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Sphera Franchise Group Investor & Analyst Call

H1 2022 Results

30.08.2022



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Therefore, the final results achieved may vary significantly from the forecasts, and the variations may be material.



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Welcome to SFG's H1 2022 Results Call



Calin Ionescu
CEO



Valentin Budes
CFO



Monica Eftimie
CMO



Zuzanna Kurek
IR

Sphera Franchise Group's unaudited H1 2022 results are available for download on our website: www.spheragroup.com.

The recording of this conference call will be available on our website shortly.

For any questions related to Sphera Franchise Group's activity on the Bucharest Stock Exchange, please contact our IR team at: investor.relations@spheragroup.com.

Agenda for today's call

- 1 H1 2022 Highlights**
- 2 Business updates from H1 2022 & beyond**
- 3 Brand Performance**
- 4 Q&A session**
- 5 Annex: Key H1 2022 Financials**

H1 2022 Highlights

SFG Performance in H1 2022

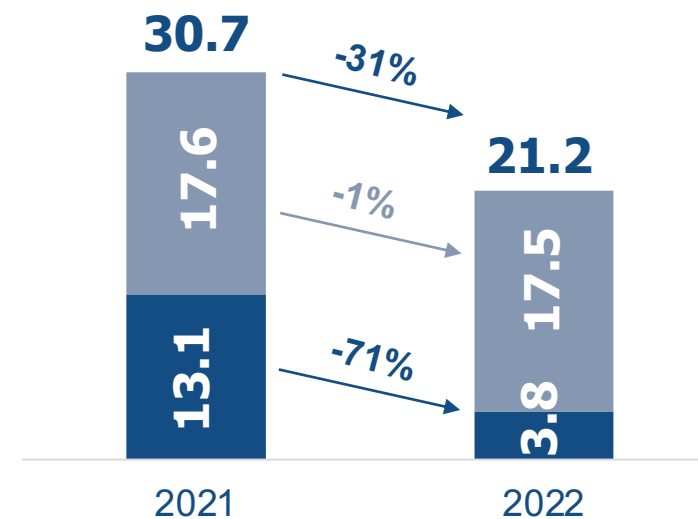
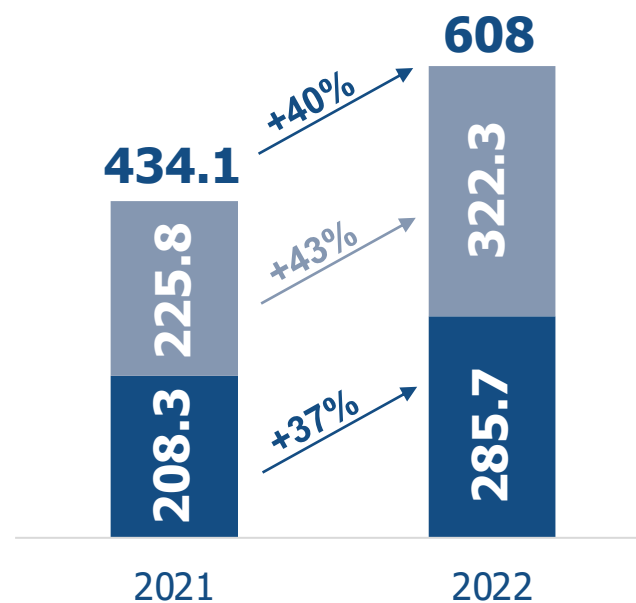
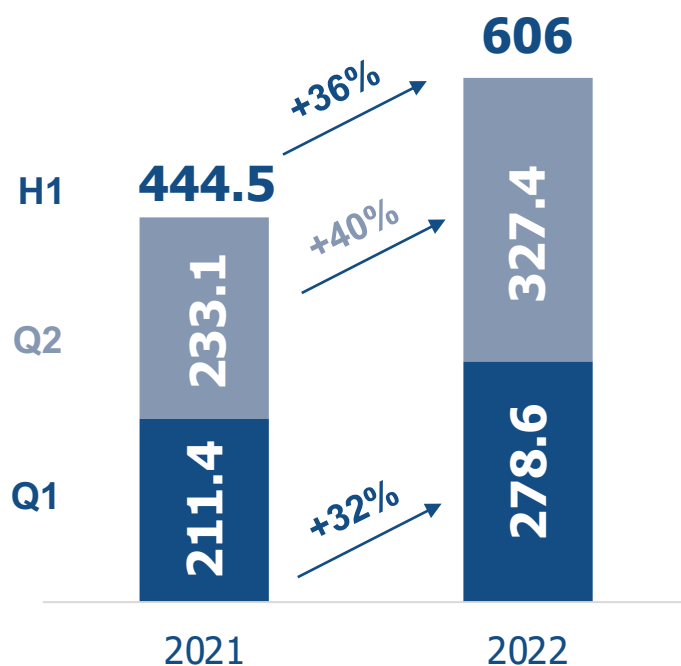


