2020 ANNUAL REPORT

SPHERA FRANCHISE GROUP

SPHERA

KFC Pizza Hut DELIVERY Pizza Hut TACO BELL

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

ISSUER INFORMATION

INFORMATION ABOUT THIS FINANCIAL REPORT

Type of report	Annual Report
For financial period	01.01.2020 – 31.12.2020
Date of publishing	26.03.2021
According to	Annex 15 of ASF Regulation 5/2018

ISSUER INFORMATION

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

INFORMATION ABOUT FINANCIAL INSTRUMENTS

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

CONTACT DETAILS FOR INVESTORS

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LETTER FROM THE CEO

Dear Shareholders,

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

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

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

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

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

Despite the ongoing challenges brought by the COVID-19 pandemic, our Group managed to significantly improve the sales in the second half of the year, even in the context of more prevalent restrictions on indoor dining in Q4 2020 as well as colder months that made outdoor dining challenging for the customers. The strong performance in the second half of 2020 helped offset the negative effect of weak first six months. Consequently, our Group closed 2020 with consolidated sales for a full year of RON 710.8 million, a decrease of 25.6% compared to the performance in 2019.

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

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

Călin Ionescu
CEO Sphera Franchise Group

DIRECTORS' REPORT

SPHERA

CORPORATE INFORMATION

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

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

The Group operates quick service and takeaway restaurant concepts (a chain of 106 restaurants as of December 31st, 2020) under the Kentucky Fried Chicken (''KFC''), spread across Romania (86 restaurants) as well as in the Republic of Moldova (2 restaurants) and in Italy (18 restaurants). The Group also operates a chain of pizza restaurants (21 restaurants as of 31 December 2020) as well as pizza delivery points (19 locations) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (11 restaurants as of 31 December 2020) and one restaurant under Paul brand, in Romania. As of 31 December 2020, the Group had 4,802 employees, out of whom 153 worked at the legal Parent company, also referred to as HQ staff.

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

GROUP STRUCTURE

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

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

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

US Food Network SA (USFN), the subsidiary which operates the KFC franchise in Romania was incorporated in 1994 as a limited liability company and further has changed the organization form as joint stock company with registered office at no. 239 Dorobanti Ave., Bucharest, Romania.

American Restaurant System SA (ARS) operating the Pizza Hut and Pizza Hut Delivery franchises was incorporated in 1994 as a joint stock company and is registered at no. 239 Dorobanti Ave., Bucharest, Romania.

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

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

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

PRINCIPAL SCOPE OF BUSINESS

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

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

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

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

ABOUT THE BRANDS

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

Today, KFC is the leading chicken restaurant chain in Romania in terms of both total sales and number of restaurants. As of 31 December 2020, there were 86 KFC in Romania. In 2008, the Group opened the first KFC restaurant in the Republic of Moldova, and as of December 31st, 2020, the Group operated two restaurants (both in Chisinau). In 2017 the Group opened the first two restaurants in Italy. As of 31 December 2020, there were 18 KFC restaurants operated by the Group spread across the central - northern region of Italy. Of all KFC restaurants operating in Romania, Italy and Republic of Moldova, as of 31 December 2020, 65 were food court locations (in malls or commercial centers), 23 were inline (street locations), while another 18 were Drive-Thru locations. In 2018, KFC Romania has lunched the delivery activity, which is now carried out in most of the stores.

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

PIZZA HUT is a casual dine-in restaurant, known for its Italian American cuisine. With 18,703 restaurants across the globe, it is the world's largest pizza chain in terms of locations. Restaurants serve a diverse menu which includes pizza and pasta, salads as well as side dishes and desserts. Pizza Hut entered the Romanian market in 1994, with the opening of its first location on Calea Dorobanților in Bucharest. **PIZZA HUT DELIVERY** is the concept for home delivery launched by Pizza Hut. Pizza Hut Delivery has been present on the Romanian market since December 2007, with the opening of its first location in Vitan area, Bucharest.

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

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

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

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

SHAREHOLDERS AND ISSUED CAPITAL

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

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

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

MANAGEMENT OF THE GROUP

BOARD OF DIRECTORS

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

On October 8th, 2020, the Board of Directors took note of the resignation of Mr. Anastasios Tzoulas from the position of the member of the Board of Directors, the Vice-Chairman of the Board as well as the member of the Audit Committee of the Company. The resignation became effective as of October 9th, 2020.

On October 14th, 2020, the Board of Directors appointed Mr. Lucian Hoanca, as the Chairman of the Board, and Mr. Silviu Cârmaciu, as the Vice-Chairman of the Board. The term of Mr. Hoanca's and Mr. Cârmaciu's mandates is until 2023, in line with the appointment of the whole Board of Directors.

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

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

LUCIAN HOANCA

Born in 1956, Mr Hoanca is a non-executive member of the Board of Directors of Sphera Franchise Group since 2018, as well as the Chairman of the Board since October 2020. He is also chairman of the Group's Nomination and Remuneration Committee. Mr Hoancă graduated from the Faculty of Foreign Languages at the University of Bucharest, being licensed in philology. Since 1995, he has held management positions in various companies such as ANA Group, EUROM, Exclusiv Comp, Baneasa Developments, Wellkept Group, Tatika Investments, Parc Hotels.

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

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

SILVIU GABRIEL CÂRMACIU

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

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

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

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

Affiliate companies: Computerland Romania SRL.

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

GEORGIOS VASSILIOS REPIDONIS

Born in 1961, Mr Repidonis is a non-executive member of the Group's Board of Directors since 2019. Mr Repidonis graduated from the Faculty of Planning and Economic Cybernetics within the Academy of Economic Studies in Bucharest. His professional career has been in the field of executive management, development projects, product marketing and accounting. Between 1994 - 1997 he was a shareholder, administrator and General Manager of Comtra Intl Distributor in Romania, and between 2004 - 2010 he was a shareholder and General Manager of El Greco restaurant in Bucharest. Mr Repidonis was also a shareholder and responsible for the development of the Romanian franchise of the Lacoste and Gant brands between 2001 and 2015.

