees' performance, including them in the pay and reward system;

- Assigning tasks and projects based on objectives, instead of personal preferences or divergences.

THE COMPLIANCE POLICY AND THE ANTI- BRIBERY POLICY

In the 4th quarter of 2020, Sphera Franchise Group implemented Anti-Money Laundering (AML) Procedures and all suppliers are currently provided with such. In 2020 there was no anti-bribery policy specifically formalized and/or taking the form of policies at Group level, but the Group is going to approve and implement a Compliance Manual and an Anti-Bribery Policy. Nonetheless, Sphera Franchise Group prohibits the involvement of employees in bribery and has a zero-tolerance policy on bribery and corruption. Group prohibits bribery, offering or offering bribes, as well as soliciting, accepting or receiving bribes so that the Group values are respected and its reputation is protected.

There have been no cases of corruption within the organization, and we are very careful in preventing their occurrence.

KEY PERFORMANCE INDICATORS RELATED TO NON-FINANCIAL STATEMENTS

Environment

Objectives	Targets	Progress in 2020
Energy efficiency Reducing the energy consumption and carbon footprint of the organization.	100% energy efficiency lighting (LED lighting) – by 2024.	Energy efficiency lighting in all Drive Thru and street restaurants. Energy efficiency lighting in all newly opened and renovated restaurants.
Sustainable materials and packaging Increasing sustainable material and packaging purchases.	100% of consumption packaging made of recoverable or reusable plastic – by 2025.	We have 100% replaced plastic straws with paper ones. We have 100% replaced plastic bags.
Food waste Aligning with the principles of avoidance of food waste and implementing internal programs for its prevention.	Implementation in all Group companies.	Staff training to streamline the flow of materials. Thorough planning of the materials needed in the process. Optimized distribution of the raw materials. Careful use of the equipment. In Context of COVID-19 crisis, faced with possibility of significant food waste following closing of restaurants, in H1 2020, Companies from the Group donated part of the raw materials (food products) to different organizations in Bucharest and in the country, supporting people from disadvantaged environments. The value of these donations was RON 572,391.

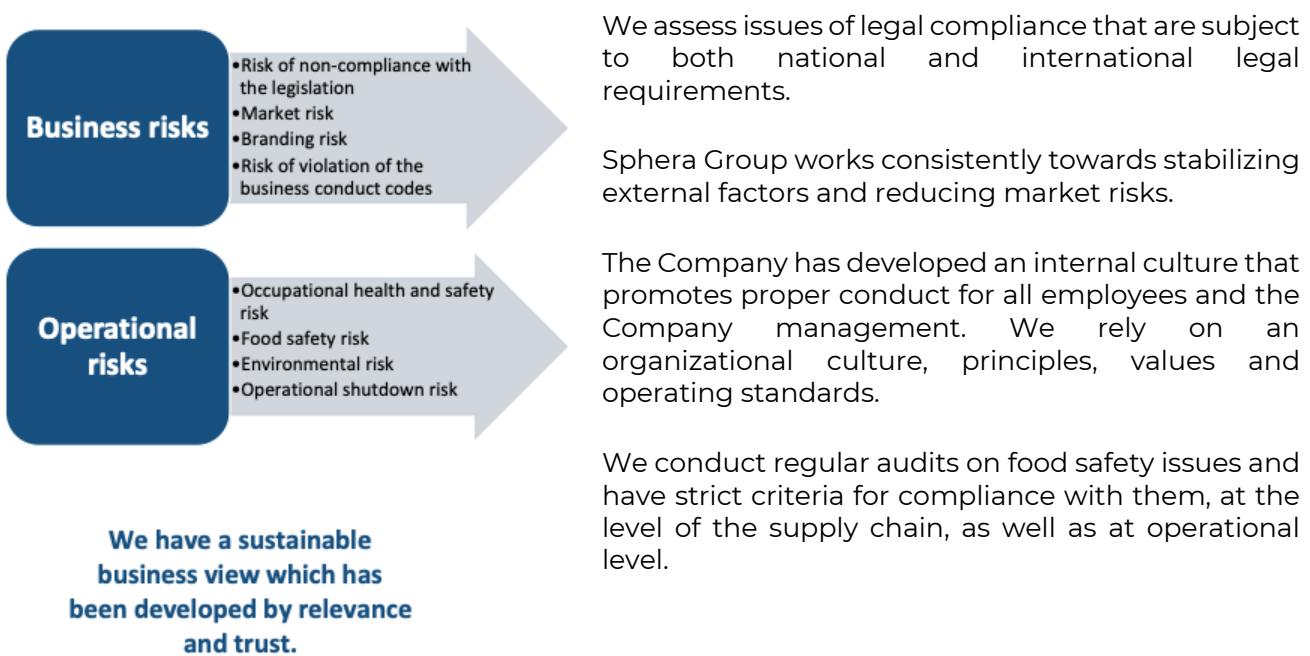
Social Responsibility

Objectives	Targets	Progress in 2020
Human rights	2% of staff hired from vulnerable communities or from among persons with disabilities, as well as various nationalities, by 2023.	In our recruitment processes, we address vulnerable communities and a diverse range of nationalities so as to be able to hire 2% of our staff from these categories by 2023.
Employee capability development and growth	Zero tolerance to gender, religious or political orientation-based discrimination.	We continue implementing app/digital-based operations training programs so that, by 2022, 50% of them might be digitally accessible.
Employees' health and safety	50% of the operations training programs should be available on apps/in digital format or using gamification, by 2022.	We continue supporting the internal promotion process by implementing personal and professional skill development programs so that, by 2025, 80% of promotions should be based on the internal human potential.
Employees' satisfaction and well-being	80% rate of internal promotion for restaurant management positions, by 2025.	We pay particular attention to leadership trainings for management positions.

There were no cases of discrimination or child labor in 2020.

RISK MANAGEMENT

We responsibly manage all aspects of our activities that can generate potential risks and we identify opportunities that can help our business in the long run. We always identify these opportunities in close collaboration with both our internal and external stakeholders.



We regularly assess operational risks regarding health and safety at work and draw up plans for the prevention and protection of employees. We regularly monitor and check all risks associated with our activities. We work closely with an external consultant for support in this area.

We assess the environmental aspects that can generate a negative impact and we are proactive in generating potential mitigation solutions. The Group mitigates risks through monitoring and control conducted by our Legal Department.

DECLARATION FROM THE MANAGEMENT

According to the best information available we confirm that the individual and consolidated financial information included here offer the real and accurate situation on the company's financial position on December 31st 2020, on the financial performance and cash-flow, according to financial and accounting standards applicable to date, and that the Annual Report for the period of January 1st 2020 to December 31st, 2020 transmitted to the market operator, Bucharest Stock Exchange and to the Financial Supervisory Authority presents accurate and complete information about the company.

Chairman of the Board of Directors
Lucian Hoanca

L.S.

SPHERA FRANCHISE GROUP SA
CONSOLIDATED FINANCIAL STATEMENTS

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

31 December 2020

SPHERA FRANCHISE GROUP SA
CONSOLIDATED FINANCIAL STATEMENTS
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European Union
31 December 2020

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sphera Franchise Group S.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sphera Franchise Group S.A. (the Company) and its subsidiaries (together referred to as "the Group") with official head office in Bucharest, 239 Calea Dorobanti Street, identified by sole fiscal registration number 37586457, which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

Basis for opinion

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

Key audit matters

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

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

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

Key audit matter

1. Going concern in the context of COVID 19 pandemic

The developments surrounding the Corona (Covid-19) virus have a profound impact on people’s health and on our society as a whole, as well as on the operational and financial performance of organizations and the assessment of the ability to continue as a Going Concern.

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

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

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

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

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

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

How our audit addressed the key audit matter

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

- Obtained and analysed the Group's revised post-Covid 19 business plan for the year 2021 and cash flow projections until 31 December 2021 and assessed for reasonableness the main assumptions and methods used in the forecast against historical performance of the Group and external available market data as well as consistency with the assumptions used in other testing such as goodwill impairment test. The main inputs and assumptions used are: operational cash flows, comprised of revenues, costs, operating expenses and EBITDA forecasts, net working capital; capital expenditures, as well as debt financing;
- Performed our own independent sensitivity analysis over the forecasted sales volumes, net working capital levels and assumed refinancing options of the loans to assess further the appropriate downside scenarios;
- Performed inquiries of Group's management and the Sales Department of the Group to understand their assessment on a number of matters including the forecasted sales based on the new development plans agreed with the franchisor;
- Analysis of the Group's actual financial data trends for the period January to February 2021 considering the evolution of Covid-19 pandemic and government measures in certain areas;
- Assessed the loans covenants compliance and considered the Group available financing and maturity profile to assess liquidity through the assessment period;
- Agreed the key terms and conditions of the financing facilities to signed agreements and obtained lenders confirmations;
- Further we inspected evidence for the renegotiation and extension of short-term bank loans after the end of the reporting period;
- Tested the mathematical accuracy of the forecasts and the model used and reconciled them to the Board approved budgets.

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

Key audit matter

2. Goodwill impairment testing

On 30 May 2017, Sphera Franchise Group SA acquired 99.9997% of the shares in US Food Network SA (referred hereinafter as USFN) and American Restaurant System SA (referred hereinafter as ARS), in exchange for the Company's shares. Following the purchase price allocation (in which identifiable assets and liabilities of ARS were recognized at fair value), RON 50,584 thousand resulted as goodwill recorded in the consolidated financial position of the Group.

The Group is required to test the goodwill for impairment at least annually. The impairment assessment made by the Group is considered to be a key audit matter as it incorporates significant judgements made by management in respect of certain factors such as future cash flows, future restaurants opening, growth rates, gross and net operating margins, working capital needs, capital expenditure and discount rates, as well as economic assumptions such as the evolution of salaries in the economy and inflation and considerations and related uncertainties around Covid-19 impact.

The impairment assessment performed on the goodwill resulted in RON 4,420 thousand additional impairment adjustment which was recorded as at 31 December 2020, the net carrying value of goodwill as at 31 December 20120 is RON 35,446 thousand.

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

How our audit addressed the key audit matter

Our audit procedures with respect to the impairment analysis performed as of 31 December 2020 included, but were not limited to, the following procedures:

- Analysed the methodology used by management in performing the impairment test for American Restaurant System SA cash generating unit ("CGU"), to determine its compliance with IAS 36;
- Evaluated the Group's key assumptions and estimates used to determine the discount rate, the future operating cash flows, the growth rates, operating margins, working capital needs and the capital expenditure;
- Involved our valuation specialists to assist us in the evaluation of key assumptions and estimates used by the Group, including the determination of the discount rates. In this context, we evaluated whether or not certain assumptions on which the valuation was based, individually and taken as a whole, considered: i) the economic environment of the industry impacted by the pandemic, and the Group's economic circumstances, including the impact of the COVID 19 pandemic related governmental measures (restrictions and support measures for the industry, public moratoria for borrowings from banks); ii) existing market information; iii) the business plans of the Group including management's expectations (including, without being limited to: comparing the restaurant openings considered with commitments to franchisor, assessing the investment per restaurant);

iv) the risks associated with the cash flows, included the potential variability in the amount and timing of cash flows and the related effect on the discount rate; v) specific requirements of IFRS; vi) benchmarking against general performance of peer companies and against the Group's historical financial performance and trends;

- Tested the mathematical accuracy of the discounted cash flow computation;
- Assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year;
- Evaluated the management's prepared sensitivity analysis over key assumptions in the future cash flow model in order to assess the potential impact of a range of possible outcomes;
- We further assessed the adequacy of the disclosures about the impairment test in the notes to the consolidated financial statements.

Other information

The other information comprises the Annual Report (that includes the Directors' Report and the Non-Financial declaration), but does not include the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on Other Legal and Regulatory Requirements

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

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

- a) in the Directors' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying consolidated financial statements as at December 31, 2020;
- b) the Directors' Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 – 19;
- c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the consolidated financial statements as at December 31, 2020, we have not identified information included in the Directors' Report that contains a material misstatement of fact.

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

Appointment and Approval of Auditor

We were appointed as auditors of the Group by the Company's Articles of Association on 4th May 2017 to audit the consolidated financial statements for the financial year end December 31, 2020. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 4 years, covering the financial periods end December 31, 2017 till December 31, 2020.

Consistency with Additional Report to the Audit Committee

Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 22 March 2021.

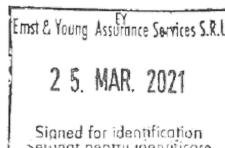
Provision of Non-audit Services

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

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

On behalf of,

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



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

Bucharest, Romania
25 March 2021

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

	Note	2020	2019
Restaurant sales	27	710,797	954,728
Other restaurant income	27	726	-
Restaurant expenses			
Food and material expenses		232,338	319,059
Payroll and employee benefits	8.1	150,124	215,739
Rent	14	5,293	22,480
Royalties		41,274	56,029
Advertising		33,033	49,359
Other operating expenses, net	6	109,479	93,750
Depreciation, amortization and impairment of non-current assets	8.2	85,884	71,917
Restaurant operating profit		54,098	126,395
General and administration expenses, net	7	51,140	50,023
Operating profit		2,958	76,372
Finance costs	9.1	17,314	17,538
Finance income	9.2	237	166
Profit/(Loss) before tax		(14,118)	59,000
Income tax expense/(credit)	10	(6,380)	(840)
Specific tax expense	10	1,872	4,378
Profit/(Loss) for the period		(9,610)	55,462
Attributable to:			
Equity holders of the parent		(9,689)	55,226
Non-controlling interests		79	236
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Remeasurement loss on defined benefit plan	8.1	262	(1,178)
Exchange differences on translation of foreign operations		(103)	(197)
Total comprehensive income for the period, net of tax		(9,451)	54,087
Attributable to:			
Equity holders of the parent		(9,502)	53,863
Non-controlling interests		51	224
Earnings per share, basic and diluted (RON/share)	24	(0.2497)	1.4234

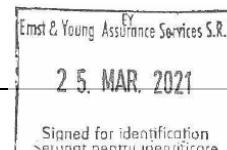
These consolidated financial statements from page 2 to page 58 were approved by the Board of Directors and were authorised for issue on 23 March 2021.

