

Preliminary Financial Report

For the year ended 31 December 2019

Report date:	24-Feb-2020
Name of the issuing entity:	Sphera Franchise Group SA
Statutory seat:	Bucharest, Romania
Visiting address:	Bucharest, 239 Dorobanti Ave., 2 nd Floor, 1 st District, Romania
Phone no/Fax no:	0040 21 201 1757 / 0040 21 201 1759
Sole Registration Code:	RO 37586457
Order number with the Trade Registry:	J40/7126/2017
Subscribed and paid-in share capital:	RON 581,990,000
Number of shares in issue:	38,799,340
Number of listed shares:	9,831,753
Regulated market on which the issued securities are traded:	Bucharest Stock Exchange, Main Segment, Category Premium (Shares)
Symbol:	SFG

Note:

The consolidated financial information included in this Preliminary Financial Report is based on the Sphera Franchise Group SA unaudited IFRS preliminary condensed consolidated financial statements for the year ended 31 December 2019.

Financial and operational data from this Preliminary Financial Report are estimates. The final Annual Report for the year ended 31 December 2019 will include the final financial and operational data, which may vary by reference to this Preliminary Financial Report. A final Annual Report will be released by Sphera Franchise Group SA to the market in accordance with the Financial Calendar announced on Bucharest Stock Exchange.

Contact details:

Investor Relations

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Financial analysis of full-year 2019 preliminary results

Summary of preliminary Condensed Consolidated Financial Statements for the year ended 31 December 2019 (unaudited)

Data in RON'000			Δ% 2019/2018	% of Sales		
	Dec-19	Dec-18		Dec-19	Dec-18	Δ%
Restaurant sales	954,728	771,197	23.8%			
Restaurant expenses	828,334	668,018	24.0%	86.8%	86.6%	0.1%
Food and material	319,059	275,497	15.8%	33.4%	35.7%	-2.3%
Payroll and employee benefits	215,739	161,874	33.3%	22.6%	21.0%	1.6%
Rent	22,480	54,372	-58.7%	2.4%	7.1%	-4.7%
Royalties	56,029	45,532	23.1%	5.9%	5.9%	0.0%
Advertising	49,359	41,059	20.2%	5.2%	5.3%	-0.2%
Other operating expenses, net	93,750	69,227	35.4%	9.8%	9.0%	0.8%
Depreciation and amortization	71,917	20,458	251.5%	7.5%	2.7%	4.9%
Restaurant operating profit	126,395	103,179	22.5%	13.2%	13.4%	-0.1%
General and administration expenses, net	50,022	73,048	-31.5%	5.2%	9.5%	-4.2%
Operating profit	76,372	30,131	153.5%	8.0%	3.9%	4.1%
Finance costs	17,538	3,102	465.3%	1.8%	0.4%	1.4%
Finance income	166	106	55.6%	0.0%	0.0%	0.0%
Profit before tax	59,000	27,135	117.4%	6.2%	3.5%	2.7%
Income tax expense	3,538	2,874	23.1%	0.4%	0.4%	0.0%
Profit for the period	55,462	24,262	128.6%	5.8%	3.1%	2.7%
EBITDA	152,619	51,638	195.6%	16.0%	6.7%	9.3%
Normalised EBITDA*	144,682	72,360	99.9%	15.2%	9.4%	5.8%