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

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

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

VALENTIN ARNAOUTOU

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

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

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

RAZVAN STEFAN LEFTER

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

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

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

CONSULTATIVE COMMITTEES

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

The members of the Audit Committee are:

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

The members of the Nomination and Remuneration Committee are:

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

EXECUTIVE MANAGEMENT

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

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

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

The list of persons holding management positions is presented below:

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

CĂLIN IONESCU

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

VALENTIN BUDEȘ

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

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

CRISTIAN OSIAC

Born in 1968, Mr Osiac has been the Group's Development Director since June 2017 and was a member of Sphera's Board of Directors between May 2017 and April 2019. He studied at the Faculty of Electronics and Telecommunications at the Polytechnic University of Bucharest. Cristian Osiac joined the Group in 1994, as Technical Director, and was responsible for opening the first Pizza Hut unit in Romania. In 1997, as Development Director, he was responsible for the opening of the first KFC restaurant in Bucharest and, in this capacity, Mr. Osiac coordinated the main development activities and operations for all the Group's brands. After 2007, Mr. Osiac has also held executive positions in other companies that manage restaurant brands or other food services in Romania, such as Paul bakeries and Cinnabon pastries, being responsible for development activities. He also actively participated in the development process of the Hard Rock Café restaurant in Bucharest. Moreover, in 2008, he was appointed Chairman of the Board of Directors of ARS (Romania) and USFN (Romania). Throughout this period, Mr. Osiac coordinated and supervised the expansion of the KFC and Pizza Hut brands in Romania, the Republic of Moldova and, most recently, in northern Italy.

MONICA EFTIMIE

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

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

CONSOLIDATED FINANCIAL RESULTS

Note: *Starting 1 January 2019, Sphera Franchise Group applies IFRS 16 "Leases" standard that sets out the principles for the recognition, measurement, presentation, and disclosure of leases. When analyzing the performance of the Group, the management's focus is on the financial results that exclude the impact of IFRS 16.* ***Therefore, the basis for the financial analysis on the following pages are the results excluding IFRS 16****. Nonetheless, for most of the tables below are provided financial results both including, as well as excluding the impact of IFRS 16. For more information on the impact of IFRS 16 Leases on the consolidated financial statements of Sphera, please refer to the Consolidated Financial Statements.*

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

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

RON 26.7 million. The increase in depreciation and amortization costs by 28.8% was the result of opening 9 new restaurants in 2020.

The Group ended 2020 with restaurant operating profit of RON 49.3 million, 60.4% lower than the year before. G&A expenses amounted to RON 50.9 million in 2020, an increase of 0.8% compared to 2019. However, for a like for like comparison, excluding the normalized items for both FY 2019 and FY 2020, the G&A expenses are lower by 20.5% (RON 12 million). The Group ended 2020 with a normalized EBITDA of RON 44.1 million, operating loss of RON 1.6 million and a loss for the period of RON 2.4 million.

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

Data in RON'000	31-Dec 2020 (unaudited)	31-Dec 2019 (unaudited)	Y/Y % 2020/2019	% of Sales 2020	% of Sales 2019	Δ%
Restaurant sales	**710,797**	**954,728**	**-25.6%**			
Other income	726	**0**				
Restaurant expenses	**662,256**	**830,448**	**-20.3%**	**93.2%**	**87.0%**	6.2%
Food and material	232,338	319,059	-27.2%	32.7%	33.4%	-0.7%
Payroll and employee benefits	150,124	215,739	-30.4%	21.1%	22.6%	-1.5%
Rent	58,593	67,867	-13.7%	8.2%	7.1%	1.1%
Royalties	41,274	56,029	-26.3%	5.8%	5.9%	-0.1%
Advertising	33,033	49,359	-33.1%	4.6%	5.2%	-0.6%
Other operating expenses, net	110,004	93,755	17.3%	15.5%	9.8%	5.7%
Depreciation and amortization	36,889	28,640	28.8%	5.2%	3.0%	2.2%
Restaurant operating profit	**49,267**	**124,281**	**-60.4%**	**6.9%**	**13.0%**	-6.1%
General & Admin expenses, net	50,904	50,519	0.8%	7.2%	5.3%	1.9%
Operating Profit/(Loss)	**(1,637)**	**73,761**	**-102.2%**	**-0.2%**	**7.7%**	-7.9%
Finance costs	5,256	5,980	-12.1%	0.7%	0.6%	0.1%
Finance income	237	166	43.2%	0.0%	0.0%	0%
Profit/(Loss) before tax	**(6,656)**	**67,946**	**-109.7%**	**-0.9%**	**7.1%**	-8.0%
Total tax expense/(credit)	(4,283)	3,779	-213.3%	-0.6%	0.4%	-1.0%
Profit/(Loss) for the year	**(2,373)**	**64,167**	**-103.6%**	**-0.3%**	**6.7%**	-7.0%
EBITDA	36,907	103,926	-64.5%	5.2%	10.9%	-5.7%
Normalized EBITDA*	**44,088**	**95,989**	**-54.1%**	**6.2%**	**10.1%**	-3.9%

(*) For the year ended 31 December 2020, EBITDA was normalized to exclude the following expenses: impairment loss of goodwill (4,420), accrued penalties due to Pizza Hut Europe (Master Franchisor - YUM!) for the restaurants committed to be opened in 2019 and postponed for the future periods (1,528) and costs related to the Italian subsidiary development agreement terminated in 2020 (1,234). For the year ended 31 December 2019, EBITDA was normalized to exclude the following expenses: release of tax provision (10,343) and impairment loss of goodwill (2,406).