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

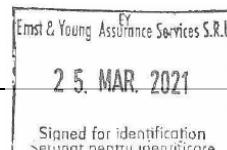
Valentin Budes



SPHERA FRANCHISE GROUP SA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020
All amounts in RON thousand, unless specified otherwise

	<u>Note</u>	31 December 2020	31 December 2019
Assets			
Non-current assets		513,794	508,147
Property, plant and equipment	11	201,118	199,415
Right-of-use assets	14	230,454	229,121
Intangible assets	12	61,173	64,835
Trade and other receivables		402	-
Deposits for rent guarantee		7,017	8,416
Deferred tax assets	10	13,629	6,360
Current assets		153,481	112,082
Inventories	15	11,099	11,632
Trade and other receivables	16	18,361	39,289
Prepayments		2,112	3,889
Cash and short-term deposits	18	121,909	57,272
Total assets		667,275	620,229
Equity and liabilities			
Equity			
Issued capital	19	581,990	581,990
Share premium	19	(519,998)	(519,998)
Other reserves		(917)	(1,178)
Retained earnings		88,033	111,402
Foreign currency translation reserve		(240)	(166)
Equity attributable to equity holders of the parent		148,868	172,050
Non-controlling interests		253	201
Total equity		149,121	172,251
Non-current liabilities		285,450	265,596
Interest-bearing loans and borrowings	13	83,859	73,617
Lease liabilities	14	196,883	190,073
Net employee defined benefit liabilities	8.1	3,141	1,906
Trade and other payables	22	1,567	-
Current liabilities		232,704	182,381
Trade and other payables	22	118,505	101,696
Interest-bearing loans and borrowings	13	66,350	34,427
Lease liabilities	14	47,850	45,139
Provisions	21	-	1,120
Total liabilities		518,154	447,978
Total equity and liabilities		667,275	620,229

These consolidated financial statements from page 2 to page 58 were approved by the Board of Directors and were authorised for issue on 23 March 2021.



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

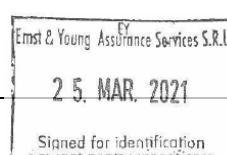
				Foreign currency translation reserve	Total equity	Non-controlling interest	Total equity
	Issued capital	Share premium	Other capital reserves	Retained earnings	Total equity	Non-controlling interest	Total equity
As at 1 January 2020	581,990	(519,998)	(1,178)	111,402	(166)	172,050	201
Loss for the period	-	-	-	(9,689)	-	(9,689)	79
Other comprehensive income							
Remeasurement gain/(loss) on defined benefit plan			262		262		262
Translation differences	-	-	262	(9,689)	(75)	(75)	(103)
Total comprehensive income							
Cash dividends	-	-		(13,679)	-	(13,679)	-
At 31 December 2020	581,990	(519,998)	(917)	88,033	(240)	148,868	252
Foreign currency translation reserve							
Issued capital	Share premium	Other capital reserves	Retained earnings	Total equity	Non-controlling interest	Total equity	
As at 1 January 2019, as previously reported	581,990	(520,578)	67,248	20	128,680	146	128,826
Impact of change in accounting policies (IFRS 16) - Note 4.1	-	-	3,180		3,180	47	3,227
As at 1 January 2019	581,990	(520,578)	-	70,428	20	131,860	193
Profit for the period	-	-		55,226		55,226	236
Other comprehensive income							
Remeasurement gain/(loss) loss on defined benefit plan			(1,178)		(1,178)		(1,178)
Translation differences	-	-	(1,178)	55,226	(186)	(185)	(197)
Total comprehensive income							
Transfer to share premium	580		(580)		53,863	(12)	54,087
Cash dividends			(13,673)				
At 31 December 2019	581,990	(519,998)	(1,178)	111,402	(166)	172,050	201
These consolidated financial statements from page 2 to page 58 were approved by the Board of Directors and were authorised for issue on 23 March 2021.							

EY
 Ernst & Young Assurance Services S.R.L.
 25. MAR. 2021
 Signed for identification
 Semnat pentru identificare

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

	Note	2020	2019
Operating activities			
Profit/(Loss) before tax		(14,118)	59,000
Adjustments to reconcile profit/(loss) before tax to net cash flows:			
Depreciation of right-of-use assets	14	52,564	46,377
Depreciation and impairment of property, plant and equipment	11	35,050	26,951
Amortisation and impairment of intangible assets and goodwill	12	7,659	5,326
Rent concessions		(11,607)	-
Unrealised net foreign exchange differences		4,339	5,297
(Gain)/Loss on disposal of property, plant and equipment and right-of-use assets		(480)	228
Provisions for taxes, net	7	-	(10,343)
Finance income	9.2	(237)	(166)
Finance costs (interest)	9.1	14,092	12,168
Working capital adjustments:			
Decrease/(Increase) in trade and other receivables and prepayments		30,148	(27,743)
Decrease/(Increase) in inventories		532	(1,067)
Increase in trade and other payables		9,007	17,458
Interest received		237	166
Interest paid		(13,961)	(12,039)
Income tax paid		(2,624)	(5,038)
Net cash flows from operating activities		110,600	116,575
Investing activities			
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		(36,231)	(76,875)
Financing activities			
Proceeds from borrowings		58,313	22,062
Repayment of borrowings		(17,601)	(39,232)
Payment of lease liabilities		(36,694)	(41,767)
Dividends paid to equity holders of the parent		(13,674)	(13,671)
Dividends paid to non-controlling interests		-	(216)
Net cash flows used in financing activities		(9,655)	(72,824)
Net increase in cash and cash equivalents		64,714	(33,125)
Net foreign exchange differences		(78)	(267)
Cash and cash equivalents at 1 January		57,272	90,665
Cash and cash equivalents at 31 December		121,909	57,273

These consolidated financial statements from page 2 to page 58 were approved by the Board of Directors and were authorised for issue on 23 March 2021.



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

1. CORPORATE INFORMATION

These consolidated financial statements are prepared by Sphera Franchise Group SA and comprise its activities and those of its subsidiaries, together referred hereinafter as "SFG" or "the Group". Sphera Franchise Group SA is listed on Bucharest Stock Exchange under the symbol "SFG".

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

The Group operates quick service and takeaway restaurant concepts (a chain of 108 restaurants as at 31 December 2020, a chain of 99 restaurants as at 31 December 2019) under the Kentucky Fried Chicken ("KFC"), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (21 restaurants as at 31 December 2020; 23 restaurants as at 31 December 2019) as well as pizza delivery points (18 locations as at 31 December 2020; 22 locations as at 31 December 2019) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (11 restaurants as at 31 December 2020; 10 restaurants as at 31 December 2019) and one restaurant under Paul brand, in Romania. The Group's number of employees at 31 December 2020 was 4,802 (31 December 2019: 6,084).

Sphera Franchise Group SA ("the legal Parent", or "Sphera") was incorporated on 16 May 2017 as a joint stock company and is registered at No. 239 Calea Dorobanti, Bucharest, Romania. Sphera renders to the benefit of the Group entities services such as management services, marketing support, development, sales support, human resources and other services.

US Food Network SA (USFN), the subsidiary which operates the KFC franchise in Romania was incorporated in 1994 as a joint stock company and is registered at No. 239 Calea Dorobantilor Street, 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 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 ("Taco Bell") was set up on 19 June 2017 and operates Taco Bell franchise in Romania. Sphera owns 99.99% of the company's shares. The company operates as a limited liability company and is registered at No. 239 Calea Dorobanti, Bucharest, Romania.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

Statement of Compliance

The financial statements of the Group have been prepared in accordance with Order no. 2844/2016 for approving the Accounting Regulations in accordance with International Financial Reporting Standards, with subsequent amendments and additions. These provisions are in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

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

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

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

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

The main assumptions considered in cash flow projections:

Macroeconomic environment

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

Restaurant Sales

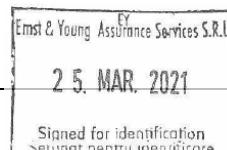
- Progressive recovery of sales has been assumed during 2021: starting with H2 normal course of business is assumed, H1 continuing being affected by restrictions imposed by the state and by local authorities due to pandemic situation.
- The delivery is assumed to have a significant weight in total sales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

Restaurant Operational Expenses

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

G&A expenses

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



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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Development Plan

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

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

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

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

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

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

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

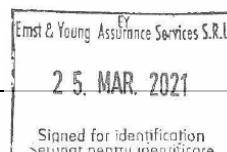
The projections show that the Company has sufficient resources to continue to fund ongoing operations and asset development.

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

RESTAURANT DEVELOPMENT

SFG operated 158 restaurants as of 31. December 2020. Out of 158 stores, 138 were based in Romania, 18 in Italy and 2 in Republic of Moldova.

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

DEVELOPMENT AGREEMENT

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

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

Negotiations with Pizza Hut are ongoing.

STAFF & STATE AID RELATED TO STAFF COSTS

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

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

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

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

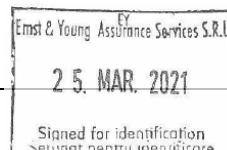
In Q4, 2020 Sphera Franchise Group benefitted from technical unemployment grants from the Romanian state in the amount of RON 1.6 million. In Q4 2020, USFN Italy benefitted from an aid from the Italian government in the value of RON 0.7 million for the turnover reduction due to the COVID-19 business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

LEASE AGREEMENTS

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

FINANCIAL MEASURES

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

In December 2020, the Group activated a short-term working capital line of RON 9.6 million from Intesa Sanpaolo Bank and paid back a short-term working capital line to Vista Bank, in the amount of RON 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 RON 36 million.

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

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

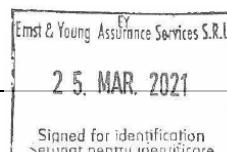
The Management has taken into consideration the potential impact from future COVID 19 pandemic related restrictions on the evolution of the business and embedded these assumptions into the cash flow projections for 2021 as described in Statement of Compliance above. Thus, the Management's position is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

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2020.

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

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

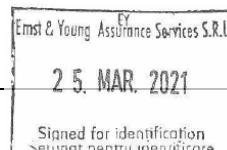
If the Group loses control over a subsidiary, it:

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

2.3 Business combination and goodwill

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

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

2.4 Summary of significant accounting policies

2.4.1 Current versus non-current classification

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

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

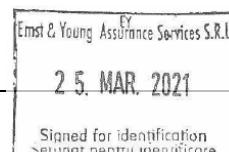
All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.2 Fair value measurement

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

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

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

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

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

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

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

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

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

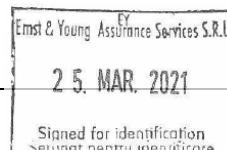
For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

2.4.3 Revenue

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

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

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.4 Government grants

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

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

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

2.4.5 Foreign currencies

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

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

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

	31 December 2020	31 December 2019
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.

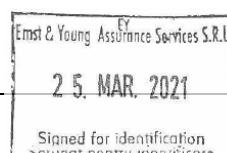
Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

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. Equity items are translated into RON at the historical exchange rate.

The exchange differences arising on the translation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in the profit or loss.



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.6 Taxes

Current income tax

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

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

Deferred tax

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

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

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

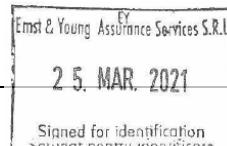
Deferred tax assets are recognised for: all deductible temporary differences and the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits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

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

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

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

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Sales tax (VAT and similar taxes)

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

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

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

2.4.7 Property, plant and equipment

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

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

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

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

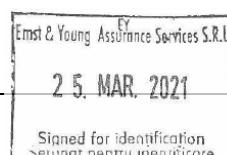
Costs directly related to construction or purchasing of assets connected with opening restaurants in leased locations, including the costs of architecture design, wages and salaries, and benefits of employees directly involved in launching a given location are included in "property, plant and equipment".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

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

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

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

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Start-up expenses for new restaurants

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

2.4.8 Leases

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

Group as a lessee

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

i) Right-of-use assets

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

Right of use of restaurant properties (land)	20 years
Right of use of restaurant properties (freehold buildings)	3 to 10 years
Right-of-use assets of motor vehicles and other equipment	3 to 5 years

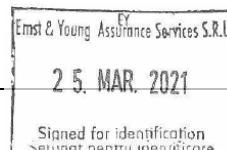
If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in section Impairment of non-financial assets.

ii) Lease liabilities

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

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

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group performs a remeasurement of the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The amount of the remeasurement of the lease liability is recognized as an adjustment to the right-of-use asset i.e. with no impact on income statement.

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

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

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

Group as a lessor

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

2.4.9 Intangible assets

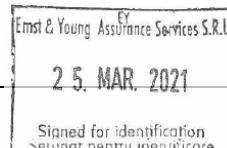
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

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

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

Franchise rights

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2.4.10 Impairment of non-financial assets, including goodwill

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

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

The Group is organised into business units based on the restaurants' brands, each being considered as a single CGU (cash generating unit), as follows:

- KFC restaurants
- Pizza Hut restaurants
- Taco Bell restaurants

Goodwill acquired through business combinations is allocated to the Pizza Hut restaurant chain CGU, which is also an operating and reportable segment.

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

2.4.11 Financial instruments

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

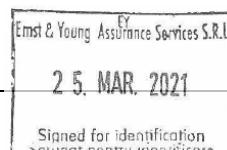
i) Financial assets

Initial recognition and measurement

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

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

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

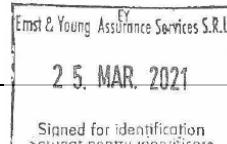
The Group's financial assets are represented by loans, trade and other receivables and cash and cash equivalents.

