

Interim Financial Report

For the three-month period ended 31 March 2020 (Q1-2020)

Report date:	14-May-2020
Name of the issuing entity:	Sphera Franchise Group SA
Statutory seat:	Bucharest, Romania
Visiting address:	Bucharest, 239 Dorobanti Ave., 2 nd Floor, 1 st District, Romania
Phone no/Fax no:	0040 21 201 1757 / 0040 21 201 1759
Sole Registration Code:	RO 37586457
Order number with the Trade Registry:	J40/7126/2017
Subscribed and paid-in share capital:	RON 581,990,000
Number of shares in issue:	38,799,340
Number of listed shares:	9,831,753
Regulated market on which the issued securities are traded:	Bucharest Stock Exchange, Main Segment, Category Premium (Shares)
Symbol:	SFG

Note:

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

Report concluded in compliance with: Law no. 24/2017 regarding the capital market and ASF Regulation no. 5/2018 on issuers of financial instruments and market operations.

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TACO BELL

Financial analysis of Q1-2020 financial results

Summary of interim Consolidated Financial Statements for the three-month period ended 31 March 2020 (unaudited)

Data in RON'000	Mar-20	Mar-19	Y/Y%	% of Sales		
			2020/2019	Mar-20	Mar-19	Δ%
Restaurant sales	198,314	214,725	-7.6%			
Restaurant expenses	190,396	191,930	-0.8%	96.0%	89.4%	6.6%
Food and material	66,457	77,186	-13.9%	33.5%	35.9%	-2.4%
Payroll and employee benefits	50,837	49,101	3.5%	25.6%	22.9%	2.8%
Rent	5,326	4,682	13.8%	2.7%	2.2%	0.5%
Royalties	11,639	12,632	-7.9%	5.9%	5.9%	0.0%
Advertising	10,405	9,336	11.5%	5.2%	4.3%	0.9%
Other operating expenses, net	24,160	22,829	5.8%	12.2%	10.6%	1.6%
Depreciation and amortization	21,572	16,166	33.4%	10.9%	7.5%	3.3%
Restaurant operating Profit / (Loss)	7,918	22,794	-65.3%	4.0%	10.6%	-6.6%
General and administration expenses, net	13,824	12,968	6.6%	7.0%	6.0%	0.9%
Operating Profit / (Loss)	(5,906)	9,826	-160.1%	-3.0%	4.6%	-7.6%
Finance costs	4,998	7,447	-32.9%	2.5%	3.5%	-0.9%
Finance income	26	18	44.8%	0.0%	0.0%	0.0%
Profit / (Loss) before tax	(10,878)	2,397	-553.8%	-5.5%	1.1%	-6.6%
Income tax expense	1,377	1,122	22.7%	0.7%	0.5%	0.2%
Profit / (Loss) for the period	(12,254)	1,275	-1060.9%	-6.2%	0.6%	-6.8%
EBITDA	16,768	27,075	-38.1%	8.5%	12.6%	-4.2%
Normalised EBITDA*	17,164	27,075	-36.6%	8.7%	12.6%	-4.0%

Breakdown of consolidated results by Group companies – Q1-2020

Data in RON'000	Mar-20	Mar-20	Mar-20	Mar-20	Mar-20	Mar-20	Mar-20	Mar-20
	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons.Adj	SFG Cons.
Restaurant sales	141,061	27,081	2,345	19,205	8,394	7,324	(7,096)	198,314
Restaurant expenses	127,512	29,319	2,155	22,803	8,809	483	(684)	190,396
Food and material	49,062	7,339	941	6,076	3,043	0	(5)	66,457
Payroll and employee benefits	32,647	8,941	414	6,500	2,334	0	0	50,837
Rent	5,037	222	(0)	46	21	0	0	5,326
Royalties	8,468	1,574	142	1,149	305	0	0	11,639
Advertising	6,429	2,229	181	1,138	609	483	(663)	10,405
Other operating expenses, net	13,999	5,105	223	3,629	1,221	0	(17)	24,160
Depreciation and amortization	11,871	3,908	254	4,264	1,275	0	0	21,572
Restaurant operating Profit / (Loss)	13,549	(2,238)	190	(3,598)	(415)	6,841	(6,412)	7,918
General and administration expenses, net	7,412	2,202	70	1,862	678	7,983	(6,383)	13,824
Operating Profit / (Loss)	6,137	(4,439)	120	(5,459)	(1,093)	(1,142)	(29)	(5,906)
Finance costs	3,186	636	106	1,270	606	438	(1,245)	4,998
Finance income	707	3	0	0	0	561	(1,245)	26
Profit / (Loss) before tax	3,657	(5,072)	14	(6,730)	(1,699)	(1,019)	(29)	(10,878)
Income tax expense	1,010	357	39	(244)	67	147	0	1,377
Profit / (Loss) for the period	2,647	(5,430)	(26)	(6,486)	(1,766)	(1,165)	(29)	(12,254)
EBITDA	18,571	(491)	384	(1,189)	203	(679)	(29)	16,768
Normalised EBITDA*	18,571	(95)	384	(1,189)	203	(679)	(29)	17,164