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

Data in RON'000	2020 (1)	2020 (unaudited) (2)	2019 (1)	2019 (unaudited) (2)	Change (%) 2020/2019 (1)	Change (%) 2020/2019 (2)
Restaurant sales	**710,797**	**710,797**	**954,728**	**954,728**	**-25.6%**	**-25.6%**
Other income	**726**	**726**	**-**	**-**		
Restaurant expenses	**657,425**	**662,256**	**828,333**	**830,448**	**-20.6%**	**-20.3%**
Food and material	232,338	232,338	319,059	319,059	-27.2%	-27.2%
Payroll and employee benefits	150,124	150,124	215,739	215,739	-30.4%	-30.4%
Rent	5,293	58,593	22,480	67,867	-76.5%	-13.7%
Royalties	41,274	41,274	56,029	56,029	-26.3%	-26.3%
Advertising	33,033	33,033	49,359	49,359	-33.1%	-33.1%
Other operating expenses, net	109,479	110,004	93,750	93,755	16.8%	17.3%
Depreciation and amortization	85,884	36,889	71,917	28,640	19.4%	28.8%
Restaurant operating Profit / (Loss)	**54,098**	**49,267**	**126,395**	**124,281**	**-57.2%**	**-60.4%**
General & Admin expenses, net	51,140	50,904	50,023	50,519	2.2%	0.8%
Operating Profit/(Loss)	**2,958**	**(1,637)**	**76,372**	**73,761**	**-96.1%**	**-102.2%**
Finance costs	17,314	5,256	17,538	5,980	-1.3%	-12.9%
Finance income	237	237	166	166	43.2%	43.2%
Profit/(Loss) before tax	**(14,118)**	**(6,656)**	**59,000**	**67,946**	**-123.9%**	**-109.7%**
Total tax expense/(credit)	(4,508)	(4,283)	3,538	3,779	-227.4%	-213.3%
Profit/(Loss) for the period	**(9,610)**	**(2,373)**	**55,462**	**64,167**	**-117.3%**	**-103.6%**
EBITDA	93,810	36,907	152,619	103,926	-38.5%	-64.5%
Normalized EBITDA*	**100,992**	**44,088**	**144,682**	**95,989**	**-30.2%**	**-54.1%**

Notes: (1) Including the impact of the adoption of IFRS 16; (2) Excluding the impact of the adoption of IFRS 16.
(*) For the year ended 31 December 2020, EBITDA was normalized to exclude the following expenses: impairment loss of goodwill (4,420), accrued penalties due to Pizza Hut Europe (Master Franchisor - YUM!) for the restaurants committed to be opened in 2019 and postponed for the future periods (1,528) and costs related to the Italian subsidiary development agreement terminated in 2020 (1,234). For the year ended 31 December 2019, EBITDA was normalized to exclude the following expenses: release of tax provision (10,343) and impairment loss of goodwill (2,406).

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

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

	2020							
Data in RON'000	**USFN (RO)**	**ARS**	**USFN (MD)**	**USFN (IT)**	**CFF**	**SFG**	**Cons. Adj.**	**SFG Cons**
Restaurant sales	**527,588**	**68,403**	**8,678**	**76,456**	**29,512**	**23,823**	**(23,663)**	**710,797**
Dividends revenue	**-**	**-**	**-**	**-**	**-**	**85,223**	**(85,223)**	**-**
Other income	**-**	**-**	**-**	**726**	**-**	**-**	**-**	**726**
Restaurant expenses	**457,176**	**76,820**	**7,576**	**93,061**	**29,348**	**483**	**(2,208)**	**662,256**
Food and material	176,760	18,805	3,481	22,949	10,352	-	(8)	232,338
Payroll and employee benefits	99,501	19,178	1,513	23,858	6,074	-	-	150,124
Rent	41,450	6,821	386	7,497	2,440	-	-	58,593
Royalties	31,041	3,919	522	4,560	1,232	-	-	41,274
Advertising	23,418	4,631	341	4,825	1,506	483	(2,171)	33,033
Other operating expenses	65,797	17,009	991	20,815	5,419	-	(28)	110,004
Depreciation	19,207	6,457	343	8,558	2,324	-	-	36,889
Restaurant operating profit/(loss)	**70,412**	**(8,418)**	**1,102**	**(15,879)**	**164**	**108,564**	**(106,678)**	**49,267**
G&A expenses, net	33,598	6,327	283	7,874	2,339	42,468	(41,985)	50,904
Operating profit/(loss)	**36,815**	**(14,745)**	**818**	**(23,753)**	**(2,175)**	**66,096**	**(64,693)**	**(1,637)**
Finance costs	3,485	1,045	166	2,889	1,490	1,639	(5,458)	5,256
Finance income	3,701	25	-	1	-	1,968	(5,458)	237
Profit/(Loss) before tax	**37,030**	**(15,764)**	**652**	**(26,641)**	**(3,665)**	**66,425**	**(64,693)**	**(6,656)**
Total tax expense/(credit)	2,100	663	72	(7,165)	129	(83)	-	(4,283)
Profit/(Loss) for the period	**34,930**	**(16,428)**	**580**	**(19,476)**	**(3,795)**	**66,508**	**(64,693)**	**(2,373)**
EBITDA	**56,708**	**(8,110)**	**1,199**	**(15,171)**	**221**	**66,753**	**(64,693)**	36,907
Normalized EBITDA	**66,144**	**(6,583)**	**1,199**	**(13,937)**	**221**	**82,379**	**(85,336)**	**44,088**