Breakdown of consolidated results by Group companies – January – December 2019

Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons.Adj	SFG Cons.
Restaurant sales	679,644	131,728	11,328	98,430	32,627	30,360	(29,389)	954,728
Dividend revenue	0	0	0	0	0	51,239	(51,239)	0
Restaurant expenses	568,009	126,052	9,368	97,776	30,294	0	(3,165)	828,334
Food and material	239,405	34,346	4,468	29,612	11,228	0	0	319,059
Payroll and employee benefits	138,706	40,721	1,807	26,331	8,174	0	0	215,739
Rent	20,029	850	111	1,127	364	0	0	22,480
Royalties	40,765	7,681	681	5,906	997	0	0	56,029
Advertising	35,375	8,079	471	6,658	1,945	0	(3,169)	49,359
Other operating expenses, net	55,076	17,808	876	16,065	3,922	0	4	93,750
Depreciation and amortization	38,653	16,567	955	12,079	3,663	0	0	71,917
Restaurant operating profit	111,635	5,676	1,959	654	2,334	81,599	(77,463)	126,395
General and administration expenses, net	21,266	8,960	299	6,098	3,077	49,472	(39,150)	50,022
Operating profit	90,369	(3,284)	1,660	(5,444)	(743)	32,128	(38,314)	76,372
Finance costs	10,908	3,170	238	4,404	1,657	1,797	(4,636)	17,538
Finance income	2,757	10	0	31	0	2,004	(4,636)	166
Profit before tax	82,218	(6,445)	1,422	(9,816)	(2,400)	32,335	(38,314)	59,000
Income tax expense	3,446	1,560	243	(2,286)	238	337	0	3,538
Profit for the period	78,772	(8,004)	1,179	(7,530)	(2,639)	31,998	(38,314)	55,462
EBITDA	131,284	13,470	2,652	6,659	3,001	33,868	(38,314)	152,619
Normalised EBITDA*	120,941	13,470	2,652	6,659	3,001	49,325	(51,365)	144,682

Impact of the adoption of IFRS 16 - Leases

Starting 1 January 2019, Sphera applied IFRS 16 that sets out the principles for the recognition, measurement, presentation and disclosure of leases. Given the material impact of the adoption of IFRS 16 on the consolidated financial statements of Sphera, we are providing below a comparison of the financial results including the impact of IFRS 16 and the financial results excluding the impact of IFRS 16.

For more information on the adoption of IFRS 16 and the impact on the financial statements of Sphera, please refer to Note 2 from the Appendix 1, preliminary Condensed Consolidated Financial Statements.

	Data in RON'000			Δ%		% of Sales		
	Dec-19	Dec-19	Dec-18	2019 ⁽¹⁾ /	2019 ⁽²⁾ /	Dec-19	Dec-19	Dec-18
	(1)	(2)		2018	2018	(1)	(2)	
Restaurant sales	954,728	954,728	771,197	23.8%	23.8%	100.0%	100.0%	100.0%
Restaurant expenses	828,334	830,448	668,018	24.0%	24.3%	86.8%	87.0%	86.6%
Food and material	319,059	319,059	275,497	15.8%	15.8%	33.4%	33.4%	35.7%
Payroll and employee benefits	215,739	215,739	161,874	33.3%	33.3%	22.6%	22.6%	21.0%
Rent	22,480	67,867	54,372	-58.7%	24.8%	2.4%	7.1%	7.1%
Royalties	56,029	56,029	45,532	23.1%	23.1%	5.9%	5.9%	5.9%
Advertising	49,359	49,359	41,059	20.2%	20.2%	5.2%	5.2%	5.3%
Other operating expenses, net	93,750	93,755	69,227	35.4%	35.4%	9.8%	9.8%	9.0%
Depreciation and amortization	71,917	28,640	20,458	251.5%	40.0%	7.5%	3.0%	2.7%
Restaurant operating profit	126,395	124,281	103,179	22.5%	20.5%	13.2%	13.0%	13.4%
General and administration expenses, net	50,022	50,519	73,048	-31.5%	-30.8%	5.2%	5.3%	9.5%
Operating profit	76,372	73,761	30,131	153.5%	144.8%	8.0%	7.7%	3.9%
Finance costs	17,538	5,980	3,102	465.3%	92.8%	1.8%	0.6%	0.4%
Finance income	166	166	106	55.6%	55.6%	0.0%	0.0%	0.0%
Profit before tax	59,000	67,946	27,135	117.4%	150.4%	6.2%	7.1%	3.5%
Income tax expense	3,538	3,779	2,874	23.1%	31.5%	0.4%	0.4%	0.4%
Profit for the period	55,462	64,167	24,262	128.6%	164.5%	5.8%	6.7%	3.1%
EBITDA	152,619	103,926	51,638	195.6%	101.3%	16.0%	10.9%	6.7%
Normalised EBITDA*	144,682	95,989	72,360	99.9%	32.7%	15.2%	10.1%	9.4%

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

* Excluding the impact of certain one-off transactions (litigation expense in 2018, ANAF tax control provision in 2018 and release of provision in 2019 and impairment loss of goodwill in 2018 and 2019).