Impact of the adoption of IFRS 16 Leases since 1 January 2019

Starting 1 January 2019, Sphera Group applied IFRS 16 that sets out the principles for the recognition, measurement, presentation and disclosure of leases. However, given management focus on the financial results excluding the impact of IFRS 16 we are providing below the financial statements both including, as well as excluding the impact of IFRS 16.

For more information on the impact of IFRS 16 Leases on the interim condensed consolidated financial statements of Sphera, please refer to the Appendix 1, Interim Condensed Consolidated Financial Statements.

	Including impact of IFRS 16	Excluding impact of IFRS 16	Impact of IFRS 16 adoption	% of Sales		
				Including impact of IFRS 16	Excluding impact of IFRS 16	Impact of IFRS 16 adoption
Restaurant sales	198,314	198,314		100.0%	100.0%	
Restaurant expenses	190,396	190,876	-480	96.0%	96.2%	-0.2%
Food and material	66,457	66,457	0	33.5%	33.5%	
Payroll and employee benefits	50,837	50,837	0	25.6%	25.6%	
Rent	5,326	17,986	-12,660	2.7%	9.1%	-6.4%
Royalties	11,639	11,639	0	5.9%	5.9%	
Advertising	10,405	10,405	0	5.2%	5.2%	
Other operating expenses, net	24,160	24,261	-101	12.2%	12.2%	
Depreciation and amortization	21,572	9,291	12,281	10.9%	4.7%	6.2%
Restaurant operating profit	7,918	7,438	480	4.0%	3.8%	0.2%
General and administration expenses, net	13,824	13,966	-142	7.0%	7.0%	-0.1%
Operating Profit / (Loss)	-5,906	-6,528	622	-3.0%	-3.3%	0.3%
Finance costs	4,998	1,542	3,456	2.5%	0.8%	1.7%
Finance income	26	26	0	0.0%	0.0%	
Profit / (Loss) before tax	-10,878	-8,044	-2,834	-5.5%	-4.1%	-1.4%
Income tax expense	1,377	1,506	-130	0.7%	0.8%	
Profit / (Loss) for the period	-12,254	-9,550	-2,704	-6.2%	-4.8%	-1.4%
EBITDA	16,768	3,140	13,629	8.5%	1.6%	6.9%
Normalised EBITDA*	17,164	3,536	13,629	8.7%	1.8%	6.9%

Consolidated sales of Sphera reached RON 198.3 million in Q1-2020, representing a decrease of 7.6% compared to the previous year, mainly due to Covid-19 crisis, following extensive lockdown measures implemented around the globe. Restaurants were mandatory closed in Italy starting with the second week of March and in Romania, a military ordinance drastically restricted the movement of people and closed all exposed business, starting the fourth week of March.

Starting 18th of March 2020, the restaurants are closed, with the temporary closure estimated to last until 15th of May 2020. As a result, March witnessed a 50% overall decrease in net sales versus last year. With food courts closed, the focus shifted on Delivery and Drive Thru channels in order to mitigate the negative impact of the crisis. For the state of emergency period KFC and Pizza Hut Delivery will continue to serve products to their customers only through the delivery service for both brands, as well as the dedicated car lines in Drive Thru in KFC, available both in Bucharest and around the country.

KFC kept active 40% of its stores, ARS 33%, while CFF (Taco Bell restaurants) were all closed due to their location (food courts only) and all the Italian restaurants were closed.

Several actions have been implemented to focus on delivery & drive-through activities and increase delivery awareness: ongoing campaign supported through digital, expanding delivery areas and introducing new cities with the help of some of the leading food delivery platforms, ongoing campaigns based on bestseller offers for Pizza Hut and value offers for KFC. Regarding food safety, food preparation and enhanced hygiene rules plus contactless delivery have been implemented and communicated in social media.