De-recognition

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

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

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Impairment of financial assets

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

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

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

• Financial instruments risk management	Note 15
• Trade receivables	Note 16

ii) Financial liabilities

Initial recognition and measurement

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

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

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

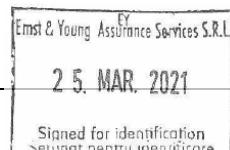
Subsequent measurement

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

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

De-recognition

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

iii) Offsetting of financial instruments

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

2.4.12 Inventories

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

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

2.4.13 Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

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

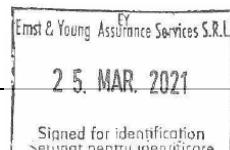
2.4.14 Prepayments

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

2.4.15 Equity

Share capital

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

2.4.16 Royalties

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

2.4.17 Provisions

General

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

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

Onerous contracts

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

2.4.18 Employee benefits

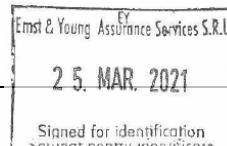
The Group, in the normal course of business, makes payments on behalf of its employees for pensions (defined contribution plans), health care, employment and personnel tax which are calculated according to the statutory rates in force during the year, based on gross salaries and wages. Food allowances,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

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

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

Defined benefit plans (Italian subsidiary)

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

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

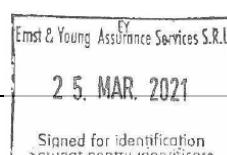
Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The majority lease contracts of the Group include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group's lease contracts terms vary between 5 and 20 years, depending on the location of the restaurants; Drive-Thru and in-line restaurants have an initial lease term greater than mall restaurants which are more exposed to renegotiations for repositioning within the food-court area or other architectural changes initiated by the lessors. Assessment of lease term is performed on a lease-by-lease basis; the lease term includes the non-cancellable period of the lease and does not include the renewal option because, at the commencement date of the lease it is not reasonably certain the renewal option will be exercised.

There are no significant economic factors (incentives or penalties) that might enforce the extension of the lease beyond the contractual duration if the restaurant does not reach the expected operating performance.



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

Moreover, the COVID-19 pandemic reduced predictability regarding the renewal conditions; the current economic context requests a reconsideration of the standard lease conditions: there is an increased concern to optimise the leases (expenses) by switching from a fixed (minimum guaranteed) consideration to a more variable one, directly dependent on the transactions volume.

The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Estimates and assumptions

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

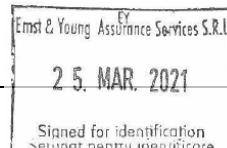
Useful lives of property and equipment and right-of-use assets

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

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

Leasehold improvements are depreciated over a ten years period, this estimation of expected useful life taking in consideration the length of time the assets can reasonably be used to generate income and be of benefit to the Group, the economic period of use until major refurbishment (in line with franchise agreements too), the franchise licence period (franchise renewal cycle) - as well as the historical experience regarding the period in which similar assets generated significant economic benefits to the Group. In case the Group decides to relocate a restaurant, the ongoing franchise right (unamortised franchise fee) is transferred to the new location, as well as part of the movable leasehold improvements that might be reused by the new or other locations (20-40% of existing assets). Generally, the residual value of the leasehold improvements that might be impaired is not considered a critical factor for exercising or not the renewal option of a lease (in case of disposal or relocation, the undepreciated value of assets that cannot be re-used/sold). The costs of dismantling non-removable assets are not significant.

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



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

Impairment of goodwill

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

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

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

Deferred for tax losses carried forward

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

4. CHANGES IN ACCOUNTING POLICIES

4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2020

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2020:

Conceptual Framework in IFRS standards

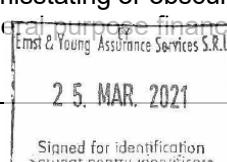
The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their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

IFRS 3: Business Combinations (Amendments)

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

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

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on



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4. CHANGES IN ACCOUNTING POLICIES (continued)

the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. Management has assessed the application of these amendments had no impact on the financial position or performance of the Group.

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

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

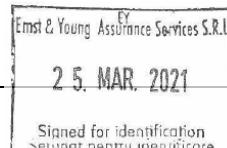
IFRS 16 Leases-Covid 19 Related Rent Concessions (Amendment)

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

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

For the financial year ended 31 December 2020, the 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 (discounts) received in total amount of 11,607 as if it was a variable lease payment, as follows:

	2020	2019
Variable lease payments and expenses related to short-term leases included in restaurant expenses – Rent (Note 14)	16,797	22,480
Rent concessions included in restaurant expenses	(11,504)	-
Rent presented in Restaurant expenses	5,293	22,480
Expenses relating to leases of low value assets and short-term leases included in administrative expenses (Note 14)	497	386
Rent concessions included in administrative expenses	(103)	-
Rent in "General and administration expenses, net"	394	386



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4. CHANGES IN ACCOUNTING POLICIES (continued)

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

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

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

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

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

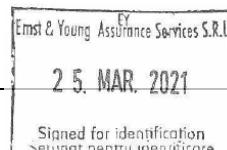
The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities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

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

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

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

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



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4. CHANGES IN ACCOUNTING POLICIES (continued)

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

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

5. GROUP INFORMATION

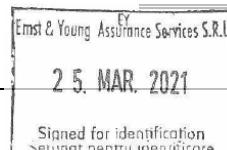
Details of the Group consolidated subsidiaries at 31 December 2020 and 31 December 2019 are as follows:

Company name	Country of incorporation	Field of activity	Control 31 December 2020	Control 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 Flavors SRL	Romania	Restaurants	99.9900%	99.9900%
US Food Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%	100.0000%

The value of non-controlling interests in USFN, CFF and ARS as of 31 December 2020 and 31 December 2019 is below 1 thousand RON therefore there are no other presentations thereof.

6. OTHER OPERATING EXPENSES, NET

	2020	2019
Third-party services	57,187	32,526
YUM penalties (Note 23)	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
Total	109,479	93,750



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6. OTHER OPERATING EXPENSES, NET (continued)

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

7. GENERAL AND ADMINISTRATION EXPENSES, NET

	2020	2019
Payroll and employee benefits (Note 8)	28,955	35,183
Third-party services	6,041	9,008
Depreciation, amortization and impairment of non-current assets	4,968	4,330
Impairment of goodwill (Note 212)	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 (Note 21)	-	(10,343)
Miscellaneous expenses and income, net	917	731
Total	51,140	50,023

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

In December 2019, following a new tax revision performed by the fiscal authorities, the initial tax adjustments were revised down to the value of 1,120. The net revenue impact of 10,343 coming from reversal of initial provision recognized as at 31 December 2018 (11,463) and the updated value of the provision as at 31 December 2019 (1,120) is recorded in the profit and loss account for the year 2019 (Note 21).

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

8.1 Payroll and employee benefits

	2020	2019
Payroll and employee benefits recognized in restaurant expenses	150,124	215,739
Payroll and employee benefits recognized in "General and administration expenses, net"	28,955	35,183
Total Payroll and employee benefits	179,079	250,922
Of which, defined contribution to State pension plan*	4,029	5,767

For the year ended 31 December 2020, total payroll and employee benefits include government grants in total amount of 28,332 (out of which 27,555 included in Restaurant expenses and 779 in General and administration expenses) representing the state aids granted by the governments in the countries where 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 capitalized 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".

The amount of 3,141 representing defined benefit liabilities recorded at balance sheet date was determined based on the actuarial valuation performed by an authorised actuary.

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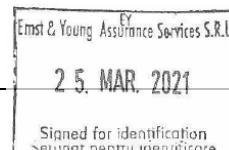
8. DISCLOSURE OF TOTAL PAYROLL AND EMPLOYEE BENEFITS EXPENSE AND TOTAL DEPRECIATION AND AMORTIZATION EXPENSE (continued)

	2020	2019
Net benefit expense (recognized in profit or loss)		
Current service cost - Payroll and employee benefits	1,983	235
Current service cost - G&A expenses	123	20
Interest cost on benefit obligation	13	5
Net benefit expense	2,119	260
Reconciliation of benefit obligation		
Defined benefit obligation as at 1 January	1,906	439
Interest cost	13	5
Current service cost - Payroll and employee benefits	1,983	235
Current service cost - G&A expenses	123	20
Benefits paid	(585)	(368)
Gross remeasurement loss on defined benefit plan	(344)	1,554
Exchange difference	45	21
Defined benefit obligation as at 31 December	3,141	1,906
Remeasurement loss on defined benefit plan (recognized in other comprehensive income)		
Gross remeasurement loss on defined benefit plan	1,210	1,554
Deferred tax credit	(293)	(376)
Net remeasurement loss on defined benefit plan	917	1,178

The tax impact on the remeasurement loss on defined benefit plan of 293 (31 December 2019: 376) is presented in Note 10.

8.2 Depreciation and amortization

	2020	2019
Depreciation of right-of-use assets recognized in "Restaurant expenses" (Note 14)	49,155	43,431
Depreciation, amortization and impairment of other non-current assets recognized in "Restaurant expenses"	36,729	28,486
Depreciation, amortization and impairment recognized in "Restaurant expenses"	85,884	71,917
Depreciation of non-operating right-of-use assets recognized in "General and administration expenses, net" (Note 14)	3,409	2,946
Depreciation, amortization and impairment of non-current assets recognized in "General and administration expenses, net"	1,559	1,384
Impairment of goodwill	4,420	2,406
Depreciation, amortization and impairment recognized in "General and administration expenses"	9,388	6,736
Total depreciation, amortization and impairment	95,272	78,653



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9. FINANCE COSTS AND INCOME

9.1 Finance costs

	2020	2019
Interest on loans and borrowings	5,120	4,480
Finance charges payable on lease liabilities (Note 14)	8,972	7,688
Interest cost of benefit obligation (Note 8.1)	13	5
Foreign exchange loss, net	3,209	5,365
Total finance costs	17,314	17,538

9.2. Finance income

	2020	2019
Interest income	237	166
Total finance income	237	166

10. INCOME TAX

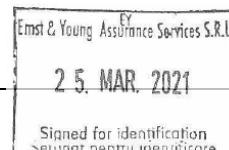
The major components of income tax expense for the years ended 31 December 2020 and 31 December 2019 are:

	2020	2019
Current income tax:		
Current income tax charge	823	1,392
Deferred tax:		
Relating to origination and reversal of temporary differences	(7,203)	(2,232)
Income tax expense	(6,380)	(840)
Specific tax expense	1,872	4,378
Total income tax expense reported in the statement of comprehensive income	(4,508)	3,538

The specific tax is presented in accordance with the provisions of the Order no. 2844/2016.

A reconciliation between tax expense and the product of accounting profit multiplied by Romania's domestic tax rate for the years ended 31 December 2020 and 31 December 2019 is as follows:

	2020	2019
Accounting profit/(loss) before income tax	(14,118)	59,000
At statutory income tax rate of 16%	(2,259)	9,440
Effect of higher tax rates in Italy on tax loss	(3,217)	(517)
Effect of lower tax rates in the Republic of Moldova	(8)	(23)
Other income and legal reserves exempted from tax	(893)	(797)
Effect of using specific tax for the restaurant activity	924	(6,635)
Non-deductible expenses for tax purposes, including impairment loss for goodwill	945	2,070
At the effective income tax rate	(4,508)	3,538



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10. INCOME TAX (continued)

Starting 2017, the income tax for the restaurant activity in Romania has been replaced by a specific tax, computed based on a minimum fixed amount multiplied by the impact of three criteria: restaurant area, restaurant location and seasonality.

In the context created by the COVID-19 epidemic, the Group benefitted by the tax incentives granted by the authorities as supportive measures for the restaurant industry: waiver of the specific tax for limited time intervals during the period March 2020-Dec 2020, temporary postponement of the tax obligations and exemption from the late payment interest and penalties for the postponed amounts.

Deferred tax

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

	Statement of financial position		Statement of comprehensive income	
	31 December 2020	31 December 2019	2020	2019
Right-of-use assets	(14,394)	(13,327)	1,067	13,327
Property, plant and equipment	(442)	(266)	176	52
Intangible assets	24	(19)	(43)	(4)
Lease liabilities	15,033	13,622	(1,411)	(13,622)
Fiscal losses	13,063	6,100	(6,963)	(2,343)
Trade and other payables	51	(161)	(212)	323
Translation difference	-	35	183	35
Deferred tax benefit	-	-	(7,203)	(2,232)
Remeasurement loss on defined benefit plan (Note 8.2) - OCI	293	376	83	(376)
Net deferred tax assets	13,629	6,360	(7,120)	(2,608)

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

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

- 11,981 (31 December 2019: 5,101) arising from the tax losses of the Italian subsidiary that are available indefinitely for offsetting against its own future taxable profits;
- 1,082 (31 December 2019: 999) arising from the unused carried-forward tax losses of Sphera Franchise Group SA that are available for offsetting against the Company's tax profits within the next five years according to the budget (i.e. seven years from the recognition, according to the Romanian tax law). As of December 31,2020 the Company, registered a tax loss in the amount of 6,242 with a recoverable term in 2024 and the amount of 520 with a recoverable term in 2027.