Consolidated sales of Sphera reached RON 954.7 million for the full-year 2019, representing an increase of 23.8% compared to the previous year. The main drivers for this performance were the growth in the sales of USFN Romania (KFC restaurants) (+15.9% Y/Y), which had a contribution of 12.1pp in the sales growth rate, and USFN Italy (KFC restaurants in Italy), whose sales advanced 155% Y/Y and contributed 7.8pp to the sales growth rate. CFF (Taco Bell restaurants) sales grew 171% and had a contribution of 2.7pp to the sales growth rate, while ARS (Pizza Hut restaurants) sales advanced 7.3% Y/Y and had a contribution of 1.2pp to the sales growth rate.

For the full-year 2019, like-for-like sales across Sphera brands increased 7.8% Y/Y, being supported by a 9.2% advance for KFC Romania, a 16.2% increase for KFC Moldova, a 5.6% increase for KFC Italy, a 1.2% increase for Pizza Hut and a 1.0% increase for Taco Bell.

Data in RON'000	Dec-2019	Dec-2018	Change 2019/2018	Contribution to sales growth
Sales by companies (principal brand)				
USFN Romania (KFC)	679,644	586,460	15.9%	12.1%
USFN Moldova (KFC)	11,328	9,764	16.0%	0.2%
USFN Italy (KFC)	98,430	38,613	154.9%	7.8%
ARS (Pizza Hut)	131,728	122,820	7.3%	1.2%
CFF (Taco Bell)	32,627	12,033	171.2%	2.7%
Other revenues ¹⁾	971	1,507	-35.6%	-0.1%
Total sales	954,728	771,197	23.8%	23.8%

Note: 1) Other revenues consist of revenues of Sphera stand-alone less consolidation adjustments.

Data in RON'000	Dec-2019	Dec-2018	Change 2019/2018	Contribution to sales growth
Sales by region				
Romania	844,970	722,821	16.9%	15.8%
Italy	98,430	38,613	154.9%	7.8%
Republic of Moldova	11,328	9,764	16.0%	0.2%
Total sales	954,728	771,197	23.8%	23.8%

Consolidated operational expenses reached RON 828.3 million for the full-year 2019, representing an increase of 24.0% compared to the previous year. As percentage of sales, operational expenses increased by 0.1pp year-on-year to 86.8% for the full-year 2019, driven mainly by a 1.6pp increase in the cost of

labour and a 0.8pp increase in other operating expenses, while being partly offset by a 2.3pp decrease in cost of food and materials. As a result of the adoption of IFRS 16, rent expenses decreased by 4.7pp to 2.4% of sales, while depreciation expenses increased by 4.9pp to 7.5% of sales.

Excluding the impact of IFRS 16, consolidated operational expenses reached RON 830.4 million for the full-year 2019, representing an increase of 24.3% compared to the previous year. As percentage of sales, operational expenses increased by 0.4pp year-on-year to 87.0% for the full-year 2019.

	Data in RON'000			Change (%)		Percentage of sales		
	Dec-2019	Dec-2019	Dec-2018	2019 ⁽¹⁾ / 2018	2019 ⁽²⁾ / 2018	Dec-2019	Dec-2019	Dec-2018
	(1)	(2)				(1)	(2)	
Restaurant expenses	828,334	830,448	668,018	24.0%	24.3%	86.8%	87.0%	86.6%
Food and material	319,059	319,059	275,497	15.8%	15.8%	33.4%	33.4%	35.7%
Payroll and employee benefits	215,739	215,739	161,874	33.3%	33.3%	22.6%	22.6%	21.0%
Rent	22,480	67,867	54,372	-58.7%	24.8%	2.4%	7.1%	7.1%
Royalties	56,029	56,029	45,532	23.1%	23.1%	5.9%	5.9%	5.9%
Advertising	49,359	49,359	41,059	20.2%	20.2%	5.2%	5.2%	5.3%
Other operating expenses	93,750	93,755	69,227	35.4%	35.4%	9.8%	9.8%	9.0%
Depreciation	71,917	28,640	20,458	251.5%	40.0%	7.5%	3.0%	2.7%
Restaurant operating profit	126,395	124,281	103,179	22.5%	20.5%	13.2%	13.0%	13.4%