Additional measures taken or in progress to be taken by the Group in order to maintain the viability of the group and its business lines include reducing expenses in the context of the support measures implemented by the Romanian Government - the state coverage of the indemnization for staff in technical unemployment. The management is focusing on the renegotiation or suspension of rent by obtaining certificates of force majeure, reduction of the working schedule of the non-critical headquarter employees, and ongoing negotiations with suppliers of services in order to suspend or significantly reduce the fees for their services rendered to Sphera Group.

Data in RON thousand	Q1-2020	Q1-2019	Change 2020/2019	Contribution to sales growth
Sales by companies (principal brand)				
USFN Romania (KFC)	141,061	156,561	-9.9%	-7.2%
USFN Moldova (KFC)	2,345	2,742	-14.5%	-0.2%
USFN Italy (KFC)	19,205	17,203	11.6%	0.9%
ARS (Pizza Hut)	27,081	32,157	-15.8%	-2.4%
CFF (Taco Bell)	8,394	5,750	46.0%	1.2%
Other revenues ¹⁾	228	311	-26.9%	0.0%
Total sales	198,314	214,725	-7.6%	-7.6%

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

Data in RON thousand	Q1-2020	Q1-2019	Change 2020/2019	Contribution to sales growth
Sales by region				
Romania	176,764	194,780	-9.2%	-8.4%
Italy	19,205	17,203	11.6%	0.9%
Republic of Moldova	2,345	2,742	-14.5%	-0.2%
Total sales	198,314	214,725	-7.6%	-7.6%

Consolidated operational expenses reached RON 190.4 million in Q1-2020, representing a decrease of 0.8% compared to the previous year. As percentage of sales, operational expenses increased by 6.6pp year-on-year to 96.0% in Q1-2020, driven mainly by a 2.8pp increase in the cost of labour (11% increase in total number of stores Y-on-Y) and a 1.6pp increase in other operating expenses, while being partly offset by a 2.4pp decrease in cost of food and materials.

Excluding the impact of IFRS 16, consolidated operational expenses reached RON 190.9 million in Q1-2020, representing a 1.1% decrease versus previous year. As percentage of sales, operational expenses increased by 6.4pp year-on-year to 96.2% in Q1-2020.

	Data in RON'000				Δ%		% of Sales			
	Q1-2020 (1)	Q1-2020 (2)	Q1-2019 (1)	Q1-2019 (2)	2020 ⁽¹⁾ / 2019 ⁽¹⁾	2020 ⁽²⁾ / 2019 ⁽²⁾	Q1-2020 (1)	Q1-2020 (2)	Q1-2019 (1)	Q1-2019 (2)
Restaurant sales	198,314	198,314	214,725	214,725	-7.6%	-7.6%	100.0%	100.0%	100.0%	100.0%
Restaurant expenses	190,396	190,876	191,930	192,921	-0.8%	-1.1%	96.0%	96.2%	89.4%	89.8%
Food and material	66,457	66,457	77,186	77,186	-13.9%	-13.9%	33.5%	33.5%	35.9%	35.9%
Payroll and employee benefits	50,837	50,837	49,101	49,101	3.5%	3.5%	25.6%	25.6%	22.9%	22.9%
Rent	5,326	17,986	4,682	15,491	13.8%	16.1%	2.7%	9.1%	2.2%	7.2%
Royalties	11,639	11,639	12,632	12,632	-7.9%	-7.9%	5.9%	5.9%	5.9%	5.9%
Advertising	10,405	10,405	9,336	9,336	11.5%	11.5%	5.2%	5.2%	4.3%	4.3%
Other operating expenses, net	24,160	24,261	22,829	22,739	5.8%	6.7%	12.2%	12.2%	10.6%	10.6%
Depreciation and amortization	21,572	9,291	16,166	6,437	33.4%	44.3%	10.9%	4.7%	7.5%	3.0%
Restaurant operating profit	7,918	7,438	22,794	21,804	-65.3%	-65.9%	4.0%	3.8%	10.6%	10.2%

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

Restaurant operating profit decreased to RON 7.9 million in Q1-2020 (4% of sales), down 6.6pp compared with the previous year (10.6% of sales). Excluding the impact of IFRS 16, restaurant operating profit reached 7.4 million in Q1-2020 (3.8% of sales), down 6.4pp compared with the previous year.