Data in RON'000	H1-22	H1-21	Y/Y %
Restaurant sales	606,024	444,544	36.3%
Other restaurant income	1,172	-	-
Restaurant expenses	581,542	408,708	42.3%
Restaurant operating profit	25,653	35,835	-28.4%
General & Admin expenses	26,440	25,420	4.0%
EBITDA	21,234	30,006	-29.2%
Normalized EBITDA*	21,234	30,740	-30.9%
Operating Profit/(Loss)	(786)	10,415	-
Finance costs	6,724	3,534	90.3%
Finance income	356	42	745.6%
Profit/(Loss) before tax	(7,154)	6,924	-
Income tax expense/(credit)	276	559	-50.6%
Specific Tax	1,275	1,179	8.2%
Profit/(Loss) for the period	(8,706)	5,185	-

Results excl. IFRS16

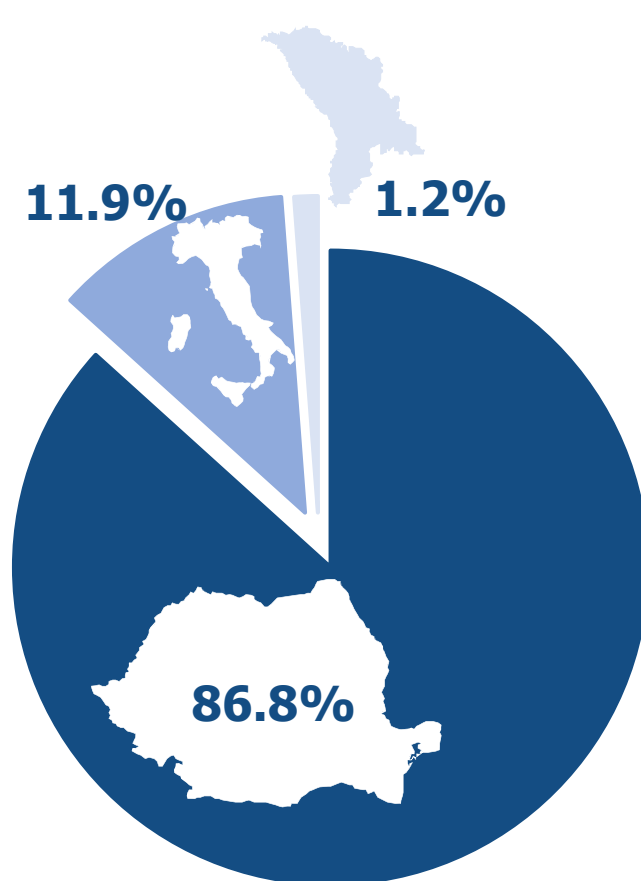
- **Best quarter in history:** SFG delivered the best sales quarter in history, registering RON 327.4 million in revenues, + 40% YoY. All brands registered record sales, across all markets of activity in a rapid ramp-up following the lifting of the COVID-19 restrictions.
- **Positive evolution in Q2 2022:** The restaurant expenses slowed down in Q2 2022, amounting to 95% of the cost of sales vs 98% registered in Q1 2022, due to the successful transfer of part of the costs to the end customers. In Q2 2022, Group recorded EBITDA of RON 17.5 million (+1% YoY), net profit of RON 2.2 million (-54% YoY). The decrease in the net profit in Q2 2022 was due to the inflation, energy prices, lack of government facilities. However, Q2 2022 net profit has registered a substantial increase of RON 13.1 million vs. Q1 2022.
- **Expenses main challenge in H1 2022:** Restaurant expenses grew faster than revenues, registering a 42% increase YoY, reaching RON 581.5 million. This was driven firstly by a 51% increase in cost of food and material costs (due to costs of poultry rearing, energy costs, the minimum wage increase, inflationary environment). The feed grain prices continued to grow in H1 2022 due to lingering war in Ukraine, driving the increase in the raw material prices. Payroll costs grew 39% YoY, reaching RON 141.8 million due to wage increases, a new bonus scheme, and raising benefits. The number of employees increased by 19% YoY, primarily due to larger network.
- **Other operating expenses** increased 38% YoY, reaching RON 88.9 million due to an almost doubling of the utility costs, which reached RON 21.2 million (+91%), and a 20% increase in the third-party expenses, to RON 45.4 million.
- **G&A:** The G&A costs increased 4% YoY in H1 2022 reaching RON 26.4 million, however the weight of G&A in sales decreased 1.4pp in Q2 2022 vs previous quarter.
- **Partial recovery of Q1 2022 loss:** The excellent topline performance and positive bottom line in the second quarter helped recover part of the losses that the Group registered in Q1 2022, resulting in RON 606 million in consolidated revenue (+36% YoY), EBITDA of RON 21.2 million (-29% YoY), net loss of RON 8.7 million.