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

Restaurant operating profit reached RON 126.4 million for the full-year 2019 (13.2% of sales), up 22.5% compared with the previous year (13.4% of sales); out of the RON 23.2 million increase in the restaurant operating profit, RON 16.5 million was accounted for by USFN Romania operations (17.3% higher than the previous year), RON 2.6 million by USFN Italy and another RON 2.4 million by CFF Romania, while ARS Romania registered a decrease of 1.0 million.

Excluding the impact of IFRS 16 adoption, restaurant operating profit reached 124.3 million for the full-year 2019 (13.0% of sales) up 20.5% compared with the previous year; out of the RON 21.1 million increase in the restaurant operating profit, RON 14.4 million was accounted for by USFN Romania operations (15.1% higher than the previous year), RON 2.7 million by USFN Italy and another RON 2.3 million by CFF Romania, while ARS Romania registered a decrease of 1.0 million.

General and administration (G&A) expenses reached RON 50.0 million for the full-year 2019 (5.2% of sales), down 31.5% compared to previous year (9.5% of sales). Excluding the impact of IFRS 16 adoption and the one-off expenses, normalized general and administration (G&A) expenses reached RON 58.5 million for the full-year 2019 (6.1% of sales), up 11.7% compared to previous year (6.8% of sales).

	Data in RON'000			Change (%)		Percentage of sales		
	Dec-2019	Dec-2019	Dec-2018	2019 ⁽¹⁾ / 2018	2019 ⁽²⁾ / 2018	Dec-2019	Dec-2019	Dec-2018
	(1)	(2)				(1)	(2)	
General and administration expenses net (normalized)	57,959	58,456	52,326	10.8%	11.7%	6.1%	6.1%	6.8%
General and administration expenses, net	50,022	50,519	73,048	-31.5%	-30.8%	5.2%	5.3%	9.5%
Payroll and employee benefits	35,183	35,183	30,563	15.1%	15.1%			
Third-party services	9,008	9,008	7,890	14.2%	14.2%			
Depreciation and amortization	4,330	1,525	1,049	312.7%	45.3%			
Rent	386	3,688	3,478	-88.9%	6.1%			
Banking charges	3,384	3,384	2,921	15.8%	15.8%			
Transport	2,591	2,591	3,063	-15.4%	-15.4%			
Other expenses	-4,859	-4,859	24,083	-120.2%	-120.2%			
<i>out of which non-recurrent (revenues)/expenses, net</i>	-7,937	-7,937	20,721	-138.3%	-138.3%			

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

EBITDA rose 196% Y/Y to RON 152.6 million for the full-year 2019, while operating profit increased 153% Y/Y to RON 76.4 million. EBITDA margin improved 9.3pp to 16.0% for the full-year 2019, mainly as a result of the impact of IFRS 16 on restaurant operating margin, as described before. Net profit reached RON 55.5 million for the full-year 2019, being 129% higher than in the previous year. The net profit margin improved 2.7pp to 5.8% of sales for the full-year 2019.

Excluding the impact of IFRS 16, normalized EBITDA increased 32.7% Y/Y to RON 96.0 million for the full-year 2019, with normalized EBITDA margin improving 0.7pp to 10.1%. Net profit reached RON 64.2 million for the full-year 2019, being 164% higher than in the previous year. The net profit margin increased 3.6pp to 6.7% of sales for the full-year 2019.