General and administration (G&A) expenses reached RON 13.8 million in Q1-2020 (6.8% of sales), up 0.8pp compared to previous year (6.0% of sales). Excluding the impact of IFRS 16, general and administration (G&A) expenses reached RON 13.6 million in Q1-2020 (6.8% of sales), up 6.1% compared to previous year.

	Data in RON'000				Δ%		% of Sales			
	Q1-2020	Q1-2020	Q1-2019	Q1-2019	2020 ⁽¹⁾ /	2020 ⁽²⁾ /	Q1-2020	Q1-2020	Q1-2019	Q1-2019
	(1)	(2)	(1)	(2)	2019 ⁽¹⁾	2019 ⁽²⁾	(1)	(2)	(1)	(2)
General and administration expenses, net	13,824	13,966	12,968	13,087	6.6%	6.7%	7.0%	7.0%	6.0%	6.1%
Payroll and employee benefits	8,908	8,908	7,276	7,276	22.4%	22.4%				
Third-party services	1,783	1,783	2,017	2,017	-11.6%	-11.6%				
Depreciation and amortization	1,102	376	1,083	386	1.8%	-2.6%				
Rent	138	1,005	99	915	38.7%	9.9%				
Banking charges	770	770	819	819	-6.1%	-6.1%				
Transport	448	448	974	974	-54.0%	-54.0%				
Other expenses	676	676	700	700	-3.5%	-3.5%				

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

EBITDA fell 38.1% Y/Y to RON 16.8 million in Q1-2020, while operating profit decreased -160.1% Y/Y to RON -5.9 million. EBITDA margin decreased 4.2pp to 8.5% in Q1-2020, mainly as a result of reduced sales following generalized lockdown, as described before. Net profit decreased to RON -12,3 million in Q1-2020, with net profit margin at -6.2% of sales in Q1-2020.

Excluding the impact of IFRS 16, EBITDA fell 79.8% Y/Y to RON 3.1 million in Q1-2020, while operating profit decreased 174.9% Y/Y to RON -6.5 million. EBITDA margin contracted 5.7pp to 1.6% in Q1-2020. Net profit decreased to RON -9.6 million in Q1-2020 and the net profit margin decreased 7.2pp to -4.8% of sales in Q1-2020.

	Data in RON'000				Δ%		% of Sales			
	Q1-2020	Q1-2020	Q1-2019	Q1-2019	2020 ⁽¹⁾ /	2020 ⁽²⁾ /	Q1-2020	Q1-2020	Q1-2019	Q1-2019
	(1)	(2)	(1)	(2)	2019 ⁽¹⁾	2019 ⁽²⁾	(1)	(2)	(1)	(2)
EBITDA	16,768	3,140	27,075	15,540	-38.1%	-79.8%	8.5%	1.6%	12.6%	7.2%
EBITDA normalized*	17,164	3,536	27,075	15,540	-36.6%	-77.2%	8.7%	1.8%	12.6%	7.2%
Operating profit	-5,906	-6,528	9,826	8,716	-160.1%	-174.9%	-3.0%	-3.3%	4.6%	4.1%
Profit / (Loss) before tax	-10,878	-8,044	2,397	6,279	-553.8%	-228.1%	-5.5%	-4.1%	1.1%	2.9%
Profit / (Loss) for the period	-12,254	-9,550	1,275	5,130	-1060.9%	-286.2%	-6.2%	-4.8%	0.6%	2.4%

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

Main financial ratios as at 31 March 2020

(presented in accordance with the requirements of the Financial Supervisory Authority's Regulation no. 5/2018 on issuers of financial instruments and market operations)

(Financial data in RON thousand)

	<u>2020(1)</u>		<u>2020(2)</u>		<u>2019(1)</u>
Current ratio					
<u>Current assets</u>	107,138	= 0.52	110,501	= 0.67	101,975
<u>Current liabilities</u>	205,767		164,657		156,931
Debt to Equity ratio					
<u>Interest-bearing debt</u>	273,739	= 151.73%	76,629	= 49.58%	233,984
<u>Equity</u>	146,373		154,543		133,233
<u>Interest-bearing debt</u>	273,739	= 65.16%	76,629	= 33.15%	233,984
<u>Capital employed</u>	420,113		231,172		367,216
Trade receivables turnover (days)					
<u>Average receivables</u>	36,539	= 16.58	36,660	= 16.64	13,385
<u>Sales</u>	198,314		198,314		214,725
Fixed asset turnover					
<u>Sales</u>	198,314	= 1.57	198,314	= 2.91	214,725
<u>Net fixed assets</u>	504,945		272,183		410,738

Note: Annualized values, based on ASF methodology.