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

	Data in RON '000				Change (%)		Percentage of sale			
	2020	**2020**	**2019**	**2019**			**2020**	**2020**	**2019**	**2019**
	(1)	(2) (unaudited)	(1)	(2) (unaudited)	2020/ 2019 (1)	2020/ 2019 (2)	(1)	(2)	(1)	(2)
General and administration (G&A) expenses, net	**51,140**	**50,904**	**50,023**	**50,519**	**2.2%**	**0.8%**	**7.2%**	**7.2%**	**5.2%**	**5.3%**
Payroll and employee benefits	28,955	28,955	35,183	35,183	-17.7%	-17.7%				
Third-party services	6,041	6,041	9,008	9,009	-33%	-33%				
Impairment of goodwill	4,420	4,420	2,406	2,406	83.7%	83.7%				
Depreciation and amortization	4,968	1,655	4,330	1,525	14.7%	8.5%				
Rent	394	3,472	386	3,688	2.1%	-5.9%				
Banking charges	2,810	2,810	3,384	3,384	-17.0%	-17.0%				
Transport	929	929	2,591	2,591	-64.1%	-64.1%				
Other*	2,623	2,623	(7,265)	(7,265)	136.1%	136.1%				

Note: (1) Including the impact of the adoption of IFRS 16; (2) Excluding the impact of the adoption of IFRS 16.
**Other expenses include maintenance & repairs, smallware, insurance, advertising, phone & postage, other provisions (tax provision), and miscellaneous expenses.*

Throughout the second half of the year, the Group registered a gradual, month by month, increase in sales on all three markets of activity. The performance in Q4 2020 improved QOQ in Romania as well as in Republic of Moldova but registered a decline in Italy where the sales shrank by RON 6.6 million compared to previous quarter, and RON 21.9 million y-o-y. Y-o-y, sales in Romania decreased by 26%, from RON 845 million in 2019 to RON 625.5 million in 2020, in Italy by 22.3%, to RON 76.5 million and by 23.4% in the Republic of Moldova, reaching RON 8.7 million.

Data in RON '000	Q1-20	Q1-19	Q2-20	Q2-19	Q3-20	Q3-19	*Q4-20*	*Q4-19*	2020	2019	Δ '20/'19
Sales by region											
Romania	176,764	194,780	93,821	206,180	169,260	216,175	185,816	227,836	**625,663**	**844,970**	*-26%*
Italy	19,205	17,203	11,435	21,993	26,232	29,772	19,584	29,463	**76,456**	**98,430**	*-22.3%*
Rep. Moldova	2,345	2,742	1,009	2,669	2,371	2,803	2,953	3,114	**8,678**	**11,328**	*-23.4%*
Total sales	198,314	214,725	106,266	230,842	197,865	248,750	208,352	260,412	**710,797**	**954,728**	***-25.6%***

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

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

Sales through own delivery channels as well as delivery through food aggregating platforms increased QOQ across all brands in Q4 2020 as 31% of all orders on the 3 markets of activity were made for delivery – higher compared to Q3 2020 but lower compared to Q2 2020 when amid restrictions, almost half of orders were for delivery. In Q4, the increase in orders for delivery was dictated by colder weather and the lack of indoor dining option in the majority of restaurants because of COVID-19 restrictions and the expansion of the delivery options.

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

Sales by entity, by Country		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20
USFN RO	delivery	3%	3%	3%	4%	6%	44%	23%	28%
	non-delivery	97%	97%	97%	96%	94%	56%	77%	72%
ARS	delivery	23%	27%	27%	29%	33%	68%	53%	63%
	non-delivery	77%	73%	73%	71%	67%	32%	47%	37%
CFF	delivery	0%	0%	0%	5%	11%	81%	40%	42%
	non-delivery	100%	100%	100%	95%	89%	19%	60%	58%
USFN IT	delivery	1%	0%	0%	0%	0%	32%	11%	23%
	non-delivery	99%	100%	100%	100%	100%	68%	89%	77%
USFN MD	delivery	0%	0%	0%	10%	15%	60%	23%	25%
	non-delivery	100%	100%	100%	90%	85%	40%	77%	75%
All	delivery	6%	6%	6%	7%	9%	47%	24%	31%
	non-delivery	94%	94%	94%	93%	91%	53%	76%	69%

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

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

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

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

STANDALONE FINANCIAL RESULTS

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

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

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

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

Data in RON'000

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

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

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

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

As a result of the analysis, as compared to the investment carrying value of 88,786 and also considering the loan granted to ARS of 9,917 (2019: 31,750) and the accumulated impairment loss already recognized in the financial statements as at and for the year ended 31 December 2019 of 35,262, there was a decrease of the investment's recoverable amount of additional 15,626 for which the Company recognized an impairment loss in the financial statements as at and for the year ended 31 December 2020. This impairment loss may be reversed in the future financial years, subject to improving performance of the subsidiary.

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

FY Standalone Financial Statements

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

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

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

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

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

MAIN FINANCIAL RATIOS

The main financial ratios of Sphera Franchise Group (consolidated result) as of December 31st, 2020 (including and excluding IFRS 16 impact) are presented below, together with the result from the same period of 2019 (including IFRS 16 impact).

Financial data in RON '000	**FY 2020(1)**		**FY 2020(2)**		**FY 2019(1)**	
Current ratio						
Current assets / Current liabilities	153,481 / 232,704	**= 0.66**	156,605 / 190,688	**= 0.82**	112,082 / 182,381	**= 0.61**
Debt to Equity ratio						
Interest-bearing debt (long term) / Equity	280,741 / 149,121	**= 188%**	**84,099** / 161,839	**= 52%**	263,690 / 172,251	**= 153%**
Interest-bearing debt (long term) / Capital employed	280,741 / 429,862	**= 65%**	**84,099** / 245,939	**= 34%**	263,690 / 435,941	**= 60%**
Trade receivables turnover (days)						
Average receivables / Sales	28,825 / 711,523	**= 14.6**	28,825 / 711,523	**= 14.6**	27,867 / 954,728	**= 10.5**
Fixed asset turnover						
Sales / Net fixed assets	711,523 / 492,745	**= 1.44**	711,523 / 264,319	**= 2.7**	954,728 / 493,371	**= 1.94**