SFG H1 2022 Performance

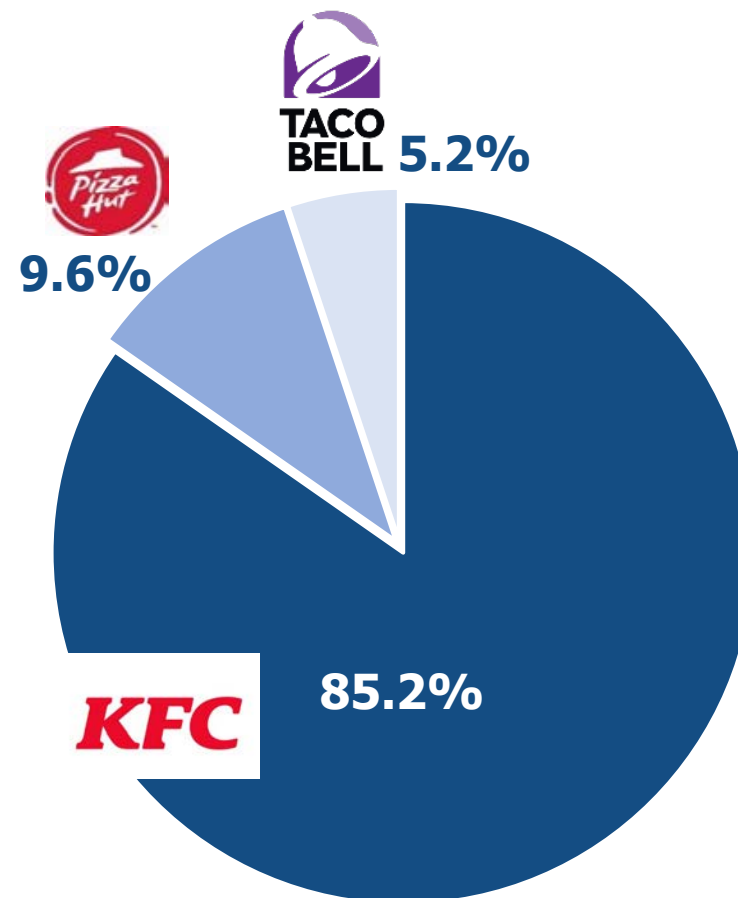


SFG H1 2022 Performance breakdown

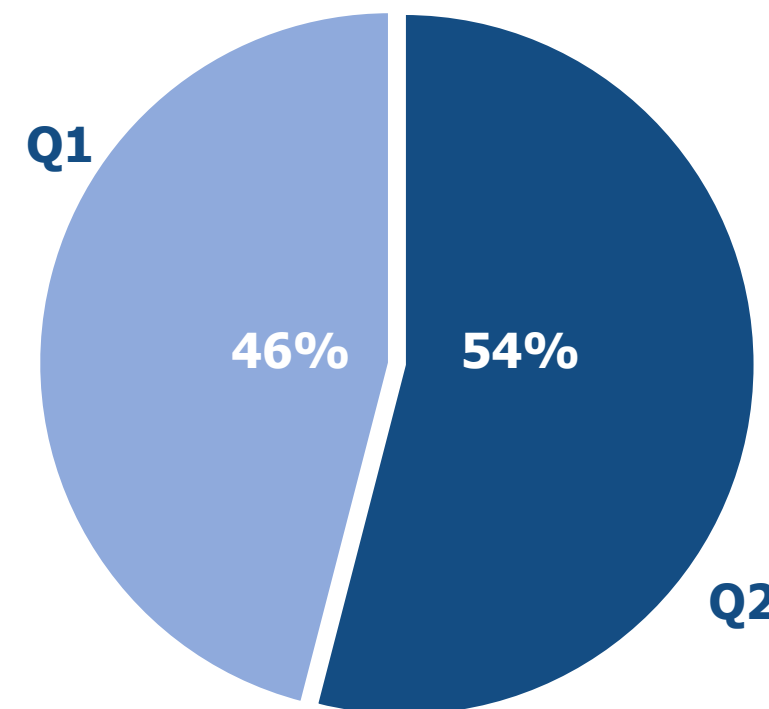
Contribution to H1 2022 turnover



Per market



Per brand



Per quarter

Business updates from H1 2022 & beyond



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COVID-19 & FISCAL UPDATES

Restrictions

- **Lifting of the restrictions in all markets of activity in Q2 2022:** As of 09.03.2022, Romania has lifted all the COVID-19 restrictions and consequently, both vaccinated and unvaccinated customers can enter shopping malls and restaurants without limitations. The restrictions in Italy were loosened as of 01.04.2022, and lifted as of 01.05.2022, and in the Republic of Moldova were lifted as of 19.04.2022

Facilities granted

- **Technical unemployment:** there were limited technical unemployment grants provided in Q1 2022, which amounted to RON 0.2 million. In Q2 2022, there were no technical indemnities granted.
- **No room for negotiations:** There was a limited opportunity to renegotiate lease agreements in Q1 2022 therefore the renegotiations in the period were not substantial. No renegotiations as of Q2 2022.

Fiscal updates

- Change of the social contributions for part time contracts, starting with 1st of August 2022.
- Cancellation of specific tax starting with 1st of January 2023 (replaced by profit tax/income tax).
- Increase of VAT rate for restaurant and catering services and hotel accommodation from 5% to 9% and the increase of VAT rate for non-alcoholic beverages containing added sugar or other sweeteners or flavorings from 9% to 19%, starting with 1st of January 2023.