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



APPENDIX 1

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2020 (UNAUDITED)**

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE THREE-
MONTH PERIOD ENDED 31 MARCH 2020 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2020 (UNAUDITED)

	Three-month period ended	
	31 March 2020	31 March 2019
Restaurant sales	198,314	214,725
Restaurant expenses		
Food and material expenses	66,457	77,186
Payroll and employee benefits	50,837	49,101
Rent	5,326	4,682
Royalties	11,639	12,632
Advertising	10,405	9,336
Other operating expenses, net	24,160	22,829
Depreciation, amortization and impairment of non-current as- sets	21,572	16,166
Restaurant operating profit	7,918	22,794
General and administration expenses, net	13,824	12,968
Operating profit/(loss)	(5,906)	9,826
Finance costs	4,998	7,447
Finance income	26	18
Profit/(Loss) before tax	(10,878)	2,397
Income tax expense	1,377	1,122
Profit/(Loss) for the period	(12,254)	1,275
Attributable to:		
Equity holders of the parent	(12,249)	1,213
Non-controlling interests	(5)	62
Other comprehensive income		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>		
Exchange differences on translation of foreign operations	56	(96)
Total comprehensive income for the period, net of tax	(12,198)	1,179
Attributable to:		
Equity holders of the parent	(12,185)	1,110
Non-controlling interests	(13)	69

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE THREE-
MONTH PERIOD ENDED 31 MARCH 2020 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020
(UNAUDITED)

	31 March 2020	31 December 2019
Assets		
Non-current assets	521,139	508,147
Property, plant and equipment	203,888	199,415
Right-of-use assets	234,926	229,121
Intangible assets	66,131	64,835
Deposits for rent guarantee	9,668	8,416
Deferred tax assets	6,526	6,360
Current assets	107,137	112,082
Inventories	8,894	11,632
Trade and other receivables	33,789	39,289
Prepayments	1,848	3,889
Cash and short-term deposits	62,606	57,272
Total assets	628,277	620,229
Equity and liabilities		
Equity		
Issued capital	581,990	581,990
Share premium	(519,998)	(519,998)
Other reserves	(1,178)	(1,178)
Retained earnings	85,473	111,402
Foreign currency translation reserve	(101)	(166)
Equity attributable to equity holders of the parent	146,186	172,050
Non-controlling interests	188	201
Total equity	146,374	172,251
Non-current liabilities	276,138	265,596
Interest-bearing loans and borrowings	76,346	73,617
Lease liabilities	197,393	190,073
Trade and other payables	-	-
Net employee defined benefit liabilities	2,399	1,906
Current liabilities	205,765	182,381
Trade and other payables	109,682	101,696
Interest-bearing loans and borrowings	49,124	34,427
Lease liabilities	46,959	45,139
Provisions	-	1,120
Total liabilities	481,905	447,978
Total equity and liabilities	628,277	620,229

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2020
(UNAUDITED)

All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2020 (UNAUDITED)

	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	-	-	-	(12,249)	-	(12,249)	(5)	(12,254)
Other comprehensive income								
Translation differences					65	65	(8)	56
Total comprehensive income	-	-	-	(12,249)	65	(12,185)	(13)	(12,198)
Cash dividends	-	-	-	(13,679)	-	(13,679)	-	(13,679)
At 31 March 2020	581,990	(519,998)	(1,178)	85,473	(101)	146,185	188	146,374

	Issued capital	Share premium	Other capital reserves	Retained earnings	Foreign currency translation reserve	Total equity	Non-controlling interest	Total equity
As at 1 January 2019, as previously reported	581,990	(520,578)	-	67,248	20	128,680	146	128,826
Impact of change in accounting policies (IFRS 16)				3,179		3,179	47	3,227
As at 1 January 2019	581,990	(520,578)	-	70,428	20	131,859	194	132,053
Profit for the period	-	-	-	1,213	-	1,213	62	1,275
Other comprehensive income								
Translation differences					(103)	(103)	7	(96)
Total comprehensive income	-	-	-	1,213	(103)	1,110	69	1,179
Cash dividends	-	-	-	-	-	-	-	-
At 31 March 2019	581,990	(520,578)	-	71,641	(83)	132,969	263	133,233