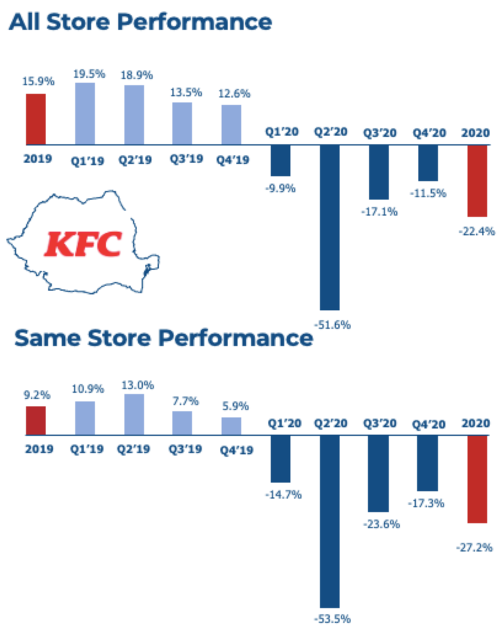
Notes: (1) Including the impact of IFRS 16; (2) Excluding the impact of IFRS 16 Leases.

BRAND & SALES PERFORMANCE

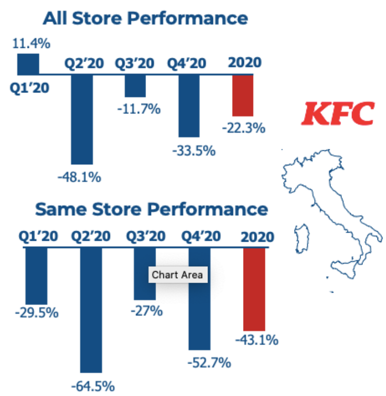
KFC ROMANIA – in the context of the COVID-19 pandemic and the lockdowns ordered at national level (March-May 2020) and later at regional level, throughout the remaining of the year, the sales performance of KFC Romania (USFN Romania) in 2020 was severely affected.

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

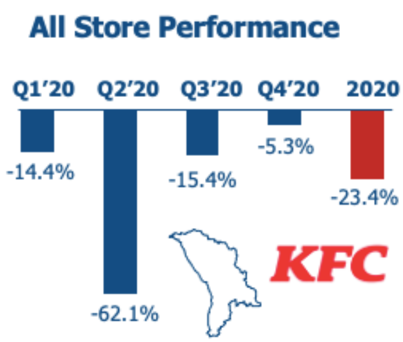
KFC Romania's turnover dropped 22.4% y-o-y, while like-for-like performance declined 27.2% y-o-y. Yet, USFN Romania managed to reach normalized EBITDA margin of 12.5% in 2020 (vs 13.7% margin in 2019) and closed the year profitable (RON 34.9 mn).



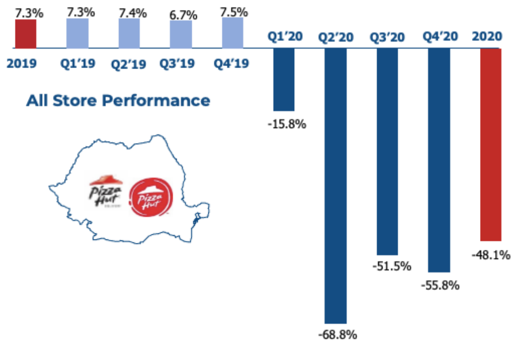
KFC ITALY – 2020 was a challenging year for KFC Italy (USFN Italy) as the Italian market was severely impacted by the COVID-19 pandemic in the first half of the year, and later, in Q4 2020 because of severe restrictions implemented in the context of the aggravating pandemic. Consequently, sales across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



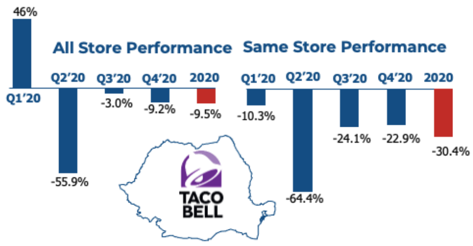
KFC MOLDOVA – The performance in the Republic of Moldova declined throughout 2020, with the worst performance recorded, in line with the sister brands, in Q2 2020. In the context of the pandemic, the Group had limited sales capacity and consequently the store performance dipped 62.1% in that period.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



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



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



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

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

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

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

Depending on the brand, the terms of cooperation between the restaurants and food aggregators differ. For KFC, sales for delivery are partly made through the aggregators, partly through the call center and delivered through its own service. The partnership with aggregators for KFC is hybrid, and it entails using the platforms both as a marketplace and end-to-end. The decision to work with the platforms under the marketplace or end-to-end model depends on the restaurant's location and the capability to handle an increased number of deliveries. In some parts of Bucharest as well as outside of the capital city, KFC orders can only be delivered through the food aggregators.

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

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

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

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

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

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

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

KEY EVENTS IN 2020

Throughout 2020, the number of restaurants open by the Group fluctuated, differing from month to month, depending on the evolution of the COVID-19 pandemic. During the year, in order to respond to the challenging market conditions, the Group has focused on expanding the delivery services, „menu engineering" to fit the market conditions, redesigning client and production flows, analysis and improvement of cost and cost structures to maximize the performance.

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

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

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

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

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

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

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

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

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

Restaurant development – In 2020, the net number of stores increased by 3, reaching 158 restaurants on December 31st, 2020. Out of 158 stores, 138 were based in Romania, 18 in Italy and 2 in the Republic of Moldova. In the course of 2020, the Group inaugurated 5 new KFC restaurants in Romania (+1 relocation of a store based in Targu Mures), 3 new KFC stores in Italy and 1 new Taco Bell in Romania. At the same time, 6 stores in Romania identified as non-viable were closed.

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

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

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

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

Staff & state aid related to staff costs – As of December 31st, 2020, the Group had 4,802 employees, out of which 4,401 were in Romania, 323 in Italy and 78 in Republic of Moldova.