Disclaimer: no application norms available at this moment for the changes starting with 1st of January 2023

Restaurant development, Staff

Number of stores

- **174 restaurants operated:** SFG operated 174 restaurants as of 30.06.2022, out of which 94 KFC restaurants in Romania, 2 in Moldova and 20 in Italy, as well as 14 Taco Bell restaurants, 42 Pizza Hut restaurants (of which 22 Pizza Hut and 20 Pizza Hut Delivery, of which 3 Fast Casual Delivery restaurants), 1 PHD subfranchise and 1 Paul restaurant in Romania.
- **5 new openings in H1 2022:** Sphera opened 5 new restaurants (4 in Q1 2022 and 1 in Q2 2022): 2 KFC (Colosseum Mall, Bucharest & drive thru Catex commercial center, Calarasi), Taco Bell (City Park Mall, Constanta), 2 Pizza Hut (Fast Casual Delivery in Militari Shopping Centre, Bucharest & Express in Shopping City Targu Jiu). One restaurant was closed in Q2 2022 – Pizza Hut in AFI Cotroceni.
- **New development agreement for 2022 for Taco Bell:** CFF will benefit from progressive financial incentives from YUM!, depending on the number of newly opened restaurants. For any exceeding of the minimum number of 2 new net restaurants, CFF will benefit from additional financial incentives.

Staff

- **19% increase in employees YoY:** As of 30.06.2022, the Group had 5,230 employees, out of which 4,885 in Romania, 260 in Italy and 85 in the Republic of Moldova. In H1 2022, the Group continued the project of hiring employees from abroad. So far, Sphera hired over 200 employees from Sri Lanka, with most of them currently working for USFN Romania.

Capital Markets, Sustainability & Dividends

FTSE Russell

- **Inclusion in the FTSE Global Microcap:** SFG shares are included, as of March 21st, 2022, in the FTSE Russell indices for Emerging Markets, FTSE Global Micro Cap index. Liquidity criteria has been met each month since the beginning of 2022 (to be maintained in index, company needs to meet liquidity criteria 8/12 months).

Receiving Food Safety Certification

- On June 3rd, 2022, the company informed the market about receiving the ISO 22000:2018 certification, which sets out the requirements for a food safety management system and addresses all organizations in the food industry, regardless of size or sector

Sustainability

- **New Sustainability Report:** In July 2022, Sphera published its Sustainability Report for years 2020-2021, available [HERE](#).
- **Make good easy:** As part of our on-going commitment to the environment over 100 HQ employees volunteered for a one-day trash removal in the Râioasa Forest in Săbăreni, Ilfov in July.

Dividend payment

- **RON 0.9021 gross dividend paid out:** In the OGSM from February 4th, 2022, the shareholders approved the dividend distribution amounting to RON 35,000,884.61 from the undistributed net profit of 2020, fixing a gross dividend per share at RON 0.9021. The payment date was 30.05.2022.

2022 Guidance



- **Inflation in 2022 exceeded the levels estimated in Approved Budget:** the food and material costs due to inflation are expected to exceed the estimates used in preparing the 2022 budget. This is due to the increase in all material costs categories with the greatest impact seen in: chicken, shortening, vegetables, mozzarella, beef, cheese and flour prices as well as in energy, affecting various operating restaurant cost lines.
- **Updated guidance for food & material costs:** the weight of these costs in sales are estimated to increase with 2.3pp compared to the Approved Budget due to the reasons enumerated above. This increase will result in a restaurant gross margin between RON 808-873 million.
- **Continued cost control in 2022:** to mitigate the negative effect of the increase in the food and material costs, the management will focus on tighter cost-control and will consequently target lowering restaurant operating expenses share in net sales with 0.6pp compared to the Approved Budget and lowering G&A expenses by 6.6%.

Indicator	2022 Updated Guidance			2022 Approved Budget		2022 Updated Guidance vs 2022 Approved Budget		2021 Actual		2022 Updated Guidance vs 2021 Actual		2022 Approved Budget vs 2021 Actual
	RON millions		% Sales	RON millions	% Sales	%		RON millions	% Sales	%		%
	← [Range] →		[Range Average]			← [Range] →				← [Range] →		
Restaurant Sales	1250.0	1350.0	100.0%	1330.7	100.0%	-6.1%	1.4%	1000.3	100.0%	25.0%	35.0%	33.0%
Other income	1.2	1.2	0.0%	-				2.6				
Food and Material	442.7	478.2	35.4%	440.4	33.1%	0.5%	8.6%	327.6	32.8%	35.1%	45.9%	34.4%
Restaurant Gross Margin	808.4	873.0	64.6%	890.4	66.9%	-9.2%	-2.0%	675.3	67.5%	19.7%	29.3%	31.9%
Restaurant Operational Expenses	686.2	740.8	54.9%	738.4	55.5%	-7.1%	0.3%	554.6	55.4%	23.7%	33.6%	33.2%
Restaurant Operating Profit	122.2	132.2	9.8%	152.0	11.4%	-19.6%	-13.0%	120.7	12.1%	1.2%	9.5%	25.9%
G&A Expenses	52.2	52.2	4.0%	55.9	4.2%	-6.6%	-6.6%	47.2	4.7%	10.5%	10.5%	18.3%
EBITDA (normalized, excluding IFRS 16 impact)	70.0	80.0	5.8%	96.1	7.2%	-27.1%	-16.7%	73.5	7.3%	-4.7%	8.9%	30.7%

Marketing



KFC: Drive frequency and maximize relevance

- KFC focused on strengthening favorability for the burger layer by successfully launching an innovative burger in Q2 called Zinger Mozzarella. The unique communication campaign resulted in strong same-store sales growth and an increase in restaurant visits.
- Building a distinctive and relevant brand leads to higher sales, therefore, in Q2 we launched a brand campaign focused on craving, an important asset for KFC and a key business driver for QSR.
- We continued our effort to reinforce the “value for money” perception by communicating the Tuesday Bucket through a 360 campaign that drove traffic in the stores and by offering coupons through our mobile app.
- KFC is a trusted and beloved brand in its category and for its 25th year anniversary we offered prizes and discounts to both loyal customers and dedicated employees.
- With the aim of boosting sales and reinforcing the best tasting chicken attribute, KFC launched Popcorn Chicken, a new core product which was communicated in digital using our social entertainment channel approach.