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11. PROPERTY, PLANT AND EQUIPMENT

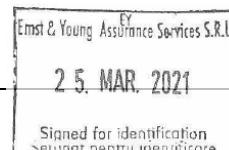
	Freehold buildings and leasehold improvements	Plant and machinery	Other equipment	Constructio n in progress	Total
Cost					
At 1 January 2019	118,903	85,493	31,628	8,920	244,944
Additions	35,457	19,319	13,436	29,143	97,355
Disposals	-	778	965	-	1,743
Transfers	-	-	172	28,963	29,135
Transfers to ROUA	-	1,286	-	-	1,286
Exchange differences	665	366	221	-	1,252
At 31 December 2019	155,025	103,114	44,148	9,100	311,387
Additions	21,453	9,990	7,041	9,311	47,795
Disposals	4,407	1,503	638	58	6,606
Transfers	(1,937)	962	975	12,894	12,894
Exchange differences	674	261	222	-	1,157
At 31 December 2020	174,682	110,900	49,798	5,459	340,839
Depreciation and impairment					
At 1 January 2019	37,579	36,158	13,085	-	86,822
Depreciation charge for the year	11,536	9,092	5,110	-	25,738
Impairment charge	1,042	41	-	-	1,083
Disposals	-	628	887	-	1,515
Depreciation of finance lease assets under IAS 17 transferred to ROUA	-	323	-	-	323
Exchange differences	70	67	30	-	167
At 31 December 2019	50,227	44,407	17,338	-	111,972
Depreciation charge for the year	14,115	11,208	6,556	-	31,879
Impairment charge	2,453	(41)	-	-	2,412
Disposals	4,722	1,357	582	-	6,661
Transfers	(1,001)	499	502	-	-
Exchange differences	41	40	37	-	118
At 31 December 2020	63,115	53,758	22,847	-	139,720
Net Book Value					
At 1 January 2019	81,324	49,335	18,543	8,920	158,122
At 31 December 2019	104,798	58,707	26,810	9,100	199,415
At 31 December 2020	111,567	57,142	26,951	5,459	201,118

As at 31 December 2020 and 31 December 2019, the gross book value of fully depreciated property, plant and equipment that were still in use amounted to 66,392 and 54,607 respectively.

The Group has pledged non-current assets (mostly equipment) in favour of Alpha Bank for the financing received. The net carrying amount of pledged assets as at 31 December 2020 is of 37,589 (31 December 2019: 38,547).

The additions during the years ended 31 December 2020 and 31 December 2019 consist mainly in new restaurants' leasehold improvements, as well as restaurants' kitchen equipment and furniture. The increase of the additions during 2020 is related to the network expansion by new 6 restaurants in Romania (5 KFC restaurants, 1 Taco Bell) and 4 new KFC restaurants in Italy.

Disposals of property, plant and equipment refer mainly to leasehold improvements of the restaurants closed during the year (1 KFC restaurant, 2 PH restaurants and 3 PHD restaurants) or relocated and other obsolete equipment and furniture fully depreciated.



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11. PROPERTY, PLANT AND EQUIPMENT (continued)

Analysis regarding the impairment of property, plant and equipment

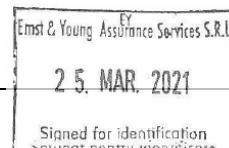
The management has assessed property, plant and equipment for impairment as at 31 December 2020. Based on analysis performed no additional impairment need to be recognised. Please see more details in note 12.

12. INTANGIBLE ASSETS

	Goodwill	Franchise rights	Other intangible assets	Intangibles in progress	Total
Cost					
At 1 January 2019	50,585	24,946	1,807	1,753	79,091
Additions	-	4,779	874	2,272	7,925
Disposals	-	-	4	-	4
Exchange differences	-	75	25	-	100
At 31 December 2019	50,585	29,800	2,702	4,025	87,112
Additions	-	1,689	1,692	1,479	4,860
Disposals	-	906	30	-	936
Exchange differences	-	44	25	-	69
At 31 December 2020	50,585	30,627	4,389	5,504	91,105
Amortisation					
At 1 January 2019	8,312	8,295	334	-	16,941
Amortisation	-	2,348	571	-	2,919
Impairment loss of goodwill	2,406	-	-	-	2,406
Accumulated amortisation of disposals	-	-	4	-	4
Exchange differences	-	8	7	-	15
At 31 December 2019	10,718	10,651	908	-	22,277
Amortisation	-	2,600	943	-	3,543
Impairment loss of goodwill	4,420	-	-	-	4,420
Impairment charge		458			458
Accumulated amortisation and impairment of disposals	-	746	30	-	776
Exchange differences	-	-	9	-	9
At 31 December 2020	15,138	12,963	1,830	-	29,932
Net book value					
At 1 January 2019	42,273	16,651	1,473	1,753	62,150
At 31 December 2019	39,867	19,149	1,794	4,025	64,835
At 31 December 2020	35,447	17,664	2,559	5,504	61,173

Additions during the years ended 31 December 2020 and 31 December 2019 consisted mainly in franchise operating licenses acquired for newly opened restaurants and renewal franchise licenses for restaurants achieving ten years of operations. Additions to intangible in progress refer mainly to the implementation of the ERP platform that was put in function at the beginning of the year 2021.

For impairment testing, goodwill acquired through business combinations is allocated to the Pizza Hut restaurant chain CGU, which is also an operating and reportable segment. The Group performed its annual impairment test as of 31 December 2020.



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12. INTANGIBLE ASSETS (continued)

The recoverable amount of the CGU as at 31 December 2020, has been determined at 47,815 (2019: 57,274) based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2021-2025). The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor. This fair value measurement is on level 3 of the fair value hierarchy.

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

The key assumptions used in the calculation of the recoverable amounts are sales growth rates, EBITDA margins, discount rates, net working capital and terminal value growth rates. Capital expenditure/restaurant is also a key assumption. The values assigned to these key assumptions reflect past experience and a number of actions that the management intends to pursue, such as opening new restaurants according to the Base Tier agreed in the new development plan, new types of selling channel which will be implemented starting 2021 and a tighter control of certain expenses (restaurant payroll, marketing, rent, general and administrative expenses).

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

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

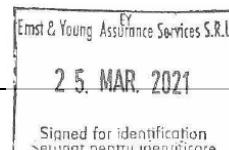
Budget EBITDA margins are based on the following assumptions:

- Maintaining the current profitability for the existing restaurants through price increases with improvements on cost of goods sold due to increasing capacity of negotiation of Sphera Group, in order to compensate the increasing pressure on labour costs. The rest of the main expense categories trend will be relatively constant as percentage of sales.
- Opening of new restaurants with new concepts (Pizza Hut Express and Pizza Hut FCD – Fast Casual Dining) with smaller costs for investment and smaller crew and smaller costs to operate.

As a result of the analysis, as compared to the CGU carrying value of 52,235 (2019: 59,680), an impairment loss was recognised in the financial statements of 4,420 as at and for the year ended 31 December 2020 (2019: 2,406).

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

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

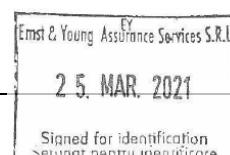


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12. INTANGIBLE ASSETS (continued)

EBITDA margin reflects management's estimates regarding the operational profitability of the CGU, in line with historical levels and market evolution. If EBITDA margin would decrease by 5% the recoverable amount of the CGU would be 42,331 and the impairment loss would be 9,904, while if the EBITDA margin would increase by 5% the recoverable amount of the CGU would be 53,299 and there would be no impairment.

Key drivers	Key drivers (%)	Fair value less cost to sell	Impairment / Headroom
	10.40%	47,815	(4,420)
Cost of capital	0.50%	42,876	(9,359)
	-0.50%	53,498	1,263
	3.00%	47,815	(4,420)
Perpetuity growth factor	2.50%	43,122	(9,113)
	3.50%	53,189	954
Net working capital (%/sales)	+1%	46,176	(2,783)
	-1%	49,454	(6,095)



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13. INTEREST-BEARING LOANS AND BORROWINGS

	Interest rate, %	Maturity	31 December 2020	31 December 2019
Current interest-bearing loans and borrowings				
Current portion of bank loan	EURIBOR 3M + relevant spread	5 years from each withdrawal	36,450	34,427
Short-term working capital facility	ROBOR 3M + relevant spread	1 year from contract date	29,900	-
Total current interest-bearing loans and borrowings			66,350	34,427
Non-current interest-bearing loans and borrowings				
Non-current portion of bank loan	EURIBOR 3M + relevant spread	5 years from each withdrawal	83,859	73,617
Total non-current interest-bearing loans and borrowings			83,859	73,617
Total interest-bearing loans and borrowings			150,209	108,044

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

In January 2021, the parties agreed by an addendum to loan contract to extend the grace period for principal payments for twelve-month period, until 31 December 2021. All principal amounts initially due during suspension period will be paid beginning 1 January 2022 and loan maturities will be postponed in accordance. The split between current and non-current loans and borrowings takes into account existing loan repayment schedule agreed by the parties by addendum to loan contract as at 31 December 2020. Interest payments are not suspended.

Starting with 29 May 2020, Sphera entered in a short-term borrowing arrangement with Vista Bank Romania in total amount of 10 million RON. Credit facility is revolving and may be used by the Borrower during 12 months for financing of working capital needs and of generic company costs, as well as intragroup loans. As at 31 December 2020, the loan balance with Vista Bank is nil.

On 19 August 2020, the Group (USFN Romania - Borrower and Sphera Franchise Group SA - Guarantor) entered in a short-term credit facility agreement with Intesa Sanpaolo Romania Bank. The uncommitted credit facility amounting to RON 9.6 million is revolving and may be used by the Borrower to finance the working capital needs. As at 31 December 2020, the loan facility balance with Intesa Sanpaolo amounts to 9.6 million RON.

EY
Ernst & Young Assurance Services S.R.L.
25. MAR. 2021
 Signed for identification
 Semnat pentru identificare

13. INTEREST-BEARING LOANS AND BORROWINGS (continued)

Covenants:

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

Breaches in meeting the financial covenant at Group consolidated level would permit the bank to call the loan amount needed to meet the financial covenant. There have been no breaches of the consolidated financial covenant for the years ended 31 December 2020 and 31 December 2019. Furthermore, in January 2021, the parties agreed by an addendum to loan contract that the Group is exempt from the consolidated financial covenant for the year 2020.

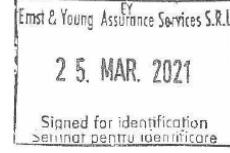
Breaches in meeting standalone financial covenants allow the bank to cease any loan disbursement to the affected company and to immediately call the loan.

In 2020 and 2019, American Restaurant System recorded a negative net worth, thus failing to meet the general financial terms at standalone level. As a result, American Restaurant System was not allowed to perform any further drawings from the loan. The loan balance of American Restaurant System as at 31 December 2020 was of 2,709, out of which 347 long term. The long-term outstanding balance of ARS bank loans and borrowing of 347 is recorded as a current liability as a result of not meet the equity ratio individual contractual conditions.

The Group's short-term borrowing arrangement with the Intesa Sanpaolo contains several covenants, mainly of quantitative nature, out of which the most important are: the Borrower's ratio Total debt/ EBITDA at individual level should not exceed 4.4 for the year 2020 (condition meet as of 31 December 2020) and the amount of loans granted to Sphera Group entities by the Borrower (USFN RO) should not exceed 18 million EUR (condition not meet as of 31 December 2020). Breaches in meeting the financial covenant at individual level would permit the bank to call the loan amount. However, the loan from Intesa Sanpaolo is presented as current liability.

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

	31 December 2019	Non-cash changes	Cash changes	31 December 2020
Interest-bearing loans and borrowings	108,044	3,685	125	1,370 59,715 (19,002) (3,672) (56) 150,209
Bank loans	108,044	3,685	125	1,370 59,715 (19,002) (3,672) (56) 150,209



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14. LEASES

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

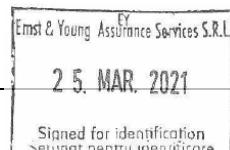
The Group has leases of certain office equipment (i.e. printing and photocopying machines) that are considered of low value. The Group applies the "short-term leases" and "lease of low-value assets" recognition exemptions for these leases.

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

	Restaurant properties – (Land)	Restaurant properties – (Freehold buildings)	Motor vehicles and other equipment	Total
As at 1 January 2019	7,140	183,259	4,503	194,902
Additions	2,104	76,374	1,293	79,771
Depreciation expense	485	44,285	1,607	46,377
Exchange difference	-	819	6	825
As at 31 December 2019	8,759	216,167	4,195	229,121
Additions	6,257	54,738	349	61,343
Depreciation expense	642	50,254	1,668	52,563
Disposals	-	8,565	60	8,625
Exchange difference	-	1,175	2	1,177
As at 31 December 2020	14,374	213,261	2,818	230,454

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

As at 1 January 2020	235,212
Additions	62,662
Accretion of interest	8,972
Payments	45,666
Rent concessions	11,607
Disposals	9,043
(Unrealized) forex exchange loss	3,019
Translation difference	1,184
As at 31 December 2020	244,733
Non-current	196,883
Current	47,850
As at 1 January 2019	192,088
Additions	79,519
Accretion of interest	7,688
Payments	49,062
(Unrealized) forex exchange loss	4,150
Translation difference	830
As at 31 December 2019	235,212
Non-current	190,073
Current	45,139



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14. LEASES (continued)

The following are the amounts recognized in profit or loss:

	2020
Depreciation expense of right-of-use assets	52,564
Interest expense on lease liabilities	8,972
Forex exchange differences, net	3,019
Net (gain)/loss on disposal of right-of-use assets	(419)
Rent presented in restaurant expenses, including:	5,293
Variable lease payments (included in restaurant expenses - rent)	15,877
Expense relating to short-term leases (included in restaurant expenses)	920
Rent concessions (included in restaurant expenses) (Note 4.1)	(11,504)
Rent presented in "General and administration expenses, net", including:	394
Expense relating to leases of low value assets (included in administrative expenses)	497
Rent concessions (included in administrative expenses) (Note 4.1)	(103)
Total amount recognized in profit or loss	69,822
	2019
Depreciation expense of right-of-use assets	46,377
Interest expense on lease liabilities	7,688
Forex exchange differences, net	4,150
Expense relating to short-term leases (included in restaurant expenses)	639
Expense relating to leases of low value assets (included in administrative expenses)	374
Variable lease payments (included in restaurant expenses - rent)	21,750
Total amount recognized in profit or loss	80,978

Variable lease payments depend on sales, turnover rent being accounted as operating expenses ("Rent").