	Data in RON'000			Change (%)		Percentage of sales		
	Dec-2019	Dec-2019	Dec-2018	2019 ⁽¹⁾ / 2018	2019 ⁽²⁾ / 2018	Dec-2019	Dec-2019	Dec-2018
	(1)	(2)				(1)	(2)	
EBITDA	152,619	103,926	51,638	195.6%	101.3%	16.0%	10.9%	6.7%
EBITDA normalized*	144,682	95,989	72,360	99.9%	32.7%	15.2%	10.1%	9.4%
Operating profit	76,372	73,761	30,131	153.5%	144.8%	8.0%	7.7%	3.9%
Profit before tax	59,000	67,946	27,135	117.4%	150.4%	6.2%	7.1%	3.5%
Profit for the period	55,462	64,167	24,262	128.6%	164.5%	5.8%	6.7%	3.1%

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

* Excluding the impact of certain one-off transactions (litigation expense in 2018, ANAF tax control provision in 2018 and release of provision in 2019 and impairment loss of goodwill in 2018 and 2019).

APPENDIX 1

**PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2019 (UNAUDITED)**

SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
YEAR ENDED 31 DECEMBER 2019 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

PRELIMINARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR
ENDED 31 DECEMBER 2019 (UNAUDITED)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Restaurant sales		954,728	771,197
Restaurant expenses			
Food and material expenses		319,059	275,497
Payroll and employee benefits		215,739	161,874
Rent		22,480	54,372
Royalties		56,029	45,532
Advertising		49,359	41,059
Other operating expenses, net	4	93,750	69,227
Depreciation, amortization and impairment of non-current assets		71,917	20,458
Restaurant operating profit		126,395	103,178
General and administration expenses, net	5	50,022	73,048
Operating profit		76,372	30,130
Finance costs		17,538	3,102
Finance income		166	108
Profit before tax		59,000	27,136
Income tax expense		3,538	2,874
Profit for the period		55,462	24,262
Attributable to:			
Equity holders of the parent		55,226	24,057
Non-controlling interests		236	205
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Remeasurement loss on defined benefit plan		(1,178)	-
Exchange differences on translation of foreign operations		(198)	113
Total comprehensive income for the period, net of tax		54,087	24,375
Attributable to:			
Equity holders of the parent		53,863	24,155
Non-controlling interests		224	220

SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
YEAR ENDED 31 DECEMBER 2019 ((UNAUDITED))

All amounts in RON thousand, unless specified otherwise

PRELIMINARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER
2019 (UNAUDITED)

	Note	31 December 2019	31 December 2018
Assets			
Non-current assets		508,692	229,173
Property and equipment		199,959	158,122
Right-of-use assets	2	229,121	-
Intangible assets		64,835	62,150
Deposits for rent guarantee		8,416	5,219
Deferred tax assets		6,360	3,682
Current assets		112,040	122,979
Inventories		11,589	10,564
Trade and other receivables		39,289	16,444
Prepayments		3,889	5,306
Cash and short-term deposits		57,272	90,665
Total assets		620,732	352,152
Equity and liabilities			
Equity			
Issued capital	6	581,990	581,990
Share premium		(519,998)	(520,578)
Other reserves		(1,178)	-
Retained earnings		111,402	67,248
Foreign currency translation reserve		(166)	20
Equity attributable to equity holders of the parent		172,050	128,680
Non-controlling interests		201	146
Total equity		172,251	128,826
Non-current liabilities		265,596	91,536
Interest-bearing loans and borrowings		73,617	86,787
Lease liabilities	2	190,073	-
Trade and other payables		-	4,749
Net employee defined benefit liabilities	8	1,906	-
Current liabilities		182,885	131,790
Trade and other payables		102,199	82,658
Interest-bearing loans and borrowings		34,427	37,669
Lease liabilities	2	45,139	-
Provisions	7	1,120	11,463
Total liabilities		448,481	223,326
Total equity and liabilities		620,732	352,152

SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019 ((UNAUDITED))
All amounts in RON thousand, unless specified otherwise

PRELIMINARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019 (UNAUDITED)