Pizza Hut: Build sales and increase distinctiveness

- Pizza Hut continued its value journey in Q2 by launching Pepperoni, our most loved recipe, at a special price with the aim of increasing transactions through attracting new users and reinforcing our pizza expert attribute.
- In June we launched a repositioning campaign as the favorite pizza of Romanian families with the objective of reversing the sales trend and bringing to life the power of the brand. By building a clear territory for Pizza Hut the brand will become more relevant and for everyday occasions increasing the brand power and the regular consumer base.
- As a secondary layer the brand communicated value offers for the dine-in and delivery channels which resulted in same-store sales growth.

Marketing

Taco Bell: Drive trial and build brand

- Taco Bell focused its communication in Q2 on product innovation with a value price point by re-launching the Chalupa with the aim of building both consideration and trial while making the core products affordable.
- With the aim of continuing to build a cult brand and to deliver strong sales Taco Bell launched a brand campaign which communicated its most important attribute in the category, its distinctiveness of the experience and products offered to its customers, under the tagline “nothing ordinary”.
- The brand launched its TIK TOK channel, adding to its ownable digital assets, to be closer to its die-hard Taco Bell lovers and early Taco Bell adopters.

The digital normal

- Focusing on ease of access for our consumers who expect frictionless experiences, we continued our digital journey and communicated through digital media our “click & collect” services and ecommerce platforms, with the objective of expanding our user base and gaining repeat visits from existing users.

Pricing adaptation to the market conditions

- In the current economic climate, we increased the prices in June for the three brands in order to protect the bottom line and absorb the increased cost of inputs. At the same time, we focused on value offerings to the customer to ensure continued traffic, visits, and transactions.