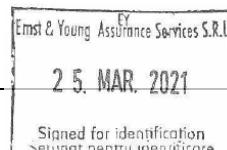
15. FINANCIAL INSTRUMENTS RISK MANAGEMENT

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

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

Interest rate risk

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



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15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Interest rate sensitivity

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

	Increase in basis points	Effect on profit before tax
31 December 2020 EUR	1%	(1,502)
31 December 2019 EUR	1%	(1,080)

The Group does not hedge its interest rate risk.

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

Foreign currency risk

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

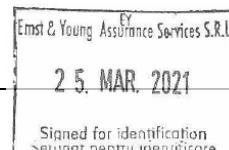
The Group monitors the currency risk by following changes in exchange rates in currencies in which its intercompany balances and external debts are denominated. The Group does not have formal arrangements to mitigate its currency risk.

Foreign currency sensitivity

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

	Increase in EUR rate	Effect on profit before tax	Increase in USD rate	Effect on profit before tax
31 December 2020	1%	(3,544)	1%	(34)
31 December 2019	1%	(3,544)	1%	(34)

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



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15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Credit risk

The Group is not significantly exposed to credit risk as the majority of its sales are on a cash basis. The Group's credit risk is primarily attributed to trade and other receivables and balances with banks. The carrying amount of trade and other receivables, net of allowance for impairment (Note 16) and deposits for rent guarantee as per statement of financial position) plus balances with banks (Note 18), represent the maximum amount exposed to credit risk. Management believes that there is no significant risk of loss to the Group beyond the allowances already recorded.

The Group invests cash and cash equivalents with highly reliable financial institutions. The Group has only plain vanilla deposits with reputable banks, none of which has experienced any difficulties in 2020 or up to the date of these consolidated financial statements. The majority of cash is transacted through and placed with Alpha Bank Romania, member of Alpha Bank Group from Greece and Banca Romana de Dezvoltare (BRD), a member of Societe Generale Group from France, Banca Transilvania, as well as with Unicredit Bank Italy. The long-term credit rating of Alpha Bank Greece is Caa1 as provided by Moody's rating agency, no credit rating being available for its Romanian subsidiary. The long-term credit rating of BRD is Baa3, while the one for Unicredit is Baa1, both provided by Moody's. The long-term credit rating of Banca Transilvania provided by Fitch Ratings is BB+.

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

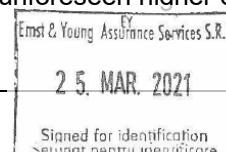
Liquidity risk

The Group has adopted a prudent financial liquidity management approach, assuming that sufficient cash and cash equivalents are maintained and that further financing is available from guaranteed funds from credit lines. The tables below summarize the maturity profile of the Group's financial liabilities, including principal amounts and interests according to contractual terms, at 31 December 2020 and 31 December 2019 based on contractual undiscounted payments.

31 December 2020	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings	84	10,264	60,808	87,587	1,064	159,807
Lease liability	-	13,904	41,713	142,698	88,398	286,713
Trade and other payables	11,674	106,741	90	1,567	-	120,072
Total:	11,758	130,909	102,611	231,852	89,462	566,592

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

At 31 December 2020, the Group had available 55,381 of undrawn uncommitted borrowing facilities (31 December 2019: 87,087), thus being able to respond to any unforeseen higher cash outflow needs.



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15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Capital management

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

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

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

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

	31 December 2020	31 December 2019
Interest-bearing loans and borrowings	150,209	108,044
Leases in relation to IFRS 16	242,826	235,212
Financial trade and other payables	58,780	68,257
Less: cash and short-term deposits	121,913	57,272
Net debt	329,902	354,241
Equity	149,144	172,251
Capital and net debt	479,046	526,492
Gearing ratio:	69%	67%

The Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. For the covenants in force as at 31 December 2020 and 31 December 2019 please refer to Note 13.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 31 December 2019.

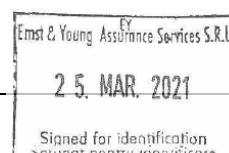
Fair values

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

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

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

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



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15. INVENTORIES

	31 December 2020	31 December 2019
Raw materials	7,866	8,355
Consumables	2,528	2,428
Goods for resale	705	849
Total	11,099	11,632

For the year ended 31 December 2020, inventories amounting to 241,570 (2019: 332,120) were recognised as an expense in profit or loss, in "Food and materials" as well as in "Other operating expenses, net" and "General and administrative expenses, net" ("Small-wares" and "Cleaning supplies").

16. TRADE AND OTHER RECEIVABLES

	31 December 2020	31 December 2019
Trade receivables, net	2,297	2,193
Trade receivables from related parties	229	160
Advances to related parties	110	169
Loans granted to related parties	705	785
Tax receivables (VAT receivables mainly)	5,997	27,565
Government grants for technical unemployment	1,152	-
Advance to suppliers	190	2,764
Meal tickets	1,056	947
Deposits for guarantees	-	4,200
Social security – medical leave to be received	6,237	-
Other debtors	790	506
Total	18,763	39,289

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

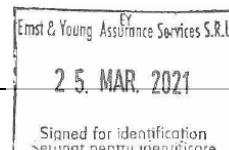
Trade receivables are non-interest bearing and are generally on terms of 30-90 days.

As at 31 December 2020, trade receivables with a value of 323 (31 December 2019: 392) were impaired and fully provided for. There were no movements during 2020 in the provision for impairment of receivables.

As at 31 December 2020, trade and other receivables include 6,237 representing medical leave indemnity to be recovered from the social security fund; as at 31 December 2019, the value of medical leave to be received in amount of 5,739 was presented as a net of the social security liabilities, in the Trade and other payables.

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

31 December 2020	Trade receivables					
	Total	Current	< 30 days	30-60 days	61-90 days	>91 days
Expected credit loss rate		0%	0%	0%	0%	60%
Estimated total gross carrying amount at default	2,958	803	772	471	28	885
Expected credit loss	323	-	-	-	-	323
Net	2,636	803	772	471	28	562



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17. TRADE AND OTHER RECEIVABLES (continued)

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

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

18. CASH AND SHORT-TERM DEPOSITS

	31 December 2020	31 December 2019
Cash at banks and on hand	113,464	40,947
Cash in transit	5,055	1,873
Short-term deposits	3,390	14,452
Total	121,909	57,272

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

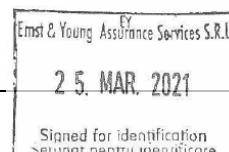
As part of the financing agreement with Alpha Bank the Group has pledged the cash available in the accounts opened with the bank. The balance of the pledged bank accounts as at 31 December 2020 is of 103,071 (31 December 2019: 37,228).

19. ISSUED CAPITAL

	31 December 2020	31 December 2019
Authorised shares		
Ordinary shares of 15 RON each	38,799,340	38,799,340
Share capital (RON thousand)	581,990	581,990

The shareholders of Sphera Franchise Group SA 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 (10.9900%) and free float (23.9053%).



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19. ISSUED CAPITAL (continued)

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

	<u>Share capital</u>	<u>Share premium</u>
Balance as at 1 January 2017 (including the hyperinflation adjustment)	190	-
Share capital contribution in cash upon set-up of Sphera	1,500	-
Increase of Sphera share capital upon contribution of ARS shares (at fair value of ARS business)	60,786	-
Increase of Sphera share capital upon contribution of USFN shares (at fair value of USFN business)	519,704	(519,704)
Sphera becoming legal parent of the Group	(190)	190
Reclassification of USFN legal reserves	-	19
Costs related to reorganization	-	(1,083)
Balance as at 31 December 2017	581,990	(520,578)

20. PROFIT DISTRIBUTION

	<u>2020</u>	<u>2019</u>
Dividends declared and paid during the period:		
To shareholders of Sphera Franchise Group SA	13,679	13,673
To non-controlling interests	-	216
Total dividends for the period	13,679	13,889
Dividends per share (RON/share)	0.3525	0.3524

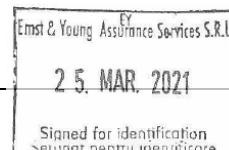
For the year ended 31 December 2020, the Board of Directors has proposed to the shareholders' approval, the following allocation of the net profit of Sphera Franchise Group SA as presented in its separate financial statements as at and for the year ended 31 December 2020:

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

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

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

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



SPHERA FRANCHISE GROUP SA
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21. PROVISIONS

Provision for tax

During 2018 and 2019, USFN SA was subject to a tax audit in relation with income tax (period 2012-2016) and VAT (period 2013-2017). As at 31 December 2018, based on the draft report issued by the tax authorities on 27 February 2019, the Group recognized in the consolidated financial statements a provision

for tax in amount of 11,463, representing the income tax (4,541) and VAT adjustments (3,220) for the period under review and related interest and late payment charges (3,703).

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

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

In 2020, the Group paid to the tax authorities the tax due alongside the related late payment penalties and interest in total amount of (1,120).

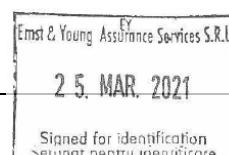
22. TRADE AND OTHER PAYABLES

	31 December 2020	31 December 2019
Trade payables	56,031	66,626
Other payables to related parties	637	222
Other payables	4,624	906
Salary liability	21,117	26,562
Social contribution liability	27,946	2,068
Other employee related liabilities	6,582	2,332
Current income tax (specific tax)	2,530	2,535
VAT payable	190	-
Other taxes	409	445
Dividends payable	6	-
Total	120,072	101,696
Less: non-current portion of other payables	1,567	-
Trade and other payables, current	118,505	101,696

Terms and conditions of the above financial liabilities:

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

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.



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23. EBITDA

	2020	2019
Operating profit	2,958	76,372
Adjustments to bridge operating profit to EBITDA:		
Depreciation, amortization and impairment of non-current assets included in restaurant expenses	85,884	71,917
Depreciation, amortization and impairment of non-current assets included in general and administration expenses	4,968	4,330
EBITDA	93,810	152,619
Normalization adjustments	7,182	(7,937)
Normalised EBITDA	100,992	144,682

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

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 accrued 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).

24. EARNINGS PER SHARE (EPS)

	31 December 2020	31 December 2019
Profit/(Loss) attributable to ordinary equity holders of the parent	(9,666)	55,226
Weighted average number of ordinary shares	38,799,340	38,799,340
Earnings per share, basic and diluted (RON/share)	(0.2491)	1.4234

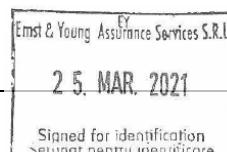
There are no dilutive instruments to be considered.

25. COMMITMENTS AND CONTINGENCIES

Group as lessee - lease commitments

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

Please see Note 14 for presentation of the maturity profile of the Group's financial lease liabilities, including principal amounts and interests according to contractual terms, at 31 December 2020 and 31 December 2019 based on contractual undiscounted payments.



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25. COMMITMENTS AND CONTINGENCIES (continued)

Other commitments

Per the Romania new network development plan signed in October 2017, the Group has agreed with KFC Europe to open a minimum of 39 new KFC locations (out of which 29 standard format restaurants and 10 smaller format restaurants meaning rural drive-thru or an agreed small box design) during the years 2017-2022 (out of which 8 units in 2020). Given the pandemic situation, the parties have negotiated in 2020 the resize of the restaurant development plan for the period 2020-2021, from 17 net new stores to 10 net new stores, out of which 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.

The target for 2022 for KFC Romania remains unchanged and includes opening of 9 new restaurants. Should the Group fail to achieve these targets, the Group might pay KFC Europe a penalty for each such location; the Group has not paid such penalties to date, being in line with the committed development plan.

Per the Romania new network development plan concluded with Pizza Hut Europe (Master Franchisor) in October 2017, the Group has agreed to open a minimum of 34 outlets (restaurants and pizza delivery) during the years 2017- 2021 (out of which 8 in 2020). Should the Group fail to achieve these targets, the Group pays PH Europe Sarl a penalty for locations not opened.

For the years ended 31 December 2019 and 31 December 2020, the Group has postponed the committed openings for the next years and recognised in the consolidated financial statements a liability for the initial fees due to YUM related to the committed stores not yet realised until the end of the financial years. Starting 2020, the assumed continuing fees for the restaurants committed for 2019 and postponed for future period were accrued according to the development plan agreement in force (Note 6).

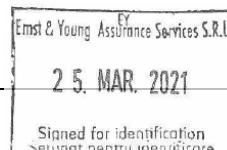
As at 31 December 2020, following the renegotiations carried out by the Group with the franchisor, the parties are going to sign a revised development agreement.

Per the Romania network development plan concluded with TB International Holdings II SARL (the Franchisor) in April 2017, the Group has agreed to open a minimum of 10 Taco Bell restaurants during the years 2017- 2019 (2 restaurants in 2017, 3 restaurants in 2018 and 5 restaurants in 2019). According to the initial restaurant rollout plan, CFF had no more obligation to open new restaurants in 2020. Nonetheless, CFF continued the development of the Taco Bell network in Romania in the course of 2020 and has opened one new restaurant. Further to the negotiations with Taco Bell Europe, the parties have agreed that for the period 2020 - 2021, CFF will benefit of progressive financial incentives, depending on the number of net new restaurants being opened. For each new net restaurant that exceeds the number of 5 net new restaurants, CFF will benefit of additional financial incentives.