At the end of 2020, approximately 6% of employees from Romania and 8% of employees based in Italy were in technical unemployment. In the Republic of Moldova, all the employees were back from technical unemployment as of Q3 2020. In the context of indoor dining restrictions in Q4 2020, the Group actively monitored, on a weekly basis, the number of employees needed in the restaurants. Restrictions imposed by authorities and reduced consumer demand influenced the number of employees who entered technical unemployment.

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

In 2020 Sphera Franchise Group benefitted from state aid in the countries where the Group operates in the total amount of RON 27.6 million for restaurant staff and 0.8 million that were recognized under G&A expenses. The supportive measures covered for the employee-related costs incurred by the companies affected by a temporary reduction and/or interruption of activity due to COVID-19 pandemic (i.e. technical unemployment indemnity and 41.5% Tax Aid from Romanian state). In Q4 2020, USFN Italy benefitted from an aid from the Italian government in the value of RON 0.7 million for the turnover reduction due to the COVID-19 business disruption.

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

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

In December 2020, the Group activated a short-term working capital line of RON 9.6 million from Intesa Sanpaolo Bank and paid back a short-term working capital line to Vista Bank, in the amount of RON 6 million. After closing the year, in January 2021, the Group negotiated with Alpha Bank a further 1-year postponement of principal payments, in the amount of approximately 36m RON.

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

On December 31st,2020, Emergency Ordinance 224/31.12.2020 was published that stipulates that companies from HoReCa sector can apply for a state aid in the amount that represents 20% of the loss of turnover in 2020 compared to 2019. The maximum amount per company is capped at EUR 800,000, but the total aid received by a firm and other scheme should not exceed EUR 1.8 million (the new threshold set by the European Commission in the temporary framework). The total budget for this measure amounts to RON 1 billion. The initial deadline to pay aid has been extended and is currently due on June 30th, 2022.The money will no longer be granted on the "first come/first served" principle, but the financing will be granted to all applicants. If there are more applications than the budget, each participant will receive an amount less than the 20% percentage applied to the amount by which its turnover decreased.

At the current moment, the Group is analyzing the impact of the recently published Emergency Ordinance no.10/24.02.2021 in order to determine if all 3 companies, USFN Romania, ARS and CFF would qualify for this measure. As soon as it is possible, the Group will apply for the state aid.

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

During Q4 2020 the company tested the innovative ordering solution through touchless kiosks, this being part of our strategy of adapting to the new socio-sanitary system, in the context of the safety measures imposed at national level by the authorities, as well as additional measures taken at business level, including: multiple disinfection of work surfaces in the kitchen and throughout the location, equipping employees with masks and protective gloves, keeping social distance, encouraging contactless payment, placing disinfectant containers in restaurants.

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

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

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

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

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

DIVIDENDS

Data in RON'000

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

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

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

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

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

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

The shareholders can access the Group's dividend policy at the following link.

KEY FACTORS AFFECTING GROUP'S RESULTS

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

General economic environment in the markets – The results of the Group can be directly affected by economic conditions, especially employment levels, inflation, real disposable income, consumption, access to consumer credit, consumer confidence, applicable taxes, and consumer's willingness to spend money in the markets and geographic areas in which it operates. In an unfavorable economic environment with a decrease in disposable income, the Group's customers may reduce the frequency with which they dine out or order-in or may choose more inexpensive dining options. This risk is especially highlighted for 2021 as there is a consensus amongst the economists that the novel coronavirus pandemic will continue to negatively affect the global economy. A decrease in disposable income may affect the customer traffic, frequency, average ticket size as well as the Group's ability to pass the cost increases onto its customers. Nonetheless, this trend is offset by the overall affordability of the Groups products, which may also lead to the Group attracting new clients, amongst the customers who may substitute more expensive dining options with Group's products.

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

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

Lockdowns – In the context of COVID-19 pandemic, there exists a chance that lockdowns, including the temporary closure of restaurants, hotels, cafes, clubs, shopping malls, gradual closure of borders, limiting or prohibiting the movement of vehicles or people in/to certain areas can be implemented throughout Europe, including in the countries of activity of the Group. The lockdowns can be applied at the national level, impacting all the restaurants of the Group in one country of operation, as well as at a local level, impacting restaurants located in certain municipalities or regions that are subject to restrictions. The rapid change in the strategy of the Group in 2020 and the almost complete reliance on the delivery and take-out services in Q2 2020 to generate revenues have prepared the Group for another potential lockdown, thus lowering the extent of the negative impact of this risk.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FINANCIAL INSTRUMENTS RISK MANAGEMENT

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

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

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

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

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

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

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

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

The Group invests cash and cash equivalents with highly reliable financial institutions. The Group has only plain vanilla deposits with reputable banks, none of which has experienced any difficulties in 2020 or up to the date of these consolidated financial statements. The majority of cash is transacted through and placed with Alpha Bank Romania, member of Alpha Bank Group from Greece and Banca Romana de Dezvoltare (BRD), a member of Societe Generale Group from France, Banca Transilvania, as well as with Unicredit Bank Italy. The long-term credit rating of Alpha Bank Greece is 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.

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

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

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

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

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

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

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

Calculation of consolidated gearing ratio is presented below:

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

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

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

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

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

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

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

INTERNAL CONTROL

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

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

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

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

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

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

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

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

- Setting certification expectations.

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

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

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

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

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

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

NON-FINANCIAL TOPICS & DIVERSITY POLICY

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

Environmental protection – The Company's philosophy is to minimize the impact on the environment and leave the smallest footprint possible. There is a strong commitment to create a sustainable business, starting from the way of source the food products to the design, packaging of the final products and how the restaurants are built.