	<u>Issued capital</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Foreign currency translation reserve</u>	<u>Total equity</u>	<u>Non-controlling interest</u>	<u>Total equity</u>
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)				3,179		3,179	47	3,227
As at 1 January 2019	581,990	(520,578)	-	70,428	20	131,859	193	132,053
Profit for the period	-	-	-	55,226	-	55,226	236	55,462
Other comprehensive income								
Remeasurement gain/(loss) on defined benefit plan			(1,178)			(1,178)		(1,178)
Translation differences					(186)	(186)	(12)	(198)
Total comprehensive income	-	-	(1,178)	55,226	(186)	53,863	224	54,087
Transfer to share premium	-	580		(580)	-	-	-	-
Cash dividends	-	-		(13,673)	-	(13,673)	(216)	(13,889)
At 31 December 2019	581,990	(519,998)	(1,178)	111,402	(166)	172,050	201	172,251

	<u>Issued capital</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Foreign currency translation reserve</u>	<u>Total equity</u>	<u>Non-controlling interest</u>	<u>Total equity</u>
As at 1 January 2018	581,990	(520,578)	-	43,191	(78)	104,525	19	104,544
Profit for the period				24,057		24,057	205	24,262
Other comprehensive income								
Translation differences					98	98	15	113
Total comprehensive income	-	-	-	24,057	98	24,155	220	24,375
Cash dividends							(93)	(93)
At 31 December 2018	581,990	(520,578)	-	67,248	20	128,680	146	128,826

**SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
YEAR ENDED 31 DECEMBER 2019 (UNAUDITED)**

All amounts in RON thousand, unless specified otherwise

**NOTES TO THE PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2019 (UNAUDITED)**

1 CORPORATE INFORMATION

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

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

The Group operates quick service and takeaway restaurant concepts (a chain of 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 (23 restaurants) as well as pizza delivery points (22 locations) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (10 restaurants) and one restaurant under Paul brand, in Romania.

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

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

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

The Italian subsidiary, US Food Network Srl which operates the KFC franchise in Italy was incorporated in 2016 as a limited liability company and is registered at No. 6 Via Pietro Paleocapa Street, Milano, Italy. The Group owns 100% of the company's shares.

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

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

The preliminary consolidated financial statements of the Group have been prepared in line with the accounting policies that will be used in preparing the 2019 annual consolidated financial statements which are consistent with those used in preparation of the 2018 annual consolidated financial statements, except as described herein. The final, audited, annual consolidated financial statements will be published in March 2020.

The preliminary consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as of 31 December 2018.

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

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The preliminary condensed consolidated financial statements for the year ended 31 December 2019 included in this report are unaudited.

General accounting policies

The accounting policies and valuation methods adopted in the preparation of the preliminary condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new standards and amendments effective as of 1 January 2019; out of these new standards and amendments, IFRS 16 Leases had a material effect on the Group's financial statements.

The Group has initially adopted IFRS 16 from 1 January 2019 using the modified retrospective approach for transition, thus not restating comparative amounts for the comparative period presented. As a consequence, comparative data presented in these preliminary condensed consolidated financial statements are not fully comparable to the reporting period data. The Group recognized the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings at the date of initial application

The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

The standard was effective for annual periods beginning on or after 1 January 2019. IFRS 16 was issued in January 2016 and it replaced IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., office equipment, personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee recognises a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees also is also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Transition to IFRS 16 Leases

Taking into consideration the significant number and value of signed lease agreements as a lessee of restaurant premises, the Group had a material impact on its consolidated statement of financial position and on its consolidated statement of comprehensive income following the adoption of this new standard. The most significant impact was that the Group recognized new assets and liabilities for its operating leases under IAS 17, unless an exemption from IFRS 16 was applicable. The change in presentation of operating lease expenses resulted in a corresponding improvement in cash flows from operating activities and a decline in cash flows from financing activities.

The Group's rental agreements for restaurants include either:

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

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Under IFRS 16 only fixed lease payments are accounted through IFRS 16 lease model. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers those payments occurs. Therefore, turnover rent is accounted as operating expenses ("Rent"). For any new lease agreement, the Group recognizes a new asset and liability on its balance sheet. 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.