At the beginning of 2020, the Group agreed with Yum Italy to terminate existing development agreements for the two regions signed (Tri Veneto and Piemonte) and entered into negotiations for new development agreements. In 2020, the Group has signed a development incentive agreement with the franchisor for the period 1 July 2020-31 March 2021 to open a minimum one new store during the term. The Group will benefit of financial incentives for any new openings exceeding the agreed target. The Group has inaugurated four new stores in 2020, one of them being counted under the new development agreement. Another one was opened in February 2021 (Note 29).

Bank letter of guarantees

The Group has issued bank letters of guarantee in favour of suppliers as at 31 December 2020 in amount of 12,908 (31 December 2019: 15,595). Letters of guarantee as at 31 December 2019 include a bank letter of guarantee in amount of 3,495 issued in favour of tax authorities, that was released at the beginning of the year 2020.



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25. COMMITMENTS AND CONTINGENCIES (continued)

Other contingencies

Taxation

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

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

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

Transfer pricing

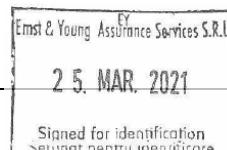
According to the applicable relevant tax legislation in the countries in which the Group operates, the tax assessment of related party transactions is based on the concept of market value for the respective transfers. Following this concept, the transfer prices should be adjusted so that they reflect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

The Group has prepared transfer pricing files.

Legal proceedings

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

In 2019, USFN, alongside the owner of the building where one of the KFC drive-through restaurant is operating, has been suited by a third party acting as plaintiff in connection with utilities pipes (electrical, gas and water) [sub]crossing plaintiff's plot in absence of a pre-agreement. Plaintiff requests from USFN and the landlord, *inter alia*, payment of liquidated damages in amount of approx. 705. To date, the court file is in the stage of evidence taking. However, US Food Network SA submitted a call for guarantee against the Landlord and, therefore, in case USFN will be held primarily accountable by the Court with regards to the liquidated damages, then the USFN will be able to claim the payments from the Landlord. The call for guarantee has been admitted in principle. Further, given not all the evidence has been submitted and analysed by the Court, the Group cannot anticipate on the manner the Court may rule. Based on lawyer confirmation it is more probably than not to have a favourable decision.



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26. RELATED PARTY DISCLOSURES

During the years ended 31 December 2020 and 31 December 2019, the Group has carried out transactions with the following related parties:

Related party	Nature of the relationship	Country of incorporation	Nature of transactions
Moulin D'Or SRL	Entity 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, Tatika Investments Ltd and ultimate beneficiary owner of the parent	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
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
Fundatia Advance	Entity with common members of key management personnel	Romania	Charity

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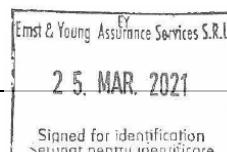
26. RELATED PARTY DISCLOSURES (continued)

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

Related party	2020		31 December 2020	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL	10	7	110	-
Moulin D'Or SRL	163	40	-	-
Lucian Vlad	-	201	-	-
Radu Dimofte	-	83	-	-
Wellkept Group SA	-	236	-	1
Midi Development SRL	10	-	-	-
Grand Plaza Hotel SA	-	595	66	19
Arggo Software Development and Consulting SRL	-	1,381	-	279
Elicom SRL	-	1,096	-	85
Elicom Connect SRL	-	11	-	2
Dorobanti 239 Imobiliare SRL	-	2,654	-	37
Baneasa Developments SRL	-	2,928	-	157
Baneasa Investments SA	-	400	128	57
Fundatia Advance	50	-	35	-
	233	9,632	339	637
Related party	2019		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	2	5	974	3
Moulin D'Or SRL	954	35	753	2
Lucian Vlad	-	276	-	-
Radu Dimofte	-	114	-	-
Wellkept Group SA	-	462	-	2
Midi Development SRL	17	149	1	-
Grand Plaza Hotel SA	-	1,071	-	16
Arggo Software Development and Consulting SRL	-	509	-	13
Elicom SRL	-	1,196	-	165
Elicom Connect SRL	-	11	-	1
Dorobanti 239 Imobiliare SRL	-	3,038	-	18
Baneasa Developments SRL	-	4,103	-	63
Baneasa Investments SA	-	552	128	-
	973	11,521	1,836	282

The Group has granted a loan to Cinnamon Bake&Roll SRL. The loan balance as at 31 December 2020, included in the balances presented above, was of 639 (31 December 2019: 734) and the interest accrual as at 31 December 2020 was of 61 (31 December 2019: 51).

Intangibles in progress include an amount of 1,104 (31 December 2019: 949) representing the capital expenditure related to the new ERP system implementation services provided by Arggo Software and Development SRL.



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26. RELATED PARTY DISCLOSURES (continued)

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

Terms and conditions of transactions with related parties

Outstanding balances at the period end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables.

For the years ended 31 December 2020 and 31 December 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:

	2020	2019
Short-term employee benefits	9,286	10,663
Total compensation paid to key management personnel	9,286	10,663

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

27. SEGMENT INFORMATION

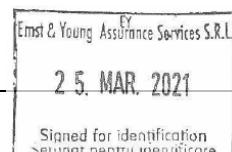
For management purposes, the Group is organised into business units based on the restaurants' brands, as follows:

- KFC restaurants
- Pizza Hut restaurants
- Taco Bell restaurants

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

The Group's service revenues resulting from the contracts signed with other related parties are presented in the "Other" category (167). The Parent company's service revenues rendered to its subsidiaries are presented in the "Inter-segment revenues" line and eliminated during consolidation.

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



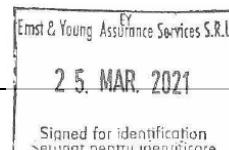
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27. SEGMENT INFORMATION (continued)

2020	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Total revenues (including Other restaurant income*)	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	83,164	31,665	42,819	(44,194)	708,564
Segment operating profit	18,339	(14,761)	(2,153)	66,227	(64,692)	2,960
Finance costs	14,690	2,225	1,940	1,903	(3,444)	17,314
Finance income	1,688	25	-	1,968	(3,444)	237
Income taxes	(5,218)	663	129	(83)	-	(4,508)
Net profit/(loss)	10,554	(17,624)	(4,222)	66,375	(64,692)	(9,610)
Total assets	553,806	62,231	35,368	129,049	(113,179)	667,275
Total liabilities	506,559	66,331	46,886	62,549	(164,172)	518,154
Capital expenditure	35,494	2,079	1,681	484	22	39,760
Depreciation of right of use assets	37,964	10,409	3,035	1,155	-	52,563
Depreciation, amortization and impairment of other non-current assets	38,139	6,563	2,396	(4,390)	-	42,708

*Other restaurant income (726) refers to the state aid received by the Italian subsidiary for the reduction of turnover due to the Covid-19 business disruption.

2019	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	789,402	131,728	32,627	971	-	954,728
Inter-segment revenues	-	-	-	29,389	(29,389)	-
Dividend revenues				51,239	(51,239)	-
Operating expenses	702,817	135,012	33,371	49,472	(42,315)	878,357
Segment operating profit	86,585	(3,284)	(744)	32,127	(38,313)	76,372
Finance costs	13,705	3,170	1,657	1,797	(2,792)	17,538
Finance income	944	10	-	2,004	(2,792)	166
Income taxes	1,403	1,560	238	337	-	3,538
Net profit/(loss)	72,421	(8,004)	(2,640)	31,998	(38,313)	55,462
Total assets				108,25		
Total liabilities	459,009	67,672	38,923	6	(53,631)	620,229
Capital expenditure	61,745	2,588	11,333	779	(127)	76,318
Depreciation of right of use assets	32,598	10,274	2,352	1,153	-	46,377
Depreciation, amortization and impairment of other non-current assets	21,411	6,480	1,392	2,993	-	32,276



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27. SEGMENT INFORMATION (continued)

Geographic information:

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

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

Non-current assets	31 December 2020	31 December 2019
Romania	361,214	371,457
Italy	147,785	132,268
Republic of Moldova	4,795	4,422
Total	513,794	508,147

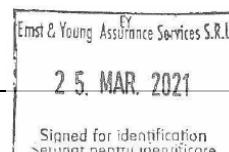
Non-current assets consist mainly of right-of-use assets, leasehold improvements and kitchen related equipment.

28. AUDITOR'S FEES

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

The fee for the statutory audit of the consolidated and standalone financial statements as of 31 December 2020 of Sphera Franchise Group SA prepared in accordance with MOF 2844/2016 and of the statutory audit of the financial statements as of 31 December 2020 of US Food Network SA, American Restaurant System SA and California Fresh Flavors in accordance cu MOF 1802/2014 and of the statutory audit of US Food Network Srl Italy was of 555 (excluding VAT).

Other non-assurance services amounted 49 (excluding VAT) in connection with the procedures performed by the audit company for the Group's half-yearly related parties' reports, prepared in accordance with the stock exchange regulations.



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29. EVENTS AFTER THE REPORTING PERIOD

Proposed profit allocation for the financial year 2020

For the year ended 31 December 2020, the Board of Directors has proposed to the shareholders' approval, the following allocation of the net profit of Sphera Franchise Group SA as presented in its separate financial statements as at and for the year ended 31 December 2020:

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

New openings

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

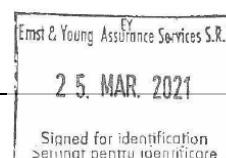
Chief Executive Officer

Calin Ionescu



Chief Financial Officer

Valentin Budes



SPHERA FRANCHISE GROUP SA

SEPARATE FINANCIAL STATEMENTS

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

31 December 2020

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

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Independent auditors' report to the shareholders of Sphera Franchise Group SA

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sphera Franchise Group S.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sphera Franchise Group S.A. (the Company) with official head office in Bucharest, 239 Calea Dorobanti Street, identified by sole fiscal registration number 37586457, which comprise the statement of financial position as at December 31, 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

Basis for opinion

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

Key audit matters

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

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

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

Key audit matter

1. Going concern in the context of COVID 19 pandemic

The developments surrounding the Corona (Covid-19) virus have a profound impact on people’s health and on our society as a whole, as well as on the operational and financial performance of organizations and the assessment of the ability to continue as a Going Concern.

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

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

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

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

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

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

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

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

How our audit addressed the key audit matter

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

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

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

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

Key audit matter:

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

The carrying value of the investments in subsidiaries and of loans granted to subsidiaries amounted to RON 692,863 thousand as at 31 December 2020.

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

The assessment of whether there is an indication that an asset may be impaired and the determination of recoverable amounts of the Company investments in subsidiaries and of the loans granted to them relies on management's estimates of future cash flows and their judgment with respect to the subsidiaries' performance including future restaurants opening, growth rates, gross and net operating margins, working capital needs, capital expenditure and discount rates, as well as economic assumptions such as the evolution of salaries in the economy and inflation, including the impact of the COVID 19 pandemic related governmental measures.

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

Due to the uncertainty of forecasting and discounting future cash flows, the level of management's judgement involved and the significance of the Company's investment in subsidiaries and loans granted as at 31 December 2020, this audit area is considered a key audit matter.

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

How our audit addressed the key audit matter

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

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

- We included our evaluation specialists in our team to assist us in evaluating the Company's key assumptions and estimates used to determine the discount rate, the future operating cash flows, the growth rates, operating margins, working capital needs and the capital expenditure.
- In this context, we evaluated whether or not certain assumptions on which the valuation was based, individually and taken as a whole, considered: i) the economic environment of the industry impacted by the pandemic, and the economic circumstances of the Group to which the Company belongs, including the impact of the COVID 19 pandemic related governmental measures (restrictions and support measures for the industry, public moratoria for borrowings from banks); ii) existing market information; iii) the business plans of the Group to which the Company belongs, including management's expectations (including, without being limited to: comparing the restaurant openings considered with commitments to franchisor, assessing the investment per restaurant); iv) the risks associated with the cash flows, included the potential variability in the amount and timing of cash flows and the related effect on the discount rate; v) specific requirements of IFRS; vi) benchmarking against general performance of peer companies and against the Group's historical financial performance and trends.
- Tested the mathematical accuracy of the discounted cash flow computation;
- Assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year;
- Evaluated the management's sensitivity analysis over key assumptions in the future cash flow model in order to assess the potential impact of a range of possible outcomes.

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

Other information

The other information comprises the Annual Report (that includes the Administrators' Report and the Non-financial declaration), but does not include the financial statements and our auditors' report thereon. Management is responsible for the other information.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

- a) in the Administrators' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying financial statements as at December 31, 2020;
- b) the Administrators' Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 – 19;

- c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the financial statements as at December 31, 2020, we have not identified information included in the Administrators' Report that contains a material misstatement of fact.

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

Appointment and Approval of Auditor

We were appointed as auditors of the Company by Articles of Association on 4th May 2017 to audit the financial statements for the financial year end December 31, 2020. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 4 years, covering the financial periods end December 31, 2017 till December 31, 2020.

Consistency with Additional Report to the Audit Committee

Our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 22 March 2021.

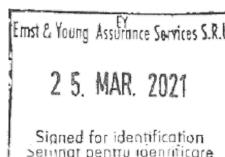
Provision of Non-audit Services

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

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

On behalf of,

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



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

Bucharest, Romania
25 March 2021

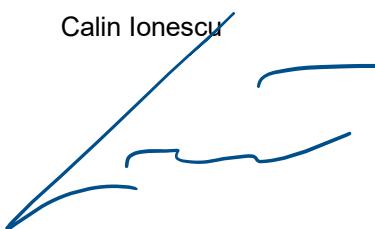
SPHERA FRANCHISE GROUP SA
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020
All amounts in RON thousand, unless specified otherwise

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

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

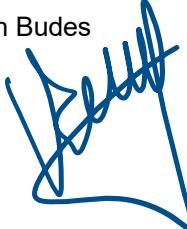
Chief Executive Officer

Calin Ionescu



Chief Financial Officer

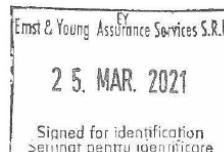
Valentin Budes



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

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

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

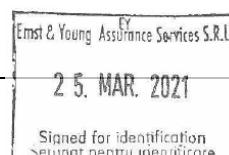


SPHERA FRANCHISE GROUP SA
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020
All amounts in RON thousand, unless specified otherwise

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

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

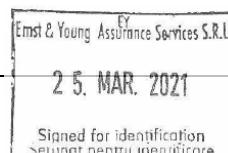
These separate financial statements from page 2 to page 44 were approved by the Board of Directors and were authorised for issue on 23 March 2021.