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

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

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

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

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

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

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

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

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

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

COMMITMENTS AND CONTINGENCIES

Group as lessee - lease commitments

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

Other commitments

Per the Romania new network development plan signed in October 2017, the Group has agreed with KFC Europe to open a minimum of 39 new KFC locations (out of which 29 standard format restaurants and 10 smaller format restaurants meaning rural drive-thru or an agreed small box design) during the years 2017-2022 (out of which 8 units in 2020). Given the pandemic situation, the parties have negotiated in 2020 the resize of the restaurant development plan for the period 2020-2021, from 17 net new stores to 10 net new stores, out of which 4 net new stores were already inaugurated by the Group in 2020. Therefore, USFN has 6 more net new stores to open by the end of 2021.

During the negotiations, the Group also managed to obtain financial incentives that will help in the process of expansion the KFC network in Romania.

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

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

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

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

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

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

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

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

Bank letter of guarantees

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

Other contingencies

Taxation

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

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

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

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

Transfer pricing

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

The Group has prepared transfer pricing files.

Legal proceedings

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

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

ENVIRONMENTAL MATTERS

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

Chairman of the Board of Directors
Lucian Hoanca

L.S.

CORPORATE GOVERNANCE

SPHERA

BVB CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

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

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

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

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

non-executive. Most members, including the Chair, shall have proven appropriate qualification relevant to the functions and responsibilities of the Committee. At least one member of the Audit Committee shall have proven adequate experience in auditing or accounting. In the case of companies in the Premium Category, the Audit Committee shall consist of at least three members and most members of the Audit Committee shall be independent.			executives. In 2020, the Audit Committee was made up of three members of the Board, of which two members met all the criteria of independence set out in the Corporate Governance Code. The Audit Committee includes members with proper certifications corresponding to the functions and responsibilities held in the Audit Committee, and only one member also has the necessary certifications in the financial, auditing and accounting area.
B.2. The Chair of the Audit Committee shall be an independent non-executive member.		X	As members of the Board, all members, including the Chair of the Audit Committee, are non-executive. The independence assessment showed that, in 2020, two members of the Audit Committee met all the criteria of independence set out in the Corporate Governance Code. From the perspective of the Corporate Governance Code, the Audit Committee does not fully comply with the conditions of compliance, placing the Company in the "partial compliance" area seeing as the Chair of the Audit Committee only meets the non-executive member condition, but not the independent member condition. The Company is going to resume compliance with this provision in the near future, by taking into account and analyzing possible alternatives.
B.3. As part of its responsibilities, the Audit Committee shall carry out an annual assessment of the internal control system.	X		The Terms of Reference for the Audit Committee detail the role and duties of the Audit Committee, which primarily consist of: (i) Reviewing and revising the individual and consolidated annual financial statements and the profit sharing proposal; (ii) Reviewing and submitting recommendations on the appointment, re-appointment or revocation of the external independent financial auditor for approval thereof by the Ordinary General Shareholders' Meeting; (iii) Carrying out an annual assessment of the internal control system, taking into account the effectiveness and purpose of the internal audit function, the adequacy of the risk management and internal control reports submitted to the Audit Committee, the promptness and effectiveness with which the executive management addresses any deficiencies or weaknesses identified as a result of the internal
B.4. The assessment shall take into account the effectiveness and scope of the internal audit function, the adequacy of the risk management and internal control reports submitted to the Board Audit Committee, the promptness and effectiveness with which the executive management addresses any deficiencies or weaknesses identified as a result of the internal control and the submission of relevant reports to the Board.	X		
B.5. The Audit Committee shall assess any conflicts of interest in connection with the transactions of the Company and its subsidiaries with related parties.	X		

B6. The Audit Committee shall assess the effectiveness of the internal control and risk management systems.	X		control and the submission of relevant reports to the Board; (iv) Assessing any conflicts of interest in connection with the transactions of the Company and its subsidiaries with related parties; (v) Assessing the effectiveness of the internal control and risk management systems; (vi) Monitoring the application of the legal standards and generally accepted internal audit standards; (vii) Receiving, on a regular basis, a summary of the main findings of the audit reports, as well as other information on the activities of the Internal Audit Department and assessing the reports of the internal audit team; (viii) Reviewing and revising the transactions with related parties that exceed or are expected to exceed 5% of the Company net assets from the previous financial year, prior to their submission to the Board for approval purposes, in accordance with the Policy on Related Party Transactions.
B.7 The Audit Committee shall monitor the application of the legal standards and generally accepted internal audit standards. The Audit Committee shall receive and assess the reports of the internal audit team.	X		
B.8. Whenever the Code mentions reports or analyses initiated by the Audit Committee, these shall be followed by regular reports (at least annual reports) or ad hoc reports to be subsequently submitted to the Board.	X		The Audit Committee regularly presents the Board with reports on the specific issues that have been assigned to it.
B.9. No shareholder may be granted preferential treatment over other shareholders in connection with transactions and agreements entered into by the Company with the shareholders and affiliates thereof.	X		The Company grants equal treatment to all its shareholders. Related party transactions are treated objectively, in accordance with the usual industry standards, and the applicable laws and corporate regulations.
B.10. The Board shall adopt a policy to ensure that any transaction of the Company with any of the companies with which it has close ties, whose value is equal to or greater than 5% of the Company net assets (according to the latest financial report), is approved by the Board following a binding opinion of the Board Audit Committee and is properly disclosed to the shareholders and prospective investors to the extent that such transactions fall within the category of events subject to reporting requirements.		X	The Company has adopted the key principles for reviewing, approving, and publishing transactions with related parties in accordance with the applicable regulations and Company corporate documents, including the fact that Company transactions with related parties that exceed or are expected to exceed, either individually or in aggregate, an annual value of 5% of the Company net assets from the previous financial year, shall be approved by the Board, based on the opinion of the Audit Committee, and it will formalize in the near future the aforementioned key principles in the relevant Policy on Related Party Transactions (as at the date hereof, as regards this issue, the status is “partial compliance”). SPHERA submits regular and voluntary reports on related party transactions to the Financial Supervisory Authority and the Bucharest Stock