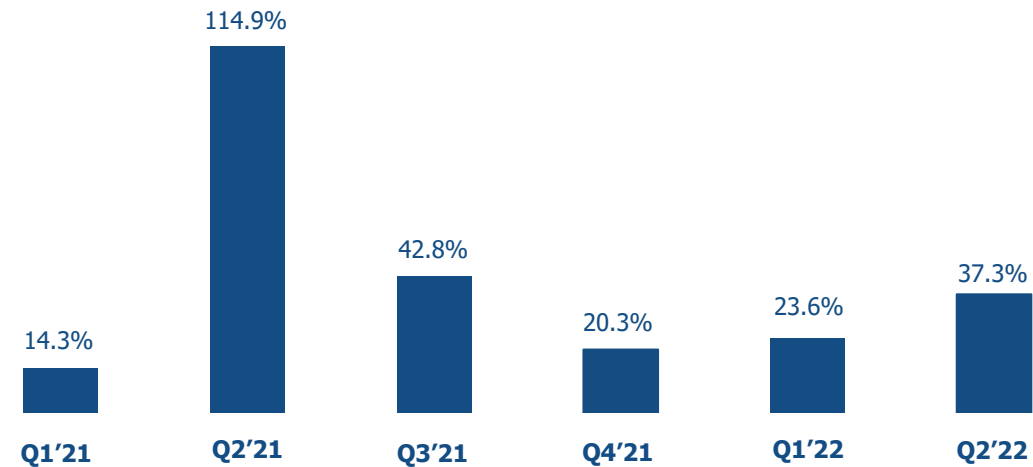
Brand performance



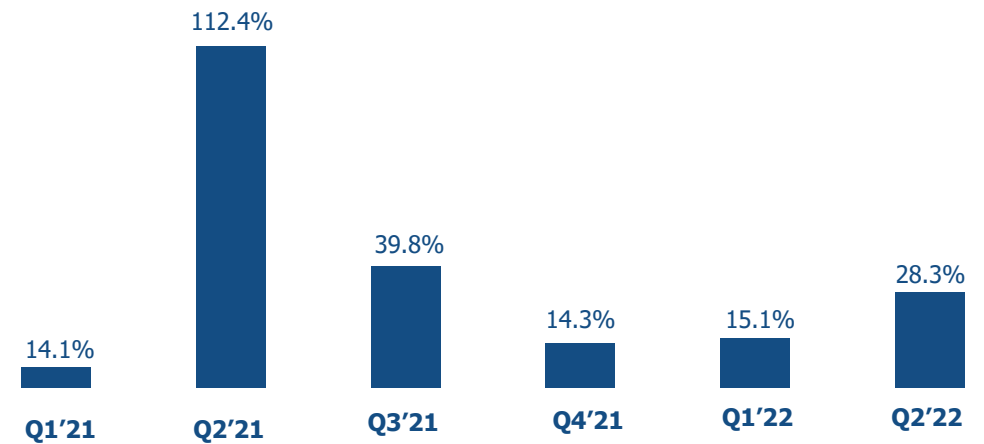
KFC Romania

- Q2'22 was another quarter of continued increase for KFC Romania as all store performance improved 37% YoY due to good like-for-like performance paired with the sales generated by the 6 new KFC restaurants that were opened between Q3'21 and Q2'22.
- Same-store performance of KFC Romania improved 28% YoY due to the lack of any COVID-19 restrictions, allowing all customers to freely enter malls and restaurants.
- KFC Romania ended H1'22 with EBITDA of RON 27.6 million and net profit of RON 12 million.
- 20% of all orders at KFC Romania were made for delivery in Q2'22, a 7pp decrease compared to Q1'22.
- Highest share of own sales channels in Q2 since the onset of the pandemic.

All Store Performance



Same Store Performance



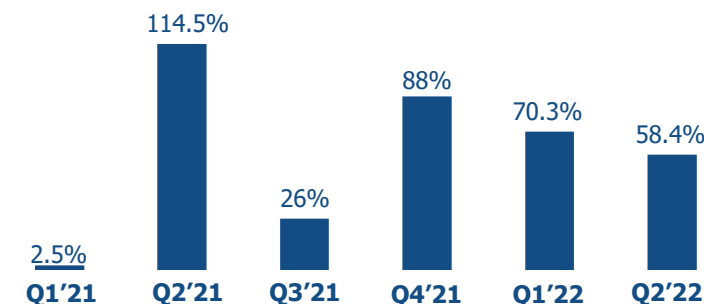


KFC Italy & KFC Republic of Moldova

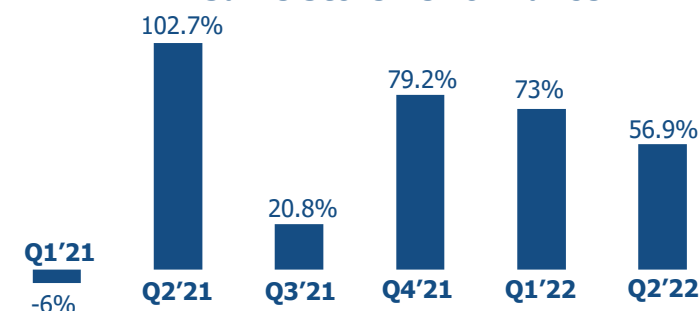
KFC Italy

- All-store performance registered 58% sales increase in Q2'22 vs. Q2'21, while the like-for-like evolution was the best of all the Group, registering a 57% sales increase in Q2'22 vs. Q2'21.
- USFN Italy closed H1'22 with RON 2.6 million negative EBITDA. In Q2, KFC Italy registered better performance versus previous quarter, lowering the net loss with 36%, despite increasing the sales just with 16%, thanks to the maturity of the existing units, thus validating the Group's business model in Italy.
- 12% of orders in Q2'22 were for delivery, 2pp QoQ decrease.

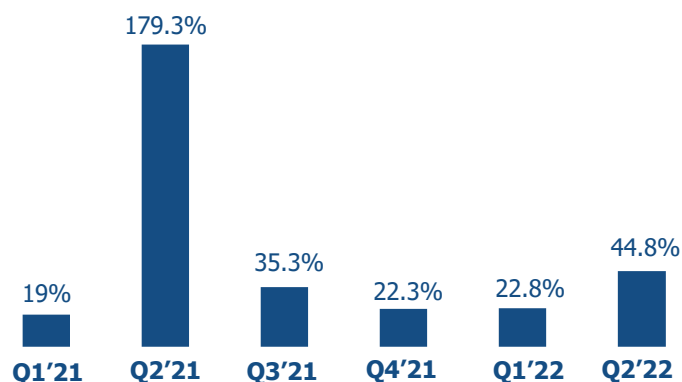
All Store Performance



Same Store Performance



All Store Performance



KFC Moldova

- Sales in the Republic of Moldova increased 45% in Q2'22 YoY, reaching RON 4.1 million.
- KFC Moldova closed H1'22 profitable, with EBITDA of RON 1.1 million and net profit of RON 0.7 million.
- Sales for delivery decreased 4pp QoQ, reaching 31% of total sales.