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

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

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



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

1. REPORTING ENTITY

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

As at 31 December 2020 and 31 December 2019, the Company has the following investments in subsidiaries:

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

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

The Group operates quick service and takeaway restaurant concepts (a chain of 106 restaurants as at 31 December 2020) under the Kentucky Fried Chicken ("KFC"), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (21 restaurants) as well as pizza delivery points (19 locations) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (11 restaurants) and one restaurant under Paul brand, in Romania.

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

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

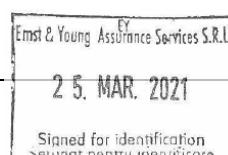
2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of Compliance

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

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



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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

The main assumptions considered in cash flow projections:

Macroeconomic environment

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

Restaurant Sales

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

Restaurant Operational Expenses

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

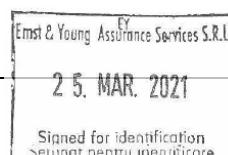
G&A expenses

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

Development Plan

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

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



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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

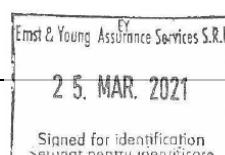
RESTAURANT DEVELOPMENT

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

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

DEVELOPMENT AGREEMENT

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Negotiations with Pizza Hut are ongoing.

STAFF & STATE AID RELATED TO STAFF COSTS

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

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

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

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

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

LEASE AGREEMENTS

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

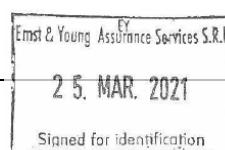
FINANCIAL MEASURES

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

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

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

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

2.2 Basis of preparation

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

2.3 Summary of significant accounting policies

2.3.1 Current versus non-current classification

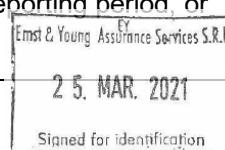
The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

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

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

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

2.3.2 Fair value measurement

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

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

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

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

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

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

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

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

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

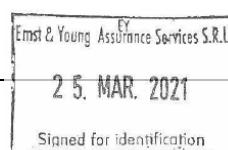
2.3.3 Revenue

Rendering of services

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

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

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Dividend income

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

Interest income

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

2.3.4 Government grants

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

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

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

2.3.5 Foreign currencies

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

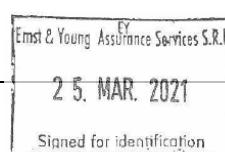
Transactions and balances

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

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

	31 December 2020	31 December 2019
RON – EUR	4.8694	4.7793
RON – USD	3.9600	4.2608

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.6 Taxes

Current income tax

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

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

Deferred tax

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

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

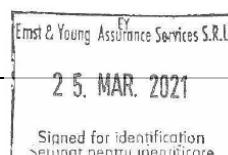
- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences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

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

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

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

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Sales tax (VAT and similar taxes)

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

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

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

2.3.7 Property, plant and equipment

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

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

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

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

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

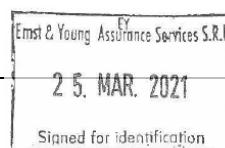
Leasehold improvements	over the lease contract duration (usually 10 years)
Computers and IT equipment	3 to 5 years
Vehicles	5 years
Other property, plant and equipment	2 to 10 years

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

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

2.3.8 Leases

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Company as a lessee

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

i) Right-of-use assets

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

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

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

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

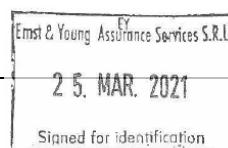
ii) Lease liabilities

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

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

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

The Company performs a remeasurement of the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The amount of the remeasurement of the lease liability is recognized as an adjustment to the right-of-use asset i.e. with no impact on income statement.



2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

2.3.9 Intangible assets

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

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

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

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

2.3.10 Impairment of non-financial assets

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.11 Investments in subsidiaries

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

2.3.12 Financial instruments

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

i) Financial assets

Initial recognition and measurement

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

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

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

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

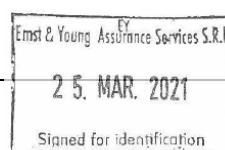
Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

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

Subsequent measurement

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

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets at amortised cost (debt instruments)

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

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

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

The Company's financial assets are represented by loans, trade and other receivables and cash and cash equivalents. For more information on receivables, refer to Note 14. Receivables due in less than 12 months are not discounted.

Derecognition

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

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

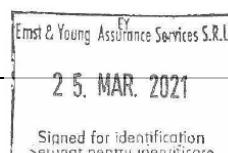
When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards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

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

Impairment of financial assets

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

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



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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- Financial instruments risk management Note 13
- Trade receivables Note 14

ii) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

De-recognition

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

Trade and other payables with a maturity of 12 months or less are not discounted.

iii) Offsetting of financial instruments

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

2.3.13 Cash and cash equivalents

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.14 Prepayments

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

2.3.15 Equity

Share capital

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

Dividends

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

2.3.16 Provisions

General

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

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

Onerous contracts

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.17 Employee benefits

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

In the process of applying the Company's accounting policies, management has made no judgement with significant effect on the amounts recognised in the financial statements during 2020.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

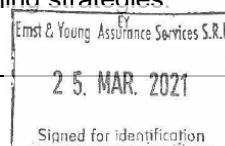
Recoverability of investments in subsidiaries and loans to subsidiaries

The Company assesses the recoverability of investments in subsidiaries and loans to subsidiaries at least at each financial year-end. The determination of recoverable amounts of the Company's investments in subsidiaries relies on management's estimates of future cash flows, for which some of the main assumptions were future restaurants opening, growth rates, gross and net operating margins, working capital needs, capital expenditure and discount rates, as well as economic assumptions such as the evolution of salaries in the economy and inflation.

The key assumptions used to determine the recoverable amount for the investment in subsidiaries and loans to subsidiaries, including a sensitivity analysis, are disclosed and further explained in Note 10.

Deferred for tax losses carried forward

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



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4. CHANGES IN ACCOUNTING POLICIES

4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2020

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2020:

Conceptual Framework in IFRS standards

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

IFRS 3: Business Combinations (Amendments)

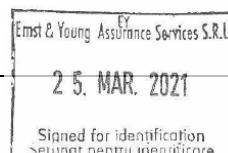
The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the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

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

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

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

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



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4. CHANGES IN ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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4. CHANGES IN ACCOUNTING POLICIES (continued)

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

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

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

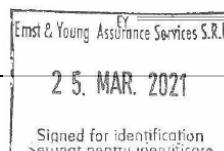
The amendments have not yet been endorsed by the EU. Management has assessed that application of these amendments will have no significant impact on the financial position of the Company.

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

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

5. OTHER EXPENSES

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



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6. FINANCE COSTS AND INCOME

6.1 Finance costs

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

6.2 Finance income

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

7. INCOME TAX

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

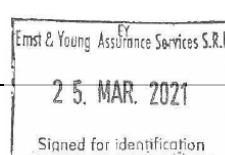
	2020	2019
Deferred tax:		
Relating to fiscal losses carried forward	(83)	337
Income tax expense reported in the statement of comprehensive income	(83)	337

Deferred tax

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

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

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



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7. INCOME TAX (continued)

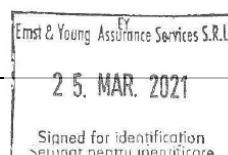
The deferred tax asset of 1,082 (31 December 2019: 999) arose from the tax losses carried forward of the Company which are available for offsetting against the Company's future tax profits within the next years (i.e. seven years from the recognition, according to the Romanian tax law).

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

8. PROPERTY, PLANT AND EQUIPMENT

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

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



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9. INTANGIBLE ASSETS

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

10. INVESTMENTS IN SUBSIDIARIES

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

Company name	Country of incorporation	Field of activity	Share interest percent	Investment at cost	Impairment loss	Carrying value
US Food Network SA	Romania	Restaurants	99.9997%	519,704	-	519,704
American Restaurant System SA	Romania	Restaurants	99.9997%	88,786	50,888	37,898
California Fresh Flavors SRL	Romania	Restaurants	99.9900%	100	-	100
US Food Network SRL	Moldova	Restaurants	80.0000%	1,735	-	1,735
US Food Network SRL	Italy	Restaurants	100.0000%	56,417	-	56,417
Total				666,742	50,888	615,854

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

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10. INVESTMENTS IN SUBSIDIARIES (continued)

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

Company name	Country of incorporation	Field of activity	Share interest percent	Investment at cost	Impairment loss	Carrying value
US Food Network SA	Romania	Restaurants	99.9997%	519,704	-	519,704
American Restaurant System SA	Romania	Restaurants	99.9997%	60,786	35,262	25,524
California Fresh Flavors SRL	Romania	Restaurants	99.9900%	100	-	100
US Food Network SRL	Moldova	Restaurants	80.0000%	1,735	-	1,735
US Food Network SRL	Italy	Restaurants	100.0000%	29,641	-	29,641
Total				611,966	35,262	576,704

In 2019, the Company increased the value of the investment in the Italian subsidiary, US Food Network Srl, with the amount of 15,853 by converting a part of the existing shareholder's loan to equity reserve to maintain a positive net equity of the subsidiary, as requested by the Italian regulations.

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

- Despite of the COVID-19 pandemic, USFN and USFN Moldova's activities in 2020 have continued in line or at better performance than anticipated through the cash flow projections at the commencement of the COVID-19 pandemic; USFN is in a profit position, therefore no impairment indicator was identified;
- USFN Italy, that started activity during 2017, was affected by the COVID-19 outbreak due to the severe impact of the pandemic in Italy. As such management has decided to perform an impairment analysis as at 31 December 2020; Management estimated the recoverable amount of the investment based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2021-2025). The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor. (This fair value measurement is on level 3 of the fair value hierarchy). Consequently, the FVLCD versus carrying amount analysis shows that there is enough headroom and no impairment need to be recorded.
- Taco Bell opened 1 new restaurant in 2020 (in addition to the 10 already opened as at 31.12.2019). During 2020 there were ongoing discussions with the franchisor in order to update and prolong the development plan for future periods. Further to the negotiations, the parties have agreed that for the period 2020 - 2021, CFF will benefit of progressive financial incentives, depending on the number of net new restaurants being opened. Thus, it was considered that there are no impairment indicators.
- Pizza Hut's performance in 2020 was below the cash flow projections, the subsidiary being more affected by the pandemic due to the restrictions on indoor dining. Management estimated the recoverable amount of the investment at 47,815 (2019: 57,274) based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2021-2025). The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor. (This fair value measurement is on level 3 of the fair value hierarchy).

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

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10. INVESTMENTS IN SUBSIDIARIES (continued)

Impairment test for Pizza Hut

The key assumptions used in the calculation of the recoverable amounts are sales growth rates, EBITDA margins, discount rates net working capital and terminal value growth rates. Capital expenditure/restaurant is also a key assumption. The values assigned to these key assumptions reflect past experience and a number of actions that the management intends to pursue, such as opening new restaurants according to the Base Tier agreed in the new development plan with the franchisor, new types of sales channel which will be implemented starting 2021 and a tighter control of certain expenses (restaurant payroll, marketing, rent, general & administrative expenses).

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

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

Budget EBITDA margins are based on the following assumptions:

- Maintaining the current profitability for the existing restaurants through price increases with improvements on cost of goods sold due to increasing capacity of negotiation of Sphera Group, in order to compensate the increasing pressure on labour costs. The rest of the main expense categories trend will be relatively constant as percentage of sales.
- Opening of new restaurants with new concepts (Pizza Hut Express and Pizza Hut FCD – Fast Casual Dining) with smaller crew and smaller to operate.

As a result of the analysis, as compared to the investment carrying value of 88,786 and also considering the loan granted to ARS of 9,917 (2019: 31,750) and the accumulated impairment loss already recognized in the financial statements as at and for the year ended 31 December 2019 of 35,262, there was a decrease of the investment's recoverable amount of additional 15,626 for which the Company recognized an impairment loss in the financial statements as at and for the year ended 31 December 2020. This impairment loss may be reversed in the future financial years, subject to improving performance of the subsidiary.

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

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

EBITDA margin reflects management's estimates regarding the operational profitability of ARS, in line with historical levels and market evolution (and is not disclosed due to the strategic nature of this information). If EBITDA margin would decrease by 5% the recoverable amount of the investment would be 42,331 and the impairment loss as at and for the year ended 31 December 2020 would be 21,110, while if the EBITDA margin would increase by 5% the recoverable amount of the investment would be 53,299 and the impairment loss as at and for the year ended 31 December 2020 would be 10,142.

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10. INVESTMENTS IN SUBSIDIARIES (continued)

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

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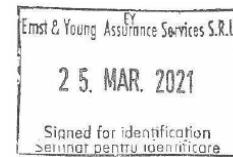
11. INTEREST-BEARING LOANS AND BORROWINGS

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

The Company has received a multicurrency credit facility from its subsidiary US FOOD NETWORK SA, the maximum limit being 20 million EUR. The loan agreement contains no covenants or other special terms.