			Exchange. These reports are reviewed by an independent financial auditor in accordance with the relevant legislation in force.
B.11. Internal audits shall be performed by a structurally separate division (the Internal Audit Department) within the Company or by hiring an independent third party.		x	At the end of 2020, the Internal audit function has not been occupied..
B.12. In order to ensure the fulfilment of the primary functions of the Internal Audit Department, functionally speaking, it shall report to the Board by means of the Audit Committee. For administrative purposes and as part of the responsibilities of the management to monitor and reduce risks, it shall report directly to the Chief Executive Officer.	x		The reporting lines are respected, the Audit Department having a reporting line to the Director General and the Board of Directors, through the Audit Committee.
Section C – Fair reward and motivation			
C.1. The Company shall publish the Remuneration Policy on its website and shall include a statement on the implementation of the Remuneration Policy in the Annual Report during the annual period under review. Any key change in the Remuneration Policy shall be published on the Company website in a timely manner.	x		The Company has a Remuneration Policy in place and consistently applies the remuneration principles with respect to Board members, Executives, the senior management, and other personnel categories. These basic remuneration principles are listed in the Corporate Governance Report. So far, there have been no changes to the Remuneration Policy that might lead to updates to the Policy published on the Company website.
Section D – Adding value by way of the investor relations			
D.1. The Company shall organize an Investor Relations Service - indicating to the general public the officer(s) in charge or the relevant organizational unit. In addition to the information required by law, the Company shall include on its website a section dedicated to Investor Relations, in both Romanian and English, with all the relevant information of interest to investors, including: • The main corporate regulations: Articles of Association, the procedures regarding the General Shareholders' Meetings (GSM); • The professional CVs for the members of the Company management bodies, other professional commitments of the Board members, including executive and non-executive positions in the Boards of Directors of companies or non-profit institutions; • Current and regular reports (quarterly, half-		x	All the information as specified by the D1 provision is provided on the issuers website except for the CVs of the members of the Company's professional management bodies. Sphera Franchise Group is currently in the process of implementing a new website which will remedy the current situation and ensure full compliance with the provision.

yearly and annual); • Information on the General Shareholders' Meetings; • Information on the corporate events; • The name and contact details of a person who can provide relevant information, on request; • Company presentations (e.g., investor presentations, quarterly result presentations, etc.), financial statements (quarterly, half-yearly, annual), Audit Reports, and Annual Reports.			
D.2. The Company shall have a policy on the annual distribution of dividends or other benefits to the shareholders. The principles of the policy of annual distribution to the shareholders shall be published on the Company website.	X		The Company Dividend Policy is published on the Company website, in the Investor Relations section, the Corporative Governance Subsection.
D.3. The Company shall adopt a policy regarding forecasts, whether they are made public or not. Forecasts mean quantified conclusions of various studies aimed at determining the overall impact of a number of factors for a future period (the so-called assumptions): by its nature, a forecast has a high level of uncertainty, and the actual results can vary significantly from the original forecasts. The Forecast Policy shall determine the frequency, period considered and content of the forecasts. If published, the forecasts may only be included in the annual,half-yearly or quarterly reports. The Forecast Policy shall be published on the Company website.	X		The Company has a Forecast Policy, which is published on the Company website, in the Investor Relations section, the Corporative Governance Subsection.
D.4. The rules of the General Shareholders' Meetings shall not limit the participation of shareholders in the general meetings or the exercise of their rights. Any amendments to these rules take effect, at the earliest, starting with the next Shareholders' Meeting.	X		Information on the organization of the General Shareholders' Meetings is mentioned in the Company Articles of Association, as well as the Corporate Governance Report, in brief. SPHERA also publishes detailed convening notices for each GSM, describing in detail the procedure to be followed during each GSM. Thus, the Company ensures that the General Shareholders' Meetings are properly managed and organized, and the shareholders' rights are respected.
D.5. Independent financial auditors shall be present at the General Shareholders' Meeting when their reports are presented at these meetings.	X		The independent financial auditors participate in the Ordinary General Shareholders' Meetings where the individual and consolidated annual financial statements are subject to approval.
D.6. The Board should present to the annual general meeting of shareholders a brief assessment of the		X	The information about the internal controls and significant risk management system is provided in the Annual Report.

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

CONSOLIDATED NON-FINANCIAL STATEMENT

SPHERA

CONSOLIDATED NON-FINANCIAL STATEMENT

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

THE GROUP BUSINESS MODEL

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

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

APPLIED DUTY OF CARE PROCEDURES

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

SOCIAL RESPONSIBILITY; SOCIAL, ENVIRONMENTAL AND DIVERSITY-RELATED ISSUES

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

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

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

In 2020, there was no formalized diversity policy with respect to the administrative and management bodies of Sphera and/or its subsidiaries on issues such as age, gender or education and professional experience. However, in order to promote equality and diversity, the Group has set up a series of policies which it monitors and assesses using various tools, constantly monitoring their progress. We believe that the most appropriate way to manage equal opportunities and diversity is for these to be present in every process and function. Moreover, they must be considered an integral part of the decision-making in terms of policies and must be present in the Group program planning. In 2019, Sphera joined the Diversity Charter.

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

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

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

THE COMPLIANCE POLICY AND THE ANTI- BRIBERY POLICY

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

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

KEY PERFORMANCE INDICATORS RELATED TO NON-FINANCIAL STATEMENTS

Environment

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

Social Responsibility

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

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

RISK MANAGEMENT

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

We have a sustainable business view which has been developed by relevance and trust.

We assess issues of legal compliance that are subject to both national and international legal requirements.

Sphera Group works consistently towards stabilizing external factors and reducing market risks.

The Company has developed an internal culture that promotes proper conduct for all employees and the Company management. We rely on an organizational culture, principles, values and operating standards.

We conduct regular audits on food safety issues and have strict criteria for compliance with them, at the level of the supply chain, as well as at operational level.

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

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

DECLARATION FROM THE MANAGEMENT

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

Chairman of the Board of Directors
Lucian Hoanca

L.S.