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

The right-of-use assets for previous operating leases were measured at the date of initial application at the amount of the lease liability, adjusted by prepaid or accrued lease payments. Sphera Group applied the following practical expedients for transition:

- The Group elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group did not therefore apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The Group elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e. printing and photocopying machines) that are considered of low value.
- The lease term was considered to be the non-cancellable period in the contract, without taking into consideration the renewal option.
- The Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment). The lease payments were discounted using the incremental borrowing rate as at 1 January 2019. The Group estimated the incremental borrowing rates applicable for its leases portfolios considering the following inputs:
 - yield on most recent loans contracted by the Group entities, and
 - applicable risk-free yields for relevant maturities.
- The Group relies on its assessment of whether leases are onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review.
- The Group used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The first-time application of IFRS 16 resulted in recognizing 193,386 as right-of-use assets and 191,642 (equivalent of 41,090 EUR thousand) as lease liabilities for previous operating leases. For leases previously classified as finance leases the Group recognized the carrying amount of the lease asset and lease liability before transition as the carrying amount of the right-of-use asset and lease liability at the date of initial application.

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As at 1 January 2019, the change in the accounting policy affected the following items in the consolidated statement of financial position:

	1 January 2019
Right-of-use assets	193,386
Property, plant and equipment (carrying value of the leased vehicles - finance leases under IAS 17)	(689)
Prepayments	(3,018)
Total assets	189,679
Retained earnings	3,227
Lease liabilities -non-current	153,706
Lease liabilities - current	37,649
Trade and other payables	(4,903)
Total equity and liabilities	189,679

Reconciliation of future operating lease commitments as at 31 December 2018 to lease liability as at 1 January 2019:

	1 January 2019
Future minimum lease payments under non-cancellable operating leases as at 31 December 2018	224,865
less minimum lease payments for short-term leases and low value assets	(147)
Gross lease liability for previously unrecognized operating lease commitments as at 1 January 2019	224,718
less discounting effect as at 1 January 2019	(33,077)
Lease liability for previously unrecognized operating lease commitments as at 1 January 2019	191,642
Finance lease liability recognized as at 31 December 2018	733
Lease liability recognized as at 1 January 2019	192,375

As at 31 December 2018, the finance lease liabilities amounting of 733 were presented within Interest-bearing loans and borrowings (short term debt of 301 and long-term debt of 432) in the Statement of financial position. Due to the significant value of the lease liabilities resulting from the adoption of IFRS 16, the lease liabilities were separately presented in the preliminary condensed consolidated statement of financial position as at 31 December 2019, with no restatement of comparative data.

As at and for the year end period 31 December 2019, an overview on the leasing is as follows:

	31 December 2019
Right of use assets	
Right-of-use assets – <i>Freehold buildings and leasehold improvements</i>	224,925
Right-of-use assets - <i>Plant and machinery</i>	4,196
Total right of use assets (net book value)	229,121
	Year ended 31 December 2019
Depreciation expense	
Depreciation of right-of-use assets included in Restaurant expenses	43,277
Depreciation of right-of-use assets non-operating, recognized in General and administration expenses	2,805
Total depreciation expense	46,082

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Lease liabilities	31 December 2019
Non-current lease liabilities	190,073
Current lease liabilities	45,139
Total lease liabilities	235,212
	Year ended 31 December 2019
Finance costs	
Interest expense	7,688
Foreign exchange loss	3,937
Total finance costs	11,625

Foreign currencies

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

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

Transactions and balances

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

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

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

Group companies

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

3 GROUP INFORMATION

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

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Company name	Country of incorporation	Field of activity	Control 31 December 2019	Control 31 December 2018
US Food Network SA	Romania	Restaurants	99.9997%	99.9997%
American Restaurant System SA	Romania	Restaurants	99.9997%	99.9997%
California Fresh Flavours SRL	Romania	Restaurants	99.9900%	99.9900%
US Food Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%	100.0000%

