

SPHERA FRANCHISE GROUP SA

CONSOLIDATED FINANCIAL STATEMENTS

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

31 December 2020

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CONTENTS

| | |
|---|--------|
| Independent auditors' report to the shareholders of Sphera Franchise Group SA | |
| Consolidated statement of comprehensive income | 2 |
| Consolidated statement of financial position | 3 |
| Consolidated statement of changes in equity | 4 |
| Consolidated statement of cash flows | 5 |
| Notes to the consolidated financial statements | 6 - 58 |



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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.

English translation only for information purposes. The translation of the report should be read with the financial statements, as a whole. In all matters of interpretations of information, views or opinions, the original Romanian language version of our report takes precedence over this translation.

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.

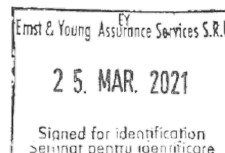
Provision of Non-audit Services

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 |

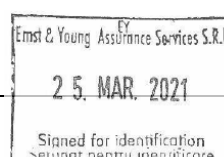
These consolidated financial statements from page 2 to page 58 were approved by the Board of Directors and were authorised for issue on 23 March 2021.

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

| | Note | 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

| | Issued capital | Share premium | Other capital reserves | Retained earnings | Foreign currency translation reserve | Total equity | Non-controlling interest | Total equity |
|--|----------------|------------------|------------------------|-------------------|--------------------------------------|----------------|--------------------------|----------------|
| As at 1 January 2020 | 581,990 | (519,998) | (1,178) | 111,402 | (166) | 172,050 | 201 | 172,251 |
| Loss for the period | - | - | - | (9,689) | - | (9,689) | 79 | (9,610) |
| Other comprehensive income | | | | | | | | |
| Remeasurement gain/(loss) on defined benefit plan | | | 262 | | | 262 | | 262 |
| Translation differences | | | | (75) | (75) | (75) | (28) | (103) |
| Total comprehensive income | | | 262 | (9,689) | (75) | (9,502) | 51 | (9,451) |
| Cash dividends | | | | (13,679) | - | (13,679) | - | (13,679) |
| At 31 December 2020 | 581,990 | (519,998) | (917) | 88,033 | (240) | 148,868 | 252 | 149,121 |
| | | | | | | | | |
| | | | | | | | | |
| 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 | 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) | (197) |
| 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 |

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.

Emst & 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.

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 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 benefitted 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.

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)

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

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)

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.

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)

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.

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)

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.

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)

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.

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)

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.

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)

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.

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)

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

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)

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.

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)

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.

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)

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.

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)

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.

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)

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.

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)

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 to 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.

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)

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.

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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.

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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 |

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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

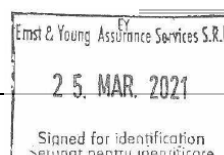
Details of the Group consolidated subsidiaries at 31 December 2020 and 31 December 2019 are as follows:

| 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 |



SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| 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 | <u>51,140</u> | <u>50,023</u> |

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).

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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" | <u>28,955</u> | <u>35,183</u> |
| Total Payroll and employee benefits | <u>179,079</u> | <u>250,922</u> |
| Of which, defined contribution to State pension plan* | <u>4,029</u> | <u>5,767</u> |

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.

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| 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 | <u>2,119</u> | <u>260</u> |
| Reconciliation of benefit obligation | | |
| Defined benefit obligation as at 1 January | <u>1,906</u> | <u>439</u> |
| 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 | <u>3,141</u> | <u>1,906</u> |
| 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 | <u>917</u> | <u>1,178</u> |

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

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| 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" | <u>85,884</u> | <u>71,917</u> |
| 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" | <u>9,388</u> | <u>6,736</u> |
| Total depreciation, amortization and impairment | <u>95,272</u> | <u>78,653</u> |

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

9. FINANCE COSTS AND INCOME

9.1 Finance costs

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| 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 | <u>17,314</u> | <u>17,538</u> |

9.2. Finance income

| | <u>2020</u> | <u>2019</u> |
|-----------------------------|-------------------|-------------------|
| Interest income | 237 | 166 |
| Total finance income | <u>237</u> | <u>166</u> |

10. INCOME TAX

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

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

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:

| | <u>2020</u> | <u>2019</u> |
|--|------------------------|----------------------|
| Accounting profit/(loss) before income tax | <u>(14,118)</u> | <u>59,000</u> |
| 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 | <u>(4,508)</u> | <u>3,538</u> |

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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.

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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.

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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.

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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) |

**SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

All amounts in RON thousand, unless specified otherwise

13. INTEREST-BEARING LOANS AND BORROWINGS

Current interest-bearing loans and borrowings

| | Interest rate, % | Maturity | 31 December 2020 | 31 December 2019 |
|--|------------------------------|------------------------------|------------------|------------------|
| 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 limited 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.

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**SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

All amounts in RON thousand, unless specified otherwise

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 accrual | Bank charges related to financing | Foreign exchange gains/losses | Drawings | Repayments | Interest paid | Bank charges paid | |
| 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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SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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 |

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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.

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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:

| | <u>Increase in basis points</u> | <u>Effect on profit before tax</u> |
|--------------------------------|-------------------------------------|--|
| 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:

| | <u>Increase in EUR rate</u> | <u>Effect on profit before tax</u> | <u>Increase in USD rate</u> | <u>Effect on profit before tax</u> |
|------------------|---------------------------------|--|---------------------------------|--|
| 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.

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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.

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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 | <u>121,913</u> | <u>57,272</u> |
| Net debt | <u>329,902</u> | <u>354,241</u> |
| Equity | 149,144 | 172,251 |
| Capital and net debt | <u>479,046</u> | <u>526,492</u> |
| 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).

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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:

| | Trade receivables | | | | | |
|--|--------------------------|---------|----------------------|------------|------------|----------|
| | Total | Current | Days past due | | | |
| | | | < 30 days | 30-60 days | 61-90 days | >91 days |
| 31 December 2020 | | | | | | |
| 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 |

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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% | 60% |
| 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%).

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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.

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

23. EBITDA

| | <u>2020</u> | <u>2019</u> |
|---|----------------|----------------|
| 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)

| | <u>31 December 2020</u> | <u>31 December 2019</u> |
|---|-------------------------|-------------------------|
| 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.

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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.

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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 aprox. 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.

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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:

| <u>Related party</u> | <u>Nature of the relationship</u> | <u>Country of incorporation</u> | <u>Nature of transactions</u> |
|---|--|---------------------------------|---|
| 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 |

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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.

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|----------------------|
| Short-term employee benefits | 9,286 | 10,663 |
| Total compensation paid to key management personnel | <u>9,286</u> | <u>10,663</u> |

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.

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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 | 459,009 | 67,672 | 38,923 | 108,256 | (53,631) | 620,229 |
| Total liabilities | 363,911 | 82,148 | 46,219 | 54,907 | (99,207) | 447,978 |
| 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 |

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

27. SEGMENT INFORMATION (continued)

Geographic information:

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

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

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

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.

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

All amounts in RON thousand, unless specified otherwise

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