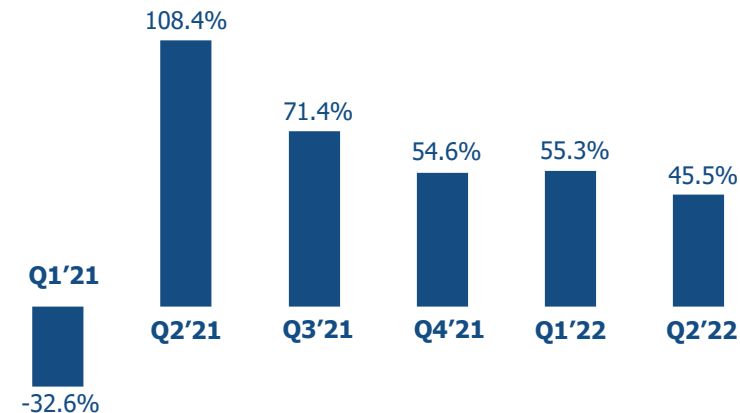


Pizza Hut & Taco Bell

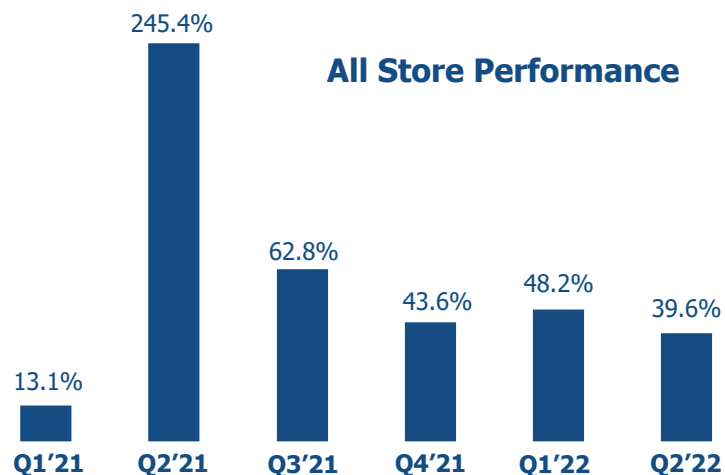
Pizza Hut

- Pizza Hut's continued YoY increases, registering a positive evolution of all store performance of 46% in Q2'22 vs Q2'21 as a combined effect of 5 new openings between Q3'21 and Q2'22 and an increase in the same stores sales by 36%.
- 40% of all orders were made for delivery in Q2'22
- Highest share of own sales channels in Q2 since the onset of the pandemic.
- Pizza Hut closed H1'22 with negative EBITDA of RON 4.8 million and a net loss of RON 8.4 million.

All Store Performance



All Store Performance



Taco Bell

- Taco Bell's same store performance in Q2'22 registered a 34% increase YoY while all store performance appreciated 40%.
- Between Q3'21 and Q2'22, Taco Bell opened 2 new restaurants.
- Taco Bell closed H1'22 with EBITDA of RON 0.6 million and a loss of RON 2 million.
- 32% of all orders in Q2'22 were for delivery, 9pp QoQ decline.

Q&A Session



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Annex: Key H1 2022 Financials

Summary of H1 2022 Consolidated FS

Data in RON'000	H1-22	H1-21	Y/Y % H1-22/ H1-21	% of Sales		Δ%
				H1-22	H1-21	
Restaurant sales	606,024	444,544	36.3%			
Other restaurant income	1,172	-	-	-	-	-
Restaurant expenses	581,542	408,708	42.3%	96.0%	91.9%	4.0%
Food and material	217,287	143,535	51.4%	35.9%	32.3%	3.6%
Payroll and employee benefits	141,780	102,197	38.7%	23.4%	23.0%	0.4%
Rent	44,604	33,950	31.4%	7.4%	7.6%	-0.3%
Royalties	36,406	26,489	37.4%	6.0%	6.0%	0.0%
Advertising	32,314	20,087	60.9%	5.3%	4.5%	0.8%
Other operating expenses	88,910	64,438	38.0%	14.7%	14.5%	0.2%
Depreciation and amortization	20,241	18,012	12.4%	3.3%	4.1%	-0.7%
Restaurant operating profit	25,653	35,835	-28.4%	4.2%	8.1%	-3.8%
General & Admin expenses	26,440	25,420	4.0%	4.4%	5.7%	-1.4%
Operating Profit/(Loss)	(786)	10,415		-0.1%	2.3%	-2.5%
Finance costs	6,724	3,534	90.3%	1.1%	0.8%	0.3%
Finance income	356	42	745.6%	0.1%	0.0%	0.0%
Profit/(Loss) before tax	(7,154)	6,924		-1.2%	1.6%	-2.7%
Income tax expense	276	559	-50.6%	0.0%	0.1%	-0.1%
Specific Tax	1,275	1,179	8.2%	0.2%	0.3%	-0.1%
Profit/(Loss) for the period	(8,706)	5,185		-1.4%	1.2%	-2.6%
EBITDA	21,234	30,006	-29.2%	3.5%	6.7%	-3.2%
Normalized EBITDA*	21,234	30,740	-30.9%	3.5%	6.9%	-3.4%

(*) EBITDA was normalized for H1 2021 to exclude the accrued penalties due to Pizza Hut Europe (Master Franchisor) for the restaurants committed to be opened in 2019 and postponed for the future periods. Subsequently, in August 2021, the Group signed a revised Development Agreement following the renegotiation with master franchisor YUM! Of the development plan and agreed that the accrued penalties for not meeting the minimum target for new Pizza Hut restaurants from 2019 to be used in entirety as a reinvestment credit, which was deployed into development of the Pizza Hut and Pizza Hut Delivery network in Romania. The normalized EBITDA in H1 2022 is equal to EBITDA.

Summary of H1 2022 Consolidated FS

(with and without IFRS 16 impact)



Data in RON'000	H1-22	H1-22	H1-21	H1-21	Change (%)	
	1	2	1	2	H1-22/ H1-21 (1)	H1-22/ H1-21 (2)
Restaurant sales	606,024	606,024	444,544	444,544	36.3%	36.3%
Other restaurant income	1,172	1,172	-	-	-	-
Restaurant expenses	578,197	581,542	408,346	408,708	41.6%	42.3%
Food and material	217,287	217,287	143,535	143,535	51.4%	51.4%
Payroll and employee benefits	141,780	141,780	102,197	102,197	38.7%	38.7%
Rent	13,789	44,604	7,142	33,950	93.1%	31.4%
Royalties	36,406	36,406	26,489	26,489	37.4%	37.4%
Advertising	32,314	32,314	20,087	20,087	60.9%	60.9%
Other operating expenses	88,910	88,910	64,438	64,438	38.0%	38.0%
Depreciation and amortization	47,711	20,241	44,458	18,012	7.3%	12.4%
Restaurant operating Profit / (Loss)	28,999	25,653	36,198	35,835	-19.9%	-28.4%
General & Admin expenses	25,856	26,440	25,156	25,420	2.8%	4.0%
Operating Profit/(Loss)	3,143	(786)	11,042	10,415	-71.5%	-
Finance costs	10,752	6,724	10,002	3,534	7.5%	90.3%
Finance income	356	356	42	42	745.6%	745.6%
Profit/(Loss) before tax	(7,253)	(7,154)	1,082	6,924	-	-
Income tax expense	241	276	(183)	559	-231.7%	-50.6%
Specific Tax	1,275	1,275	1,179	1,179	8.2%	8.2%
Profit/(Loss) for the period	(8,769)	(8,706)	85	5,185	-	-
EBITDA	53,915	21,234	58,527	30,006	-7.9%	-29.2%
Normalized EBITDA*	53,915	21,234	59,261	30,740	-9.0%	-30.9%

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

(*) Normalized EBITDA – excludes the penalty from franchisor for postponed development of Pizza Hut restaurants in 2019.

Breakdown of H1 2022 results by entity

H1-22								
Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons. Adj.	SFG Cons
Restaurant sales	436,730	57,973	7,513	72,313	31,497	16,484	(16,487)	606,024
Dividend revenue	-	-	-	-	-	49,493	(49,493)	-
Other restaurant revenue	1,172	-	-	-	-	-	-	1,172
Restaurant expenses	407,124	61,391	6,484	75,748	31,048	-	(252)	581,542
Food and material	165,518	17,177	3,377	20,578	10,637	-	-	217,287
Payroll and employee benefits	97,193	17,147	1,030	18,810	7,601	-	-	141,780
Rent	29,595	5,731	456	6,343	2,480	-	-	44,604
Royalties	26,250	3,434	452	4,369	1,902	-	-	36,406
Advertising	22,346	3,372	224	4,806	1,802	-	(238)	32,314
Other operating expenses	55,645	12,281	785	15,128	5,077	-	(7)	88,910
Depreciation	10,577	2,249	160	5,713	1,549	-	(7)	20,241
Restaurant operating profit/(loss)	30,778	(3,417)	1,029	(3,435)	449	65,978	(65,729)	25,653
G&A expenses	14,662	4,008	141	5,027	1,483	17,278	(16,160)	26,440
Operating profit/(loss)	16,116	(7,425)	889	(8,462)	(1,034)	48,700	(49,569)	(786)
Finance costs	4,973	635	53	1,475	894	1,379	(2,686)	6,724
Finance income	1,990	4	-	0	-	1,048	(2,686)	356
Profit/(Loss) before tax	13,133	(8,056)	835	(9,937)	(1,929)	48,368	(49,569)	(7,154)
Income tax expense	326	15	117	(42)	-	(140)	-	276
Specific tax expense	810	360	-	-	106	-	-	1,275
Profit/(Loss) for the period	11,998	(8,431)	718	(9,895)	(2,035)	48,508	(49,569)	(8,706)
EBITDA	27,639	(4,838)	1,067	(2,662)	579	49,028	(49,579)	21,234

Overview of the H1 2022 G&A expenses

(with and without IFRS 16 impact)

	Data in RON '000				Change (%)		Percentage of sales			
	H1-22	H1-22	H1-21	H1-21			H1-22	H1-22	H1-21	H1-21
	(1)	(2)	(1)	(2)	2022/ 2021 (1)	2022/ 2021 (2)	(1)	(2)	(1)	(2)
General and administration (G&A) expenses	25,856	26,440	25,156	25,420	2.8%	4.0%	4.3%	4.4%	5.7%	5.7%
Payroll and employee benefits	17,338	17,338	16,279	16,279	6.5%	6.5%				
Third-party services	3,474	3,474	2,536	2,536	37.0%	37.0%				
Depreciation and amortization	3,061	1,780	3,027	1,579	1.1%	12.7%				
Rent	108	1,973	144	1,856	-25.0%	6.3%				
Banking charges	371	371	1,957	1,957	-81.0%	-81.0%				
Transport	563	563	328	328	71.8%	71.8%				
Other*	941	941	885	885	6.3%	6.3%				

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, miscellaneous expenses.

Thank you for joining us!

Sphera Franchise Group's unaudited H1 2022 results are available for download on our website: www.spheragroup.com.

The recording of this conference call will be available on our website shortly.

For any questions related to Sphera Franchise Group's activity on the Bucharest Stock Exchange, please contact our IR team at: investor.relations@spheragroup.com.