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2020 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THREE-
MONTH PERIOD ENDED 31 MARCH 2020 (UNAUDITED)

	Three-month period ended	
	31 March	31 March
	2020	2019
Operating activities		
Profit/(Loss) before tax	(10,878)	2,397
Adjustments to reconcile profit(loss) before tax to net cash flows:		
Depreciation of right-of-use assets	13,080	10,425
Depreciation and impairment of property, plant and equipment	8,708	6,030
Amortisation and impairment of intangible assets	885	794
Unrealised net foreign exchange differences	1,968	5,038
(Gain)/Loss on disposal of property, plant and equipment	62	(5)
Finance income	(26)	(18)
Finance costs (interest)	3,191	2,736
Working capital adjustments:		
Decrease/(Increase) in trade and other receivables and prepayments	12,737	(8,635)
Increase in inventories	2,736	809
Increase in trade and other payables	(2,702)	(12,374)
Interest received	26	18
Interest paid	(3,159)	(2,741)
Income tax paid	(2,460)	(2,197)
Net cash flows from operating activities	24,169	2,276
Investing activities		
Proceeds from sale of property, plant and equipment	50	7
Purchase of intangible assets	(2,182)	(2,043)
Purchase of property, plant and equipment	(13,294)	(12,001)
Net cash flows used in investing activities	(15,426)	(14,036)
Financing activities		
Proceeds from borrowings	25,493	4,930
Repayment of borrowings	(8,773)	(6,922)
Payment of lease liabilities	(11,756)	(9,818)
Dividends paid to equity holders of the parent	(8,374)	-
Dividends paid to non-controlling interests	-	-
Net cash flows used in financing activities	(3,410)	(11,810)
Net increase in cash and cash equivalents	5,334	(23,571)
Net foreign exchange differences	2	(155)
Cash and cash equivalents at 1 January	57,272	90,665
Cash and cash equivalents at 31 March	62,608	66,939

**SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2020 (UNAUDITED)**

All amounts in RON thousand, unless specified otherwise

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT
AND FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2020 (UNAUDITED)**

1 CORPORATE INFORMATION

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

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

The Group operates quick service and takeaway restaurant concepts (a chain of 99 restaurants) under the Kentucky Fried Chicken ("KFC"), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (23 restaurants as at 31 March 2020) as well as pizza delivery points (21 locations as at 31 March 2020) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (10 restaurants as at 31 March 2020) and one restaurant under Paul brand, in Romania.

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

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

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

The Italian subsidiary, US Food Network Srl operating the KFC franchise in Italy was incorporated in 2016 as a limited liability company and is registered at No. 6 Via Pietro Paleocapa 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.

2 BASIS OF PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed unaudited financial statements of the Group as of and for the three-month period ended 31 March 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting.

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

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

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The interim condensed consolidated financial statements for three-month period ended 31 March 2020 included in this report are unaudited.

General accounting policies

The accounting policies and valuation methods adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019.

The amendments effective since 1 January 2020 do not have a material effect on the Group's condensed consolidated financial statements.

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

Foreign currencies

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

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

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

	31 March 2020	31 December 2019
RON – EUR	4.8254	4.7793
RON – USD	4.3983	4.2608
RON – MDL	0.2399	0.2481

Transactions and balances

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

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

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

Group companies

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

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3 GROUP INFORMATION

Investments in controlled companies

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

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

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

4 OTHER OPERATING EXPENSES, NET

	Three-month period ended	
	31 March 2020	31 March 2019
Third-party services	9,402	7,721
Utilities	6,424	5,859
Maintenance and repairs	2,988	3,195
Cleaning supplies	1,910	1,854
Transport	1,716	1,482
Small-wares	507	941
Penalties related to the development franchise agreement (ARS)	396	-
Telephone and postage	236	234
Insurance	209	194
Net (gain)/loss on disposal of property, plant and equipment	62	(5)
Miscellaneous expenses and income, net	310	1,355
Total	24,160	22,829

5 GENERAL AND ADMINISTRATION EXPENSES, NET

	Three-month period ended	
	31 March 2020	31 March 2019
Payroll and employee benefits	8,908	7,276
Third-party services	1,783	2,017
Depreciation and amortization	1,102	1,083
Rent	138	99
Banking charges	770	819
Transport	448	974
Maintenance and repairs	80	57
Small-wares	24	134
Insurance	126	121
Advertising	57	74
Telephone and postage	74	94
Miscellaneous expenses and income, net	314	219
Total	13,824	12,968