The Company is part of a credit facility from Alpha Bank Romania signed jointly by the Company and its Romanian subsidiaries. As at 31 December 2020, the Company may, jointly with other companies from Sphera Group, draw from one sub-limit dedicated to financing of Italian subsidiary. The loan is secured with pledge on current accounts opened with the bank, promissory notes issued, pledge on receivables from and shares owned by the Group in its Moldova and Italia subsidiary as well as on future dividends from these subsidiaries.

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



11. INTEREST-BEARING LOANS AND BORROWINGS (continued)

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

Covenants

The Group's borrowing arrangement with the Bank contains several covenants, mainly of quantitative nature, out of which the most important relates to the ratio bank net debt/EBITDA at a consolidated level, excluding the impact of IFRS 16, which should not exceed at any point in time 2.5. There are also covenants defined for each borrower, at company level, which are analysed by the Bank each time a borrower submits a request for disbursement.

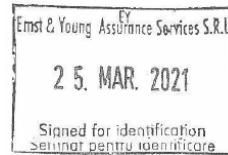
Breaches in meeting the financial covenant at Group consolidated level would permit the bank to immediately call the loan. There have been no breaches of the consolidated financial covenant for the years ended 31 December 2020 and 31 December 2019.

Breaches in meeting standalone financial covenants allow the bank to cease any loan disbursement to the affected company and to immediately call the loan. There have been no breaches of the standalone financial covenant of the Company for the year ended 31 December 2020.

Information related to cash flows from financing

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

	31 December 2019	Non-cash changes			Cash changes		31 December 2020
		Interest accrual	Foreign exchange gains/losses	Drawings	Repayments	Interest paid	
Interest-bearing loans and borrowings	37,109	1,063	462	15,256	(7,267)	(204)	46,419
Bank loans	16,284	204	291	6,000	(7,267)	(204)	15,308
Loans from related parties	20,825	859	171	9,256	-	-	31,111



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12. LEASES

The Company has lease contracts for administrative premises, motor vehicles and equipment used in its operations. Leases for administrative premises have a lease terms between 3 and 10 years, while motor vehicles and other equipment generally have lease terms between 3 and 5 years.

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

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

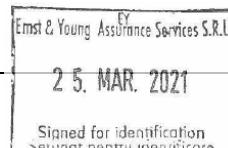
	Freehold buildings	Motor vehicles and other equipment	Total
As at 1 January 2019	5,257	1,491	6,748
Additions	86	282	368
Depreciation expense	594	559	1,153
As at 31 December 2019	4,749	1,214	5,963
Additions	78	136	214
Depreciation expense	603	558	1,161
Disposals	-	60	60
As at 31 December 2020	4,224	732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

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

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

The following are the amounts recognized in profit or loss:

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



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13. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Company's principal financial liabilities comprise a bank loan, lease liabilities, a loan from a subsidiary and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations.

The Company's financial assets are represented by investments in subsidiaries, trade and loans and other receivables, and cash and cash equivalents that derive directly from its operations.

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

Interest rate risk

Sphera's income and operating cash flows are substantially independent of changes in market interest rates. Trade and other receivables and payables are non-interest bearing financial assets and liabilities. The borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term and short-term credit facilities. Interest rate on the Company's debt finance from bank is variable. Interest rates on the Company's debt finance from Group companies are fixed, as disclosed in Note 11. Changes in interest rate do not impact loans and borrowings to third parties since future cash flows are not affected by such changes in interest rates. In connection to loans granted or obtained from related parties, management policy is to resort mainly to fixed rate financing. However, at the time of rising or granting new loans or borrowings management shall use its judgment to decide whether it believes that fixed or variable rate would be more favourable to the Company over the expected period until maturity.

Interest rate sensitivity

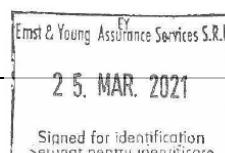
With all other variables held constant, the Company's profit before tax and equity are not affected through the impact on change in market interest rates, due to the fact that both loans to and from related parties have a fixed interest rate.

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

The Company does not hedge its interest rate risk.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's financing activities, as the financing contracted by the Company is Euro based. The vast majority of revenues and expenses, trade and other receivables and payables is in RON. Part of the loans granted to related parties are denominated in EUR. Natural hedging occurs from the Company's financing activities, as the Company grants loans to its subsidiaries in the same currencies in which the funds are obtained from the bank.



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13. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

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

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the EUR exchange rate. The Company's exposure to foreign currency changes for all other currencies is not material. With all other variables held constant the Company's loss before tax and equity are affected as follows:

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

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

Credit risk

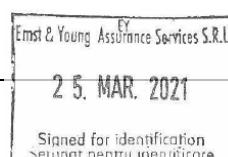
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The carrying amount of trade and other receivables, plus balances with banks, plus the loans and receivables from related parties (Note 14), represent the maximum amount exposed to credit risk.

The Company collaborates with highly reliable financial institutions. The majority of cash is transacted through and placed with Alpha Bank Romania, member of Alpha Bank Company from Greece, Banca Romana de Dezvoltare (BRD), a member of Societe Generale Company from France and Vista Bank Romania. The long-term credit rating of Alpha Bank Greece is Caa3 as provided by Moody's rating agency, no credit rating being available for its Romanian subsidiary. The long-term credit rating of BRD is Baa3 provided by Moody's.

Liquidity risk

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

31 December 2020	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings	-	1,095	3,233	45,097	-	49,426
Lease liabilities	-	257	771	2,892	1,407	5,327
Trade and other payables	198	122	67	-	-	387
Total:	198	1,474	4,071	47,990	1,407	55,140



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13. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

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

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

Capital management

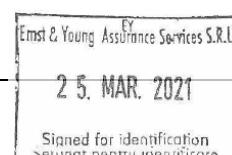
Capital includes the equity attributable to the Company's shareholders.

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

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

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

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



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13. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Fair values

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

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

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

The carrying amounts of these financial instruments are considered to approximate their fair values (level 3 measurement).

14. TRADE AND OTHER RECEIVABLES

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

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

Tax receivables refer to the unsettled VAT in relation with the VAT receivable taken over from American Restaurant System SA, once with the registration as a tax group for VAT purpose (effective since 1 July 2019). Upon the registration as a tax group, the Company has also recognised a liability towards ARS regarding the VAT to be settled in the future periods.

Trade receivables are non-interest bearing and are generally on terms of 15 – 30 days.

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14. TRADE AND OTHER RECEIVABLES (continued)

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

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

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

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

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

15. CASH

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

As part of the financing agreement with Alpha Bank the Company has pledged the cash available in the accounts opened with the bank. The balance of the pledged bank accounts as at 31 December 2020 is of 4,883 (31 December 2019: 19,178).

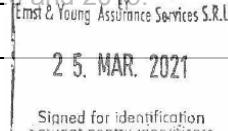
16. ISSUED CAPITAL

	31 December 2020	31 December 2019
Authorised shares		
Ordinary shares of 15 RON each	38,799,340	38,799,340
Share capital (RON thousand)	581,990	581,990

The shareholders of Sphera Franchise Group SA as at 31 December 2020 are: Tatika Investments Ltd. (28.2320%), Computerland Romania SRL (20.5326%), Wellkept Group SA (16.3400%), Lunic Franchising and Consulting LTD (10.8412%) and free float (24.0539%).

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

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



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17. PROFIT DISTRIBUTION

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

For the year ended 31 December 2020, the Board of Directors has proposed to the shareholders' approval, the following allocation of the net profit of Sphera Franchise Group SA as presented in its separate financial statements as at and for the year ended 31 December 2020:

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

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

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

Proposed dividends on ordinary shares, subject to approval at the annual general meeting, are not recognised as a liability as at 31 December (Note 22).

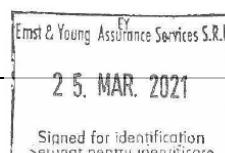
18. TRADE AND OTHER PAYABLES

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

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 15-day terms
- For terms and conditions relating to related parties, refer to Note 0.

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



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19. RELATED PARTY DISCLOSURES

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

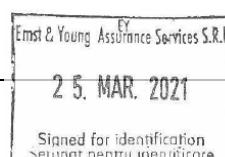
Related party	Nature of the relationship	Country of incorporation	Nature of transactions
US Food Network SA	Subsidiary	Romania	Dividends, loan received, sale of services, acquisition of goods and services
American Restaurant System SA	Subsidiary	Romania	Sale of services, loan provided, acquisition of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

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19. RELATED PARTY DISCLOSURES (continued)

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

31 December 2020	Dividends revenues	Revenues from service contracts to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Related party					
US Food Network SA	85,223	17,375	5	4,317	79,223
American Restaurant System SA	-	3,897	12	1,309	2,650
California Fresh Flavors SRL	-	1,232	-	450	-
US Food Network SRL (Italy)	-	889	-	1,159	-
Moulin D'Or SRL	-	160	3	-	-
Midi Development SRL	-	10	-	-	-
Wellkept Group SA	-	-	236	-	1
Grand Plaza Hotel SA	-	-	4	-	-
Arggo Software Development and Consulting SRL	-	-	249	-	37
Loans and interest from related parties	-	-	-	-	31,111
Loans and interest to related parties (please see below)	-	-	-	26,121	-
	85,223	23,563	509	33,356	113,022
31 December 2019					
	Dividends revenues	Revenues from service contracts to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Related party					
US Food Network SA	50,419	21,660	8	4,494	-
US Food Network SRL (Republic of Moldova)	820	-	-	-	-
American Restaurant System SA	-	5,174	145	2,065	4,174
California Fresh Flavors SRL	-	1,820	118	1,690	120
US Food Network SRL (Italy)	-	735	-	343	-
Moulin D'Or SRL	-	939	25	157	-
Midi Development SRL	-	15	51	1	53
Wellkept Group SA	-	-	462	-	-
Grand Plaza Hotel SA	-	-	17	-	-
Arggo Software Development and Consulting SRL	-	-	95	-	-
Loans and interest from related parties (please see below)	-	-	-	-	20,826
Loans and interest to related parties (please see below)	-	-	-	65,429	-
	51,239	30,343	921	74,179	25,173



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19. RELATED PARTY DISCLOSURES (continued)

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding trade balances at the period end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables.

For the year ended 31 December 2020, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

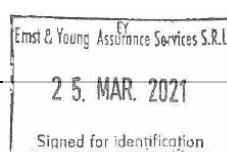
Starting 1 July 2019, Sphera Franchise Group SA and American Restaurant System have registered as a tax group for VAT purpose. The amounts owed to American Restaurant System SA as at 31 December 2020 and 31 December 2019, respectively are mainly in relation with the VAT receivables taken over from ARS that are going to be settled in the future periods (Note 14).

The balances with related parties comprise also loans receivables and payables, included in the Statement of financial position under "Trade and other receivables" (Note 14) and "Interest-bearing loans and borrowings" respectively (Note 11).

Interest income and interest expense and related accrued balances as well as the balances of the intercompany loan receivables and payables are presented below:

Related party	Interest expense	Interest payable	Loan payable
	2020	31 December 2020	31 December 2020
US Food Network SA	859	2,552	28,560
Total	859	2,552	28,560
	Interest income	Interest receivable	Loan receivable
	2020	31 December 2020	31 December 2020
California Fresh Flavors SRL	373	735	8,458
US Food Network SRL (Italy)	889	2,254	4,757
American Restaurant System SA	706	2,035	7,883
Total	1,968	5,024	21,097
Related party	Interest expense	Interest payable	Loan payable
	2019	31 December 2019	31 December 2019
US Food Network SA	788	1,657	19,169
Total	788	1,657	19,169
	Interest income	Interest receivable	Loan receivable
	2019	31 December 2019	31 December 2019
California Fresh Flavors SRL	163	354	11,072
US Food Network SRL (Italy)	852	1,335	20,918
American Restaurant System SA	989	1,299	30,451
Total	2,004	2,988	62,441

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



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19. RELATED PARTY DISCLOSURES (continued)

The intercompany loans granted by the Company to California Fresh Flavors is payable within a period of one to five years from the contract date and the loans granted to US Food Network Srl (Italy) and American Restaurant System SA are payable within one-year period. In 2020, the contracts were extended for another one-year period.

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

Compensation of key management personnel of the Company:

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

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

20. COMMITMENTS AND CONTINGENCIES

Company as lessee - lease commitments

The Company has entered into operating lease agreements for the headquarters premises and other administrative areas and several vehicles and equipment. The contract period of the operating lease agreements varies between three and ten years term.

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

Borrowing facilities granted to third parties

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

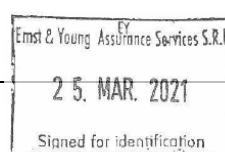
Contingencies

Taxation

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

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

Contingent liabilities may arise in relation to additional tax assessments that may be imposed by the tax authorities as a result of reviews performed. Corporate tax returns can be subject to review by tax authorities within a 5-year period in Romania.



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20. COMMITMENTS AND CONTINGENCIES (continued)

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

Transfer pricing

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

The Company has prepared transfer pricing files.

21. AUDITOR'S FEES

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

The fee for the statutory audit of the consolidated and standalone financial statements as of 31 December 2020 of Sphera Franchise Group SA prepared in accordance with MOF 2844/2016 and of the statutory audit of the financial statements as of 31 December 2020 of US Food Network SA, American Restaurant System SA and California Fresh Flavors in accordance cu MOF 1802/2014 and of the statutory audit of US Food Network Srl Italy was of 555 (excluding VAT).

Other non-assurance services amounted 49 (excluding VAT) in connection with the procedures performed by the audit company for the Group's half-yearly related parties' reports, prepared in accordance with the stock exchange regulations.

22. EVENTS AFTER THE REPORTING PERIOD

Proposed profit allocation for the financial year 2020

For the year ended 31 December 2020, the Board of Directors has proposed to the shareholders' approval, the following allocation of the net profit of Sphera Franchise Group SA as presented in its separate financial statements as at and for the year ended 31 December 2020:

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

New openings

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

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes