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

4 OTHER OPERATING EXPENSES, NET

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

5 GENERAL AND ADMINISTRATION EXPENSES, NET

	2019	2018
Payroll and employee benefits	35,183	30,563
Third-party services	9,008	7,890
Depreciation, amortization and impairment of non-current assets	4,330	1,189
Impairment of goodwill	2,406	8,312
Rent	386	3,478
Banking charges	3,384	2,921
Transport	2,591	3,063
Maintenance and repairs	308	583
Small-wares	289	521
Insurance	603	506
Advertising	776	292
Telephone and postage	371	415
Provision for tax, VAT adjustments and late payment penalties (Note 7)	(10,343)	11,463
Expenses for litigations	-	947
Miscellaneous expenses and income, net	731	905
Total	50,022	73,048

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As at 31 December 2018, the Group recognised in the preliminary condensed consolidated financial statements an impairment loss of 2,406 (31 December 2018: 8,312) in relation with the goodwill recorded on acquisition of ARS.

6 ISSUED CAPITAL

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

The shareholders of Sphera Franchise Group SA at 31 December 2019 are: Tatika Investments Ltd. (27.33%), Computerland Romania SRL (21.44%), Wellkept Group SA (16.34%), Anasa Properties SRL (10.99%) and free float (23.90%). As of 31 December 2018, the shareholders of Sphera Franchise Group SA were: Tatika Investments Ltd. (27.33%), Computerland Romania SRL (20%), Wellkept Group SA (16.34%), Anasa Properties SRL (10.99%) and free float (25.34%).

7 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 report tax audit report has not been disputed by the Group and remained final, all liabilities indicated thereof being subsequently settled in February 2020 (1.120).

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 (Note 5).

8 NET EMPLOYEE DEFINED BENEFITS LIABILITIES (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 net liability of the Group was estimated using the actuarial technique of the projected unit credit method. The amount of 1,906 representing defined benefit liabilities recorded at balance sheet date was determined based on the actuarial valuation performed by an authorised actuary.

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9 EBITDA

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

The application of IFRS 16 resulted in a positive impact on EBITDA: the fixed lease payments of an operating lease under IAS 17 were previously presented within operating expenses (Rent), while under the right-of-use model adopted from 1 January 2019, the Group recognised depreciation of right-of-use assets and interest expense on lease liabilities (Note 2).

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

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

10 SEGMENT INFORMATION

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

- KFC restaurants
- Pizza Hut restaurants.
- Taco Bell restaurants

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

The Group's service revenues in amount of 971 (2018: 1,507) resulting from the contracts signed with other related parties are presented in the "Other" category. The parent-company's revenues from services rendered to its subsidiaries are presented in the "Inter-segment revenues" line and eliminated during consolidation.

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

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

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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
2018	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	634,837	122,820	12,033	1,507	-	771,197
Inter-segment revenues	-	-	-	25,007	(25,007)	-
Dividend revenues	-	-	-	61,798	(61,798)	-
Operating expenses	586,955	127,671	14,731	48,207	(36,499)	741,067
Segment operating profit	47,882	(4,851)	(2,698)	40,105	(50,306)	30,130
Finance costs	2,079	949	521	1,268	(1,714)	3,102
Finance income	849	7	-	965	(1,714)	108
Income taxes	1,054	1,448	108	264	-	2,874
Net profit/(loss)	45,598	(7,242)	(3,327)	39,538	(50,306)	24,262

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

Geographic information:

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

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



Declaration of the management

We confirm to the best of our knowledge that the unaudited preliminary condensed consolidated financial statements as at and for the year ended 31 December 2019 give a true and fair view of Sphera Franchise Group's assets, liabilities, financial position and profit and loss, as required by the applicable accounting standards, and that the Directors' Report gives a true and fair view of important events that have occurred during the financial year 2019 and their impact on the preliminary condensed consolidated financial statements.

Bucharest, February 24, 2020

Chief Executive Officer & Chairman of the Board of Directors

George Argentopoulos

Chief Financial Officer

Valentin Budes