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6 DEPRECIATION AND AMORTIZATION

	Three-month period ended	Three-month period ended
	31 March	31 March
	2020	2019
Depreciation and amortization of right-of-use assets, recognized in "Restaurant expenses"	12,320	9,729
Depreciation, amortization and impairment of property, plant and equipment and intangible assets, recognized in "Restaurant expenses"	9,252	6,437
Depreciation, amortization and impairment recognized in "Restaurant expenses"	21,572	16,166
Depreciation and amortization of right-of-use assets recognized in "General and administration expenses, net"	341	696
Depreciation, amortization and impairment of property, plant and equipment and intangible assets recognized in "General and administration expenses, net"	761	387
Depreciation, amortization and impairment recognized in "General and administration expenses, net"	1,102	1,083
Total depreciation and amortization	22,674	17,249

7 FINANCE COSTS

	Three-month period ended	Three-month period ended
	31 March	31 March
	2020	2019
Interest on loans and borrowings	1,010	1,114
Interest expense on lease liabilities	2,180	1,622
Interest cost on benefit obligation	1	-
Foreign exchange loss, net	1,807	4,712
Total finance costs	4,998	7,447

8 ISSUED CAPITAL

	31 March	31 December
	2020	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 at 31 March 2020 and 31 December 2019, respectively are: Tatika Investments Ltd. (27.33%), Computerland Romania SRL (21.44%), Wellkept Group SA (16.34%), Lunic Franchising and Consulting LTD (10.99%) and free float (23.90%).

At the Ordinary General Shareholders Meeting held on 02 March 2020, the shareholders of Sphera Franchise Group SA approved the distribution of the net profit remained undistributed related to 2018 financial year, respectively of the amount of 13,679. The payment of the dividends has started on 31 March 2020.

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9 EBITDA

	Three-month period ended	
	31 March	31 March
	2020	2019
Operating profit/(loss)	(5,906)	9,826
Adjustments to bridge operating profit/(loss) to EBITDA:		
Depreciation, amortization and impairment included in restaurant expenses	21,572	16,166
Depreciation, amortization and impairment included in general and administration expenses	1,102	1,083
EBITDA	16,768	27,075
Non-recurring expenses	396	-
Normalised EBITDA	17,164	27,075

For the three-month period ended 31 March 2020, EBITDA was normalized to exclude the accrued penalties due to Pizza Hut Europe (Master Franchisor) for the restaurants committed to be opened in 2019 and postponed for the future periods (Note 4).

10 RELATED PARTY DISCLOSURES

During the three-month period ended 31 March 2020 and 31 March 2019 respectively, the Group has carried out transactions with the following related parties:

Related party	Nature of the relationship	Country of incorporation	Nature of transactions
Moulin D'Or SRL	Entity with common members of key management personnel	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
Lunic Franchising and Consulting LTD	Shareholder (since November 2019)	Romania	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 Anasa Properties SRL and Lunic Franchising and Consulting Ltd.	Romania	Rent store KFC Mosilor and administrative area
Radu Dimofte	Beneficial owner of Wellkept Group SA	Romania	Rent store KFC Mosilor
Elicom SRL	Entity affiliated to a shareholder of the parent	Romania	Call-centre services
Elicom Connect SRL	Entity affiliated to a shareholder of the parent	Romania	Marketing services

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

	Transactions during the three-month period ended 31 March 2020		Balances as at 31 March 2020	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL	2	1	691	3
Moulin D'Or SRL	224	2	266	2
Lucian Vlad	-	54	-	-
Radu Dimofte	-	22	-	-
Wellkept Group SA	-	32	-	39
Midi Development SRL	6	-	3	-
Grand Plaza Hotel SA	-	227	-	61
Arggo Software Development and Consulting SRL	-	258	-	199
Elicom SRL	-	208	-	123
Elicom Connect SRL	-	2	-	1
	232	806	960	428

	Transactions during the three-month period ended 31 March 2019		Balances as at 31 December 2019	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL	1	2	974	2
Moulin D'Or SRL	298	25	753	2
Lucian Vlad	-	94	-	-
Radu Dimofte	-	39	-	-
Wellkept Group SA	-	116	-	2
Midi Development SRL	4	-	-	-
Grand Plaza Hotel SA	-	278	-	16
Arggo Software Development and Consulting SRL	-	60	-	13
Elicom SRL	-	287	-	165
Elicom Connect SRL	-	2	-	1
	303	903	1,727	201

The Group has granted a loan to Cinnamon Bake&Roll SRL. The loan balance as at 31 March 2020 was of 636 (31 December 2019: 734) and the interest accrual as at 31 March 2020 was of 54 (31 December 2019: 51).

Intangibles in progress include an amount of 959 (31 December 2019: 949) representing the capital expenditure related to the new ERP system implementation services provided by Arggo Software and Development SRL.

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Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the period end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the three months periods ended 31 March 2020 and for similar period of the year 2019, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group:

	Three months ended	
	31 March	31 March
	2020	2019
Short-term employee benefits	2,205	1,455
Total compensation paid to key management personnel	2,205	1,455

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

11 SEGMENT INFORMATION

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

- KFC restaurants
- Pizza Hut restaurants
- Taco Bell restaurants

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

The Group's service revenues in amount of 228 (2019: 293) resulting from the contracts signed with other related parties are presented in the "Other" category. The parent-company's revenues from services rendered to its subsidiaries are presented in the "Inter-segment revenues" line and eliminated during consolidation.

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

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

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Three-month period ended 31 March 2020	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	162,611	27,081	8,394	228	-	198,314
Inter-segment revenues				7,096	(7,096)	
Operating expenses	161,814	31,521	9,487	8,465	(7,067)	204,220
Segment operating profit/(loss)	797	(4,440)	(1,093)	(1,141)	(29)	(5,906)
Finance costs	4,094	636	606	438	(776)	4,998
Finance income	238	3	-	561	(776)	26
Income taxes	806	357	67	147	-	1,377
Net profit/(loss)	(3,865)	(5,430)	(1,766)	(1,165)	(29)	(12,254)
Total assets	485,152	67,062	38,016	78,732	(40,685)	628,277
Total liabilities	393,980	66,968	47,078	60,623	(86,744)	481,905

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Three-month period ended 31 March 2019	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	176,506	32,157	5,750	311	-	214,725
Inter-segment Revenues				5,812	(5,812)	
Operating expenses	164,034	33,431	6,393	6,852	(5,812)	204,898
Segment operating profit	12,472	(1,274)	(643)	(729)	-	9,826
Finance costs	5,477	1,410	531	678	(649)	7,447
Finance income	209	3	-	455	(649)	18
Income taxes	532	391	43	154	-	1,122
Net profit/(loss)	6,672	(3,073)	(1,217)	(1,106)	-	1,275
Total assets 31 March 2019	373,158	70,393	22,779	84,319	(26,503)	524,148
Total liabilities 31 March 2019	306,920	79,937	28,653	50,402	(74,997)	390,915
Total assets 31 December 2019	373,158	70,393	22,779	84,319	(26,503)	524,148
Total liabilities 31 December 2019	306,920	79,937	28,653	50,402	(74,997)	390,915

Geographic information:

	Three-month period ended	
	31 March 2019	31 March 2019
Revenue from external customers		
Romania	176,764	194,780
Italy	19,205	17,203
Republic of Moldova	2,345	2,742
Total restaurant revenue	198,314	214,725

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

12 EVENTS AFTER THE REPORTING PERIOD

On 23 April 2020, the Board of Directors announced that Mr. George Argentopoulos' mandate agreement as Chief Executive Officer office was terminated by parties' mutual written consent, becoming effective at the same date. Also, on 23 April 2020, Board of Directors took note of the resignation of Mr. Georgios Argentopoulos to the mandate of director and to the office of Chairman of the Board within Sphera Franchise Group SA, which will become effective starting with 28 May 2020

On 24 April 2020, Mr. Calin Ionescu took over the role of Acting Chief Executive Officer. Mr. Calin Ionescu will retain the office of the Chief Operating Officer within the Company.

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Declaration of the management

We confirm to the best of our knowledge that the unaudited interim condensed consolidated financial statements for the three-month period ended 31 March 2020 give a true and fair view of Sphera Franchise Group's assets, liabilities, financial position and profit and loss, as required by the applicable accounting standards, and that the Directors' Report gives a true and fair view of important events that have occurred during the first three months of the 2020 financial year and their impact on the interim condensed consolidated financial statements.

Bucharest, 14 May 2020

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes