

H1 2022

FINANCIAL REPORT

S P H E R A F R A N C H I S E G R O U P S A



S P H E R A

KFC



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The interim condensed consolidated financial statements and the interim condensed separate financial statements presented on the following pages are prepared in accordance with International Financial Reporting Standards, as adopted by European Union ("IFRS").

The interim condensed consolidated financial statements and the interim condensed separate financial statements as of June 30th, 2022, **are unaudited**.

The financial figures presented in the descriptive part of the report that are expressed in million RON are rounded off to the nearest integer. This may result in small reconciliation differences.

ISSUER INFORMATION

INFORMATION ABOUT THIS FINANCIAL REPORT

Type of report	Half-year report for H1 2022
For financial period	01.01.2022 – 30.06.2022
Date of publishing	30.08.2022
According to	Annex 14 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	RON 581,990,100
Market on which the securities are traded	Bucharest Stock Exchange, Main Segment, Premium Category
Total number of shares	38,799,340
Symbol	SFG

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FINANCIAL RESULTS HIGHLIGHTS

Sales per quarter



Sales per geography



Sales per brand



#1

the best quarter in the history of the Group for all the brands, all markets of activity

81%

Highest share of own sales channels in Q2 2022, since the onset of the pandemic

32%

increase in the like-for-like sales in Q2 2022 vs Q2 2021

RON 2.2 mn

net profit in Q2 2022 vs. RON 10.9 mn net loss in Q1 2022

RON 21.2 mn

EBITDA in H1 2022, -29% vs H1 2021

174

restaurants on all 3 markets of activity as of 30.06.2022

H1 2022 RESULTS ANALYSIS¹

In the second quarter of 2022, Sphera Franchise Group delivered the best sales quarter in history, registering RON 327.4 million in revenues, a 40% increase compared to Q2 2021. All three brands – KFC, Pizza Hut and Taco Bell registered record sales, across all markets of activity in a rapid ramp-up following the lifting of the COVID-19 restrictions.

The significant increase versus previous quarter was a combined effect of: a) lifting of the dining restrictions and of the green pass entry requirements across Romania, Italy, and the Republic of Moldova (this leading to the increase in transactions overall), b) contribution of the stores opened in the preceding 12 months and c) price adjustment triggered by the increase across all product categories. Moreover, in Q2 2022, the Group registered other restaurant income amounting to RON 1.2 million, representing cash incentive received from the franchisor.

Overall, the Group ended Q2 2022 with a positive result, registering EBITDA of RON 17.5 million (1% increase compared to Q2 2021) and a net profit of RON 2.2 million (a 54% decrease compared to Q2 2021). The decrease in the net profit in Q2 2022 was due to the inflationary pressure on the cost side, growing energy prices resulting from the war in Ukraine as well as lack of available government facilities such as technical unemployment or renegotiations opportunities for rental costs, which helped lift the bottom line in Q2 2021. However, Q2 2022 net profit has registered a substantial increase of RON 13.1 million vs. Q1 2022.

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. Consequently, for the first six months of 2022, the Group recorded RON 606 million in consolidated revenue, a 36% increase compared to H1 2021, EBITDA of RON 21.2 million, a 29% decline, and a net loss of RON 8.7 million, versus a net profit of RON 5.2 million.

The restaurant expenses have slightly slowed down in Q2 2022, amounting to 95% of the cost of sales vs 98% registered in Q1 2022, due to successful transfer of part of the costs to the end customers through the price increases which took place in March, May, and June 2022. Nonetheless, when looking at the first half of the year, the restaurant expenses grew faster than revenues, registering a 42% increase YoY, reaching RON 581.5 million. This increase was driven firstly by a 51% increase in cost of food and material costs, due to increase in chicken prices as a result of the spike in costs of poultry rearing, growing energy costs, the minimum wage increase, as well as due to the general inflationary environment. The feed grain prices continued to grow throughout the first six months of 2022 due to lingering war in Ukraine, driving the increase in the raw material prices.

The second largest contributor to the restaurant expenses were the payroll costs, which grew 39% YoY, reaching RON 141.8 million due to average wage increases, a new bonus scheme, and raising benefits (increase in the value of the meal tickets since March 2021). The number of employees across Group companies increased by 19% in H1 2022 versus H1 2021, especially due to new restaurant openings.

Other cost increases included the rent costs, which grew 31% YoY, reaching RON 44.6 million due to negligible opportunities to renegotiate rents in Q1 2022 and lack thereof in Q2 2022. The royalties increased 37% YoY, in line with the topline, reaching RON 36.4 million, while advertising costs increased 61% YoY, reaching RON 32.3 million, due to different timing of the marketing campaigns and, overall, more intense advertising activity. Depreciation and amortization increased 12% YoY, primarily due to the new openings in H2 2021 and H1 2022.

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, which grew to RON 45.4 million. This category also includes aggregator commissions, which increased 16%

¹ As of January 1st, 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.

in H1 2022 versus H1 2021, with the weight of aggregators' commissions in net sales progressively decreasing by 1pp in Q2 2022 vs Q1 2022, from 4.8% to 3.8%.

Due to the rapid increase in restaurant expenses especially in Q1 2022, the Group ended H1 2022 with a restaurant operating profit of RON 25.6 million, a 28% decrease compared to H1 2021. The weight of G&A in sales decreased 1pp Q2 2022 vs previous quarter, reaching RON 26.4 million for H1 2022. The Group has registered an operating loss of RON 0.8 million, versus RON 10.4 million operating profit registered in H1 2021. The EBITDA amounted to RON 21.2 million, a 29% decline compared to RON 30 million registered in H1 2021.

The finance costs increased 90%, reaching RON 6.7 million due to growing costs of financing since the beginning of 2022, while the financial income grew almost eightfold, reaching RON 0.4 million. With the negative financial result, the EBT for H1 2022 was a loss of RON 7.2 million versus gross profit of RON 6.9 million in H1 2021. The income tax expense amounted to RON 0.3 million in H1 2022, versus RON 0.6 million in H1 2021, while specific tax amounted to RON 1.3 million in H1 2022, versus RON 1.2 million in H1 2021. Consequently, the Group ended the first six months of 2022 with a net loss of RON 8.7 million, versus a net profit of RON 5.2 million in H1 2021.

Summary of interim Consolidated Financial Statements for H1 (excluding IFRS 16 Impact):

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 interim Consolidated Financial Statements for H1 – results and evolution presented 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.

The G&A expenses increased 4% in H1 2022, due to 7% increase in payroll, which reached RON 17.3 million, and a 37% increase in third-party services. Transportation costs grew 72% up to RON 0.6 million due to the uptake in business travel, while the depreciation and amortization increased 13%, reaching RON 1.8 million. The increase in the G&A costs was slower than the increase in revenues, as the share of G&A expenses in the consolidated sales decreased by 1.4 pp in H1 2022 versus H1 2021.

	Data in RON '000				Change (%)		Percentage of sales			
	H1-22	H1-22	H1-21	H1-21	2022/ 2021 (1)	2022/ 2021 (2)	H1-22	H1-22	H1-21	H1-21
	(1)	(2)	(1)	(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.

In terms of individual performance, all the companies from the group registered significant increases in H1 2022 compared to the same period of 2021, led by USFN Italy (KFC Italy) reaching RON 72.3 million in sales (+64% vs. H1 2021), ARS (Pizza Hut) with RON 58 million in sales (+50%), CFF (Taco Bell) with RON 31.5 million in revenues (+43%), USFN Moldova (KFC Moldova) with RON 7.5 million (+34%) and USFN Romania (KFC Romania) with RON 436.7 million (+31%). The latter two, USFN Romania and USFN Moldova, closed H1 2022 profitable, while the remaining 3 brands closed the period with negative bottom line. Nonetheless, due to strong performance in Q2 2022, KFC Italy has lowered 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.

Breakdown of consolidated results by Group companies – H1 2022 (excluding IFRS 16 Impact):

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

In Q2 2022, the like-for-like sales across Sphera brands grew 32% due to the relaxation of the restrictions across the markets of activity. The largest like-for-like increase was registered by KFC Italy, which grew 57% in Q2 2022, followed by USFN Moldova, which grew 45% in Q2 2022 and ARS, +36%. CFF and USFN Romania also registered like-for-like increases, of 34% and 28%, respectively.

Between June 30th, 2021, and June 30th, 2022, Sphera opened 14 new restaurants: 13 in Romania and one new restaurant in Italy. The new locations helped the Group's performance, with 5 new ARS locations contributing to the increase by 46% of the all store performance in Q2 2022, the 6 new USFN locations growing YoY by 37% and the 2 new CFF locations improving all store performance 39% YoY in Q2 2022.

		Y/Y Q1-21	Y/Y Q2-21	Y/Y Q3-21	Y/Y Q4-21	Y/Y Q1-22	Y/Y Q2-22
USFN	All Stores	14.3%	114.9%	42.8%	20.3%	23.6%	37.3%
	o/w Same Stores	14.1%	112.4%	39.8%	14.3%	15.1%	28.3%
ARS	All Stores	-32.6%	108.4%	71.4%	54.6%	55.3%	45.5%
	o/w Same Stores	-32.6%	108.4%	71.0%	47.5%	45.3%	35.9%
CFF	All Stores	13.1%	245.4%	62.8%	43.6%	48.2%	39.6%
	o/w Same Stores	13.1%	204.4%	46.1%	26.4%	32.0%	34.2%
USFN IT	All Stores	2.5%	114.5%	26.0%	88.0%	70.3%	58.4%
	o/w Same Stores	-6.0%	102.7%	20.8%	79.2%	73.0%	56.9%
USFN MD	All Stores	19.0%	179.3%	35.3%	22.3%	22.8%	44.8%
	o/w Same Stores	19.0%	179.3%	35.3%	22.3%	22.8%	44.8%
TOTAL	All Stores	6.6%	119.4%	43.6%	30.3%	31.8%	40.5%
	o/w Same Stores	5.6%	114.9%	39.9%	23.5%	23.6%	32.3%

Q2 2022 was the best quarter for the Group on all the markets since the onset of the pandemic and overall, in the history in terms of restaurant sales, driving already excellent sales from Q1 2022 even further. Consequently, the Group closed the first six months of 2022 with a 33% increase of sales in Romania, 34% in the Republic of Moldova and 64% in Italy.

Data in RON '000	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	Change Q2-22/ Q2-21	Change H1-22/ H1-21
Sales by region								
Romania	188,944	205,824	247,861	231,109	241,607	284,592	38.3%	33.3%
Italy	19,693	24,469	33,108	36,872	33,545	38,768	58.4%	63.7%
Rep. Moldova	2,791	2,823	3,206	3,608	3,427	4,086	44.7%	33.8%
Total sales	211,428	233,116	284,175	271,589	278,579	327,445	40.5%	36.3%

The sales for delivery registered a significant QoQ decline in Q2 2022, due to complete lifting of indoor dining and mall entry restrictions as well as good weather that historically has always driven sales in the second quarter of the year. The sales for delivery have declined 10% QoQ in Q2 2022, reaching RON 70.3 million, contributing to the total sales in the first six months of 2022 of RON 148.4 million, of which 12% were delivered using Sphera's own delivery capacity. Sphera has own delivery service in Romania for KFC and Pizza Hut, while for Taco Bell as well as for KFC in Italy and Republic of Moldova, the Group delivers exclusively through the food aggregating platforms such as Glovo, Food Panda, Takeaway, Tazz, Bolt or UBER Eats.

Sales by entity, by Country		Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22
USFN RO	delivery	28%	27%	23%	30%	27%	20%
	non-delivery	72%	73%	77%	70%	73%	80%
ARS	delivery	57%	53%	42%	56%	49%	40%
	non-delivery	43%	47%	58%	44%	51%	60%
CFF	delivery	44%	42%	34%	42%	41%	32%
	non-delivery	56%	58%	66%	58%	59%	68%
USFN IT	delivery	25%	16%	11%	12%	14%	12%
	non-delivery	75%	84%	89%	88%	86%	88%
USFN MD	delivery	33%	35%	28%	37%	35%	31%
	non-delivery	67%	65%	72%	63%	65%	69%
All	delivery	31%	29%	24%	30%	28%	22%
	non-delivery	69%	71%	76%	70%	72%	78%

MAIN FINANCIAL RATIOS

The main financial ratios of Sphera Franchise Group (consolidated result) as of June 30th, 2022, are presented below, together with the result from the same period of 2021. The ratios are including IFRS 16 impact.

<i>Financial data in RON '000</i>	6M period ended 30 June 2022		6M period ended 30 June 2021	
Current ratio				
Current assets	140,523	= 0.53	153,318	= 0.70
Current liabilities	266,441		220,419	
Debt to Equity ratio				
Interest-bearing debt (long term)	319,069	= 361%	300,419	= 202%
Equity	88,275		148,783	
Interest-bearing debt (long term)	319,069	= 78%	300,419	= 67%
Capital employed	407,345		449,202	
Trade receivables turnover (days)				
Average receivables	36,316	= 10.79	16,675	= 6.75
Sales	606,024		444,544	
Fixed asset turnover				
Sales	606,024	= 1.19	444,544	= 0.89
Net fixed assets	509,380		498,911	

Notes: Annualized values, based on ASF methodology.



H1 2022 Results Call

30.08.2022 | 14:00 & 15:00 hrs

On August 30th, Sphera Franchise Group will hold two conference calls with the management, one in English and another in Romanian, to discuss the H1 2022 results. The calls will be attended by Calin Ionescu (CEO), Valentin Budes (CFO), Monica Eftimie (CMO), and Zuzanna Kurek (IR).

The call in English language will take place at 14:00, local time (13:00 CET | 12:00 UK), and the one in Romanian at 15:00, local time.

To receive the log-in details, email investor.relations@spheragroup.com, indicating the conference call you would like to attend.

SIGNIFICANT EVENTS IN H1 2022 & AFTER CLOSING OF THE REPORTING PERIOD

COVID-19 UPDATES

As of March 9th, 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 April 1st, 2022, and lifted as of May 1st, 2022, and in the Republic of Moldova were lifted as of April 19th, 2022.

With the lifting of the COVID-19 restrictions, in Q1 2022 the rent renegotiations were not substantial and in Q2 2022 there were none. In terms of technical unemployment indemnities, 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.

DEVELOPMENT OF THE NETWORK

In H1 2022, Sphera opened 5 new restaurants (4 in Q1 2022 and 1 in Q2 2022), of which 2 restaurants were KFC - a food court restaurant in Colosseum Mall in Bucharest and a drive thru in Calarasi, within the Catex commercial center. The Group also opened a new Taco Bell restaurant in City Park Mall Constanta, a Pizza Hut Fast Casual Delivery restaurant in Militari Shopping Centre in Bucharest and a Pizza Hut Express restaurant in Shopping City Targu Jiu. One restaurant was closed in Q2 2022 – a Pizza Hut restaurant in AFI Cotroceni.

As of 30.06.2022, Sphera Franchise Group operated 174 restaurants: 94 KFC restaurants in Romania, 2 in Moldova and 20 in Italy, as well as 42 Pizza Hut restaurants, 14 Taco Bell restaurants located in Romania, one PHD subfranchise and one Paul restaurant.

STAFF

As of June 30th, 2022, the Group had 5,230 employees, out of which 4,885 in Romania, 260 in Italy and 85 in the Republic of Moldova. The HoReCa activity restrictions during COVID-19 pandemic convinced many employees to requalify to other sectors. Consequently, 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, approximately 17% for Taco Bell and 14% for ARS.

DIVIDEND PAYMENT

Following the approval in the OGSM that took place on February 4th, 2022, on May 30th, 2022, Sphera Franchise Group paid the dividends amounting to RON 35 million from the undistributed net profit from 2020, to the SFG shareholders from the registration date of May 9th, 2022. The gross dividend per share amounted to RON 0.9021, and the tax was withheld at the statutory rates.

RECEIVING FOOD SAFETY CERTIFICATION FOR ALL PORTFOLIO BRANDS IN ROMANIA

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. The certification has been granted for all the brands in the portfolio with activity in Romania and will be subject to supervisory audits for a period of two years. Obtaining the ISO 22000:2018 certification represents a natural step in the evolution of the Group. Among the benefits of implementing such standard are: providing safe products for all customers, complying with applicable regulatory requirements for food safety, and improving risk management in food safety processes.

PUBLISHING THE SUSTAINABILITY REPORT

In 2022, the Group continued its focus on sustainability and consequently, on July 1st, 2022, Sphera published the Group's Sustainability Report for the years 2020-2021. The report is available [HERE](#). Moreover, in Q1 2022, Sphera made its ESG rating by Sustainalytics public, available at [BVB Research Hub](#).

DEVELOPMENT PLAN FOR TACO BELL ROMANIA

On July 11th, 2022, the Group signed a new development plan for 2022 for Taco Bell network with franchisor YUM!. Following negotiations with the representative of YUM! and Taco Bell Europe, the parties agreed that in 2022, CFF (the subsidiary operating Taco Bell restaurants in Romania) will benefit from progressive financial incentives, depending on the number of newly opened restaurants. For any exceeding of the minimum number of 2 new net restaurants (of which one restaurant was already opened in 2022), CFF will benefit from additional financial incentives. Due to the confidentiality of the agreement with YUM!, the Group cannot disclose the total amount of negotiated financial incentives.

ORDINARY AND EXTRAORDINARY GENERAL MEETINGS OF THE SHAREHOLDERS

On August 11th, 2022, Sphera Franchise Group held the Ordinary and Extraordinary General Meetings of the Shareholders. During the OGSM, the shareholders approved the Remuneration Policy of the Company, the monthly remuneration of the Board Members, as well as ratified the monthly remuneration due to the Members of the Board and Consultative Committees. The EGSM approved the following points related to the financing facilities with Alpha Bank contracted by the Company as well as the Group entities: increase of the amount available for utilization of the uncommitted long term loan facility, the extension of the maturity/validity of the overdraft facility and the facility for issuance of letters of guarantees agreements with maintaining all guarantees previously constituted in the guarantee of the facilities.

The OGSM and EGSM were organized using the eVOTE solution.

STOCK EXCHANGE EVOLUTION

H1 2022 was a volatile period for global capital markets and for Sphera Franchise Group. The total value traded between January 3rd, 2022, and June 30th, 2022, was RON 31.3 million, on volume of 1.990.941 shares representing cca 14.9% of the free float. SFG shares registered a negative evolution, decreasing 7.7% in the analyzed period. The share closing price at the end of 30.12.2021 was of RON 15.00, ending with a price of RON 13.85 on 30.06.2022. Considering that on May 30th, 2022, Sphera Franchise Group paid a gross dividend of RON 0.9021, the total return evolution for the six-month period was a decline of only 1.7%.

2022 CONSOLIDATED RESULTS GUIDANCE

Following the meeting of the Board of Directors of Sphera Franchise Group SA ("the Company") on August 29th, 2022, the management of the Company informed the shareholders, through **Current Report 39/2022**, about the updated guidance of the 2022 consolidated results.

The 2022 Consolidated Revenue and Expenditure Budget was approved in the Ordinary General Meeting of the Shareholders on April 28th, 2022. The budget considered the effects of the COVID-19 pandemic, that RON will continue to depreciate slightly against EUR, an overall inflation of 10% in 2022 and the minimum wage increase starting with January 2022. When preparing the 2022 Budget, the management considered the analysts' consensus on inflation and used it to assess the estimated impact on the restaurant expenses. The budget included 3 price increases throughout the year in order to cover the increase in these costs.

Nonetheless, the evolution of the inflation in all three markets of activity and the spike in the food and material costs have already significantly exceeded all 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.

Consequently, to provide the market with a more up-to-date view of the estimated evolution of the business, the management of Sphera Franchise Group decided to inform the market about the new estimate for the consolidated 2022 results:

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%

The management considers that overall sales will register versus Approved Budget a variance between -6.1% and 1.4%, taking into consideration the positive effects of the continued investments in growing the Company's restaurant network.

The main adjustment is in the food and material costs, the weight of these costs in sales 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. 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%. As a result, the consolidated EBITDA for 2022 is estimated to be between RON 70-80 million, lower by 16.7-27.1% compared to the 2022 Approved Budget.

The Company will continue to maintain a robust financial profile and liquidity control. As of June 30th, 2022, the consolidated cash and cash equivalents of the Group totalled RON 79.3 million.

ABOUT SPHERA FRANCHISE GROUP

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 30 June 2022, the Group operated 174 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), Taco Bell restaurants (in Romania) and Pizza Hut Express restaurants (in Romania, new concept launched in 2021);
- Full-service restaurants - through Pizza Hut Dine-In restaurants in Romania;
- Delivery restaurants and Fast Casual 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.

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.

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 2021, there were more than 25,000 KFC Restaurants located in 145 countries and territories in the world. 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.

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. Whereas menus are normally sized for one person, KFC also offers products, called Buckets, that are targeted for group consumption (up to four persons). Buckets generally consist of several 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 over 18,000 restaurants in more than 100 countries, 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.

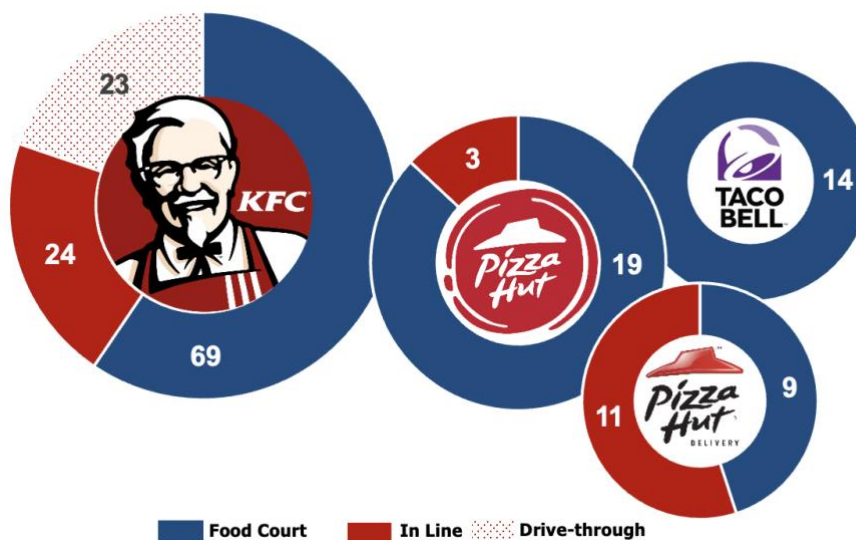
Pizza Hut restaurants primarily sell pizza (a wide range of traditional and proprietary recipes, on a variety of dough types, such as pan, classic, thin, Italian, cheesy bites, crown crust) and pasta, other main-course products (such as burgers and ribs) as well as beverages (primarily non-alcoholic)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



TACO BELL is the world's leading Mexican-inspired quick service restaurant (QSR), with over 7,000 locations worldwide. 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.

RESTAURANT SPLIT PER BRAND AND TYPE AS OF 30.06.2022

As of 30.06.2022, Sphera Franchise Group operated 174 restaurants: 94 KFC restaurants in Romania, 2 in the Republic of Moldova and 20 in Italy, as well as 42 Pizza Hut restaurants, 14 Taco Bell restaurants located in Romania, one PHD subfranchise and one Paul restaurant. The split per restaurant type is presented below:



The one Paul Store and one Pizza Hut Delivery sub-franchise are not included in the graphic above.

RISKS REGARDING H2 2022

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 continues to be significant for H2 2022 due to the estimated high inflation as well as growing energy costs, both particularly heightened because of the geopolitical conflict caused by the war in Ukraine. 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.

Political and military instability in the region - Political and military instability in the region such as the invasion of Ukraine by the Russian Federation and the subsequent war in the Ukraine, can lead to deeply unfavorable economic conditions, social unrest or, in the worst case, military confrontations in the region. The effects are largely unpredictable but may include a decrease in investment, significant currency fluctuations, increases in interest rates, reduced credit availability, trade, and capital flows, and increases in energy prices. These effects and other unforeseen adverse effects of the crises in the region could have a significant negative effect on the Group's business, prospects, results of operations and financial position.

Lockdowns – The risk of the lockdown, in the context of COVID-19 pandemic but also other pandemics, continues to be heightened even though there is a general consensus that the impact of the COVID-19 pandemic in 2022 will be lower than to that of 2020 or even 2021. Nonetheless, there exists a chance that lockdowns in H2 2022, 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 starting 2020 and the reliance on the delivery and take-out services 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 geopolitical conflicts, unfavorable weather conditions, lockdowns, 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. As it was following the Brexit, where there was a risk that the prices of supplies might increase due to the UK leaving the EU, the Group's procurement division is constantly analyzing alternative suppliers and is prepared to switch to alternative providers if there might be such need.

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, or energy prices), 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.

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. Moreover, COVID-19 pandemic put additional pressure on the HoReCa industry as many employees decided to requalify to other sectors. Consequently, in 2022 the Group continued the project of hiring employees from abroad, particularly Sri Lanka.

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.

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 the 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 the Republic of 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 if 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 H2 2022. 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.

DECLARATION FROM THE MANAGEMENT

Bucharest, August 30th, 2022

We confirm to the best of our knowledge that the unaudited interim condensed consolidated financial statements and unaudited interim condensed separate financial statements for the six months period ended 30 June 2022 give a true and fair view of Sphera Franchise Group's assets, liabilities, financial position and profit and loss, as required by the applicable accounting standards, and that the Directors' Report gives a true and fair view of important events that have occurred during the first six months of the 2022 financial year and their impact on the interim condensed consolidated and interim condensed separate financial statements.

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes



INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022 (UNAUDITED)

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

The interim condensed consolidated financial statements are unaudited.

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-
MONTH PERIOD ENDED 30 JUNE 2022 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022 (UNAUDITED)

		Six-month period ended	
	Note	30 June 2022	30 June 2021
Restaurant sales		606,024	444,544
Other restaurant income		1,172	-
Restaurant expenses			
Food and material expenses		217,287	143,535
Payroll and employee benefits	4	141,780	102,197
Rental expenses		13,789	7,142
Royalties expenses		36,406	26,489
Advertising expenses		32,314	20,087
Other operating expenses	5	88,910	64,438
Depreciation, amortization and impairment, net	7	47,711	44,458
Restaurant operating profit		28,999	36,198
General and administration expenses	6	25,856	25,156
Profit/(Loss) from operating activities		3,143	11,042
Finance costs	8	10,752	10,002
Finance income		356	42
Profit/(Loss) before tax		(7,253)	1,082
Income tax expense/(credit) from continuing operations		241	(183)
Specific tax expense		1,275	1,179
Profit/(Loss)		(8,769)	85
Attributable to:			
Owners of the parent		(8,912)	(5)
Non-controlling interests		143	90
Other comprehensive income			
Net of tax exchange differences on translation		(7)	(76)
Comprehensive income		(8,776)	10
Attributable to:			
Owners of the parent		(8,919)	(98)
Non-controlling interests		143	108

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-
MONTH PERIOD ENDED 30 JUNE 2022 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022 (UNAUDITED)

	30 June 2022	31 December 2021
Assets		
Non-current assets	537,791	540,873
Property, plant and equipment	227,407	222,069
Right-of-use assets	223,954	232,393
Intangible assets and goodwill	58,019	59,771
Financial assets (cash collateral)	9,214	7,554
Net deferred tax assets	19,197	19,086
Current assets	140,523	193,441
Inventories	15,179	13,391
Trade and other current receivables	42,012	30,621
Current prepayments	4,049	3,313
Cash and cash equivalents	79,283	146,116
Total assets	678,314	734,314
Equity and liabilities		
Equity		
Issued capital (Note 10)	581,990	581,990
Share premium	(519,998)	(519,998)
Other reserves	(1,314)	(1,314)
Retained earnings	27,544	71,457
Reserve of exchange differences on translation	(265)	(258)
Equity attributable to owners of the parent	87,957	131,877
Non-controlling interests	318	175
Total equity	88,275	132,052
Non-current liabilities	323,598	353,165
Long-term borrowings	124,145	146,110
Non-current lease liabilities	194,925	202,820
Recognised liabilities defined benefit plan (Note 10)	4,528	4,235
Current liabilities	266,441	249,097
Trade and other current payables	149,084	128,437
Short-term borrowings	63,835	66,479
Current lease liabilities	53,522	54,181
Total liabilities	590,039	602,262
Total equity and liabilities	678,314	734,314

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022
(UNAUDITED)

All amounts in RON thousand, unless specified otherwise

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022 (UNAUDITED)

	Issued capital	Share premium	Other reserves	Retained earnings	Reserve of exchange differences on translation	Equity attributable to owners of the parent	Non-controlling interest	Total equity
As at 1 January 2022	581,990	(519,998)	(1,314)	71,457	(258)	131,877	175	132,052
Profit/(Loss)	-	-	-	(8,912)	-	(8,912)	143	(8,769)
Comprehensive income								
Net of tax exchange differences on translation					(7)	(7)	-	(7)
Total comprehensive income	-	-	-	(8,912)	(7)	(8,919)	143	(8,776)
Dividends	-	-	-	(35,001)	-	(35,001)	-	(35,001)
At 30 June 2022	581,990	(519,998)	(1,314)	27,544	(265)	87,957	318	88,275

	Issued capital	Share premium	Other reserves	Retained earnings	Reserve of exchange differences on translation	Equity attributable to owners of the parent	Non-controlling interest	Total equity
As at 1 January 2021	581,990	(519,998)	(917)	88,033	(240)	148,868	252	149,120
Profit/(Loss)	-	-	-	(5)	-	(5)	90	85
Comprehensive income								
Net of tax exchange differences on translation					(94)	(94)	18	(76)
Total comprehensive income	-	-	-	(5)	(94)	(98)	108	10
Dividends	-	-	-	-	-	-	(347)	(347)
At 30 June 2021	581,990	(519,998)	(917)	88,029	(334)	148,770	13	148,783

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022 (UNAUDITED)

	Six-month period ended	
	30 June	30 June
	2022	2021
Operating activities		
Profit/(Loss) before tax	(7,253)	1,082
<i>Adjustments to reconcile profit(loss) before tax to net cash flows:</i>		
Depreciation of right-of-use assets	28,927	28,006
Depreciation and impairment of property, plant and equipment	19,314	17,285
Amortisation and impairment of intangible assets and goodwill	2,531	2,193
Movement in current assets allowance	-	170
Rent concessions (discounts)	-	(2,769)
Adjustments for unrealised foreign exchange losses/(gains)	(629)	3,274
Adjustments for gain/(loss) on disposal of property, plant and equipment and right-of-use assets	6	8
Adjustments for finance income	(356)	(42)
Adjustments for finance costs (interest)	9,191	7,090
Working capital adjustments:		
Adjustments to decrease/(increase) in trade and other receivables and prepayments	(14,126)	1,417
Adjustments for decrease/(increase) in inventories	(1,788)	2
Adjustments for (decrease)/increase in trade and other payables	24,431	6,325
Interest received classified as operating activities	356	42
Interest paid classified as operating activities	(8,751)	(7,024)
Income tax paid	(3,587)	(1,317)
Cash flows from/used in operating activities	48,266	55,742
Investing activities		
Proceeds from sale of property, plant and equipment	142	-
Purchase of intangible assets classified as investing activities	(2,696)	(1,229)
Purchase of property, plant and equipment classified as investing activities	(24,799)	(24,475)
Cash flows from/used in investing activities	(27,353)	(25,704)
Financing activities		
Repayment of borrowings	(24,474)	(5,561)
Payment of lease liabilities	(28,590)	(22,111)
Dividends paid to equity holders of the parent	(34,707)	-
Dividends paid to non-controlling interests	-	(158)
Cash flows from/used in financing activities	(87,771)	(27,830)
Net decrease in cash and cash equivalents	(66,858)	2,208
Net foreign exchange differences	25	(183)
Cash and cash equivalents at 1 January	146,116	121,909
Cash and cash equivalents at 30 June	79,283	123,934

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022 (UNAUDITED)

1 CORPORATE INFORMATION

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

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

The Group operates quick service and takeaway restaurant concepts (a chain of 116 restaurants) under the Kentucky Fried Chicken ("KFC"), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates in Romania a chain of pizza restaurants (22 restaurants as at 30 June 2022) as well as pizza delivery points (21 locations as at 30 June 2022, including one sub-franchise restaurant) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, one chain of restaurants under the "Taco Bell" brand (14 restaurants as at 30 June 2022) and one restaurant under Paul brand.

US Food Network SA (USFN), the subsidiary which operates the KFC franchise in Romania was incorporated in 1994 as a joint stock company and is registered at No. 239 Calea Dorobantilor Street, Bucharest, Romania.

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

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

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

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

2 BASIS OF PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed unaudited financial statements of the Group as of and for the six-month period ended 30 June 2022 have been prepared in accordance with IAS 34 Interim Financial Reporting.

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2021.

The interim condensed consolidated financial statements for six-month period ended 30 June 2022 included in this report are unaudited.

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General accounting policies

The accounting policies and valuation methods adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021. The amendments effective since 1 January 2022 do not have a material impact on the Group's interim condensed consolidated financial statement. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

Foreign currencies

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

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

The foreign exchange rates as at 30 June 2022 and 31 December 2021 were:

	30 June 2022	31 December 2021
RON – EUR	4.9454	4.9481
RON – USD	4.7424	4.3707
RON – MDL	0.2459	0.2463

Transactions and balances

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

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

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

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Group companies

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

3 GROUP INFORMATION

Investments in controlled companies

Details of the Group consolidated subsidiaries at 30 June 2022 and 31 December 2021 are as follows:

Company name	Country of incorporation	Field of activity	Control 30 June 2022	Control 31 December 2021
US Food Network SA	Romania	Restaurants	99.9997%	99.9997%
American Restaurant System SA	Romania	Restaurants	99.9997%	99.9997%
California Fresh Flavours SRL	Romania	Restaurants	99.9900%	99.9900%
US Foods Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%	100.0000%

4 PAYROLL AND EMPLOYEE BENEFITS

	Six-month period ended 30 June 2022	30 June 2021
Payroll and employee benefits recognized in restaurant expenses	141,780	102,197
Payroll and employee benefits recognized in "General and administrative expenses "	17,338	16,279
Total Payroll and employee benefits	159,119	118,476

For the six-month period ended 30 June 2022, the government grants included in payroll and employee benefits were of 155 (2,473 for the six-months period ended 30 June 2021), representing the state support programs deployed by the governments in the countries where the Group operates, as part of the supportive measures for the employee-related costs incurred by the companies affected by a temporary reduction and/or interruption of activity due to COVID-19 pandemic (i.e. technical unemployment indemnity).

Payroll costs of 860 representing the value of project management and other technical activities performed by the Group's employees during the six-month period ended 30 June 2022 (2021: 785) for the construction or refurbishment of restaurants were capitalized in the cost of construction of the non-current assets.

Net employee defined benefit liabilities (Italian subsidiary)

In accordance with the local labour regulations, Italian companies have to pay to their employees a leaving-service indemnity ("TFR"). The accrual for termination benefits in amount of 4,528 (4,235 as at 31 December 2021) was calculated as a career-average lump sum, in accordance with the Italian statutory regulations. The Group performs an actuarial computation of these termination benefits in line with the IAS 19 "Employee benefits".

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5 OTHER OPERATING EXPENSES

	Six-month period ended	
	30 June 2022	30 June 2021
Third-party services	45,406	37,913
Utilities	21,178	11,074
Maintenance and repairs	8,711	6,610
Cleaning supplies	4,938	2,015
Transport	3,911	2,446
Smallwares	1,288	1,561
Penalties related to development franchise agreement (Note 11)	-	734
Telephone and postage	625	496
Insurance	354	367
Bank charges	1,959	-
Net (gain)/loss on disposal of property, plant and equipment and right-of-use assets	6	8
Miscellaneous expenses and income	534	1,044
Provision for receivables	-	170
Total	88,910	64,438

Starting 1st of January 2022, the banking charges related to the POS commissions, in amount of 1,959 for the six-month period ended 30 June 2022, are presented within Other operating expenses category, being directly related to the operating sales activity. In 2021, these banking charges in amount of 1,065 for the six-month period ended 30 June 2021 were presented within General and administrative expenses category.

6 GENERAL AND ADMINISTRATION EXPENSES

	Six-month period ended	
	30 June 2022	30 June 2021
Payroll and employee benefits	17,338	16,279
Third-party services	3,474	2,536
Depreciation, amortization and impairment of non-current assets	3,061	3,027
Rent	108	144
Banking charges	371	1,957
Transport	563	328
Maintenance and repairs	215	158
Smallwares	54	59
Insurance	323	246
Advertising	71	75
Telephone and postage	167	145
Miscellaneous expenses and income	111	203
Total	25,856	25,156

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7 DEPRECIATION AND AMORTIZATION

	Six-month period ended	
	30 June 2022	30 June 2021
Depreciation of right-of-use assets recognized in "Restaurant expenses"	27,605	26,526
Depreciation, amortization and impairment of other non-current assets recognized in "Restaurant expenses"	20,106	17,933
Depreciation, amortization and impairment recognized in "Restaurant expenses"	47,711	44,458
Depreciation of non-operating right-of-use assets recognized in "General and administrative expenses"	1,322	1,481
Depreciation, amortization and impairment of non-current assets recognized in "General and administrative expenses"	1,739	1,546
Depreciation, amortization and impairment recognized in "General and administrative expenses"	3,061	3,027
Total depreciation, amortization and impairment	50,772	47,485

8 FINANCE COSTS

	Six-month period ended	
	30 June 2022	30 June 2021
Interest on loans and borrowings	4,720	2,727
Interest expense on lease liabilities	4,471	4,363
Interest cost on benefit obligation	5	6
Foreign exchange loss	1,556	2,906
Total finance costs	10,752	10,002

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9 BORROWINGS

	Interest rate, %	Maturity	30 June 2022	31 December 2021
Current interest-bearing loans and borrowings				
Bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	43,534	41,326
Short term working capital facility	ROBOR 3M + relevant spread	1 year from contract date	20,301	25,153
Total current interest-bearing loans and borrowings			63,835	66,479
Non-current interest-bearing loans and borrowings				
Bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	124,145	146,110
Total non-current interest-bearing loans and borrowings			124,145	146,110
Total interest-bearing loans and borrowings			187,980	212,589

The Group's financing facilities consist of:

- Financing facilities with Alpha Bank as follows: a uncommitted long term credit facility in maximum amount of EUR 42,167,000 for the development of new locations and financing of the foreign subsidiaries, a credit facility for issuance of bank guarantee letters of EUR 3,500,000, as well as a multi-optional short term facility in a maximum amount of RON 20.2 million, to be used also for financing of working capital. The loan facilities are secured with property, plant and equipment of restaurant locations for which the credit limited has been utilised, pledge on business goodwill, pledge on current accounts opened with the bank, promissory notes issued, pledge on receivables from and shares owned by the Group in its Moldova and Italia subsidiary. In August 2022, the Extraordinary General Shareholders Meeting of SFG approved the increase of the amount available for utilization of the uncommitted long term loan facility, the extension of the maturity/validity of the short-term facility and the facility for issuance of letters of guarantees agreements with maintaining all guarantees previously constituted in the guarantee of the facilities.

- A short-term borrowing arrangement (Sphera Franchise Group – Borrower) with Vista Bank Romania in total amount of RON 10 million. Credit facility is revolving and may be used by the Borrower for financing of working capital needs and of generic company costs, as well as intragroup loans. In May 2022, the term of the loan facility was extended until 28 May 2023. As at 30 June 2022 and 31 December 2021, respectively, the loan balance with Vista Bank is nil.

- A short-term credit facility agreement with Intesa Sanpaolo Romania Bank (USFN Romania - Borrower and Sphera Franchise Group SA - Guarantor). The uncommitted credit facility amounting to RON 9.6 million valid until August 2022 is revolving and may be used by the Borrower to finance the working capital needs. In August 2022, the term of the credit facility was extended for another one-year period, until August 2023. As at 30 June 2022, the loan facility balance with Intesa Sanpaolo is RON 1.4 (31 December 2021: RON 4.7 million).

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Covenants:

The Group's borrowing arrangement with the Alpha Bank contains several covenants, mainly of quantitative nature, out of which the most important relates to the ratio bank net debt, including non-cash loan utilized for letter of guarantee / EBITDA at a consolidated level, excluding the impact of IFRS 16, which should not exceed at any point in time 2.5. Breaches in meeting the financial covenant at Group consolidated level would permit the bank to call the loan amount needed to meet the financial covenant. There have been no breaches of the consolidated financial covenant for the years ended 31 December 2021 and 31 December 2020.

The Group's short-term borrowing arrangement with the Intesa Sanpaolo contains covenants at standalone level, mainly of quantitative nature, respectively: the Borrower's ratio Total debt/ EBITDA should not exceed 4.4, the ratio Net bank debt/Total equity should not exceed 3.5 and the ratio (Total equity plus Dividends payables)/ Total assets should exceed 2.0. Breaches in meeting the financial covenants at individual level would permit the bank to call the loan amount. There have been no breaches of the consolidated financial covenants for the years ended 31 December 2021 and 31 December 2020.

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10 ISSUED CAPITAL

	30 June 2022	31 December 2021
Authorised shares		
Ordinary shares of 15 RON each	38,799,340	38,799,340
Share capital (RON thousand)	581,990	581,990

The shareholders of Sphera Franchise Group SA as at 30 June 2022 are: Tatika Investments Ltd. (28.6089%), Computerland Romania SRL (20.5327%), Wellkept Group SA (16.4537%) and free float (34.4048%).

As at 31 December 2021, the shareholder structure was: Tatika Investments Ltd. (28.6089%), Computerland Romania SRL (20.5327%), Wellkept Group SA (16.3400%) and free float (34.5184%).

At the Ordinary General Shareholders Meeting held on February 4th, 2022, the shareholders of Sphera Franchise Group SA approved the distribution of dividends in total amount of RON 35,001, from the undistributed profit from 2020. The gross dividend per share was RON 0.9021. The payment of dividends was processed on May 30th, 2022.

11 EBITDA

	Six-month period ended 30 June 2022	30 June 2021
Operating profit/(loss)	3,143	11,042
Adjustments to bridge operating profit/(loss) to EBITDA:		
Depreciation, amortization and impairment of non-current assets included in restaurant expenses	47,711	44,458
Depreciation, amortization and impairment of non-current assets included in general and administrative expenses	3,061	3,027
EBITDA	53,915	58,527
Normalization adjustments	-	734
Normalised EBITDA	53,915	59,261

For the six-month period ended 30 June 2022, no EBITDA normalization adjustment was required.

For the six-month period ended 30 June 2021, EBITDA was normalized to exclude the 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. The revised development agreement was signed by the Group in August 2021.

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12 RELATED PARTY DISCLOSURES

During the six-month period ended 30 June 2022 and 30 June 2021 respectively, the Group has carried out transactions with the following related parties:

Related party	Nature of the relationship	Country of incorporation	Nature of transactions
Moulin D'Or SRL	Entity affiliated to shareholders of the parent	Romania	Goods and services
Midi Development SRL	Entity affiliated to a shareholder of the parent	Romania	Services
Grand Plaza Hotel SA	Entity affiliated to a shareholder of the parent	Romania	Rent and utilities store PH Dorobanti, services
Arggo Software Development and Consulting SRL	Entity affiliated to a shareholder of the parent	Romania	IT services
Lunic Franchising and Consulting LTD	Shareholder of the parent until January 2022	Cyprus	Payment of dividends
Wellkept Group SA	Shareholder	Romania	Rent training center and payment of dividends
Tatika Investments Ltd.	Shareholder	Cyprus	Payment of dividends
Computerland Romania SRL	Shareholder	Romania	Payment of dividends, acquisition of IT equipment, licenses
Cinnamon Bake&Roll SRL	Entity affiliated to shareholders of the parent	Romania	Goods and services, loans provided
Lucian Vlad	Beneficial owner of Lunic Franchising and Consulting Ltd.	Romania	Rent store KFC Mosilor
Radu Dimofte	Beneficial owner of Wellkept Group SA, Tatika Investments Ltd and ultimate beneficiary owner of the parent	Romania	Rent store KFC Mosilor
Elicom SRL	Entity affiliated to a shareholder of the parent	Romania	Call-centre services
Elicom Connect SRL	Entity affiliated to a shareholder of the parent	Romania	Marketing services
Dorobanti 239 Imobiliare SRL	Entity affiliated to a shareholder of the parent	Romania	Rent and utilities for restaurant and administrative area
Baneasa Developments SRL	Entity affiliated to a shareholder of the parent	Romania	Restaurant rent
Baneasa Investments SA	Entity affiliated to a shareholder of the parent	Romania	Restaurant rent
Fundatia Advance	Entity with common members of key management personnel	Romania	Sale of goods (2021)

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

	Transactions during the six-month period ended 30 June 2022		Balances as at 30 June 2022	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL	13	2	614	4
Moulin D'Or SRL	-	1	-	-
Lucian Vlad	-	112	-	-
Radu Dimofte	-	46	-	-
Wellkept Group SA	-	247	-	13
Midi Development SRL	-	-	-	-
Grand Plaza Hotel SA	-	532	66	17
Arggo Software Development and Consulting SRL	-	670	-	71
Elicom SRL	-	312	-	58
Elicom Connect SRL	-	6	-	2
Dorobanti 239 Imobiliare SRL	-	1,680	-	2
Baneasa Developments SRL	-	2,185	-	253
Baneasa Investments SA	-	305	128	60
Computerland Romania SRL	7	40	1	26
Fundatia Advance	-	-	-	-
	20	6,138	809	506

	Transactions during the six-month period ended 30 June 2021		Balances as at 31 December 2021	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL	5	2	599	-
Moulin D'Or SRL	-	13	-	-
Lucian Vlad	-	129	-	-
Radu Dimofte	-	54	-	-
Wellkept Group SA	-	240	-	4
Midi Development SRL	1	-	-	2
Grand Plaza Hotel SA	-	363	66	22
Arggo Software Development and Consulting SRL	-	888	-	71
Elicom SRL	-	364	-	96
Elicom Connect SRL	-	6	-	2
Dorobanti 239 Imobiliare SRL	-	1,575	-	2
Baneasa Developments SRL	-	1,569	-	408
Baneasa Investments SA	-	306	128	-
Computerland Romania SRL	-	-	-	-
Fundatia Advance	73	-	-	-
	79	5,509	793	607

The Group has granted a loan to Cinnamon Bake&Roll SRL. The loan balance as at 30 June 2022, included in the balances presented above, was of 530 (31 December 2021: 529) and the interest accrual as at 30 June 2022 was of 77 (31 December 2021: 71). In July 2022, the loan and related interest receivables were settled off.

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Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the period end are unsecured, interest free and settled in cash. For the six months period ended 30 June 2022 and for similar period of the year 2021, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group:

	Six months ended	
	30 June 2022	30 June 2021
Short-term employee benefits	3,882	4,971
Total compensation of the key management personnel	3,882	4,971

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

13 SEGMENT INFORMATION

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

- KFC restaurants
- Pizza Hut restaurants
- Taco Bell restaurants

The Group has also one more immaterial operating segment, being one Paul restaurant, which is managed by USFN.

Inter-segment revenues are presented in the "Inter-segment revenues" line and eliminated during consolidation.

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

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Six-month period ended 30 June 2022	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	516,553	57,973	31,497	-	-	606,024
Inter-segment revenues	-	-	-	16,484	(16,484)	-
Other income	1,172	-	-	-	-	1,172
Dividend revenues	-	-	-	49,493	(49,493)	-
Operating expenses	505,929	65,098	32,251	17,186	(16,412)	604,053
Segment operating profit/(loss)	11,796	(7,125)	(754)	48,791	(49,565)	3,143
Finance costs	9,244	959	1,035	1,458	(1,944)	10,752
Finance income	1,248	4	-	1,048	(1,944)	356
Income tax expense	366	15	-	(140)	-	241
Specific tax expense	809	360	106	-	-	1,275
Net profit/(loss)	2,625	(8,455)	(1,895)	48,521	(49,565)	(8,769)
Total assets	569,396	62,310	40,220	116,811	(110,423)	678,314
Total liabilities	564,207	69,748	45,671	78,863	(168,450)	590,039
Six-month period ended 30 June 2021	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	383,954	38,609	21,980	-	-	444,544
Inter-segment Revenues	-	-	-	14,983	(14,983)	-
Dividend revenues	-	-	-	37,525	(37,525)	-
Operating expenses	365,675	44,227	22,908	15,612	(14,920)	433,502
Segment operating profit/(loss)	18,279	(5,618)	(928)	36,896	(37,588)	11,042
Finance costs	8,252	1,187	1,088	1,110	(1,634)	10,002
Finance income	1,051	5	-	621	(1,634)	42
Income tax expense	673	340	96	(113)	-	996
Specific tax expense	-	-	-	-	-	-
Net profit/(loss)	10,404	(7,140)	(2,112)	36,520	(37,588)	85
Total assets 30 June 2021	554,202	56,071	34,914	167,897	(138,536)	674,548
Total liabilities 30 June 2021	534,489	67,310	48,543	64,877	(189,454)	525,765
Total assets 31 December 2021	612,503	66,178	41,957	137,151	(123,475)	734,314
Total liabilities 31 December 2021	560,441	81,494	57,841	84,063	(181,577)	602,262

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Geographic information:

	Six-month period ended	
	30 June	30 June
Revenue from external customers	2022	2021
Romania	526,198	394,769
Italy	72,313	44,161
Republic of Moldova	7,513	5,614
Total restaurant revenue	606,024	444,544

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

Bucharest, 30 August 2022

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes

**INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS AS OF AND FOR
SIX-MONTH PERIOD ENDED 30 JUNE 2022 (UNAUDITED)**

Prepared in accordance with Order of the Ministry of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards.

The interim condensed separate financial statements are unaudited.

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INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS
AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022 (UNAUDITED)
Prepared in accordance with Order of the Ministry of Public Finance no. 2844/2016
All amounts in RON thousand, unless specified otherwise

INTERIM CONDENSED SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022 (UNAUDITED)

		Six-month period ended	
	Note	30 June 2022	30 June 2021
Revenues			
Dividend revenues	7	49,493	37,525
Revenue from contracts with related parties	7	16,484	14,983
Other income		129	-
Total revenues		66,106	52,509
Expenses			
Payroll and employee benefits		13,912	12,986
Other expenses	3	3,402	2,627
Total expenses		17,314	15,612
Profit from operating activities		48,792	36,896
Finance costs		1,463	1,110
Finance income		1,053	621
Profit before tax		48,382	36,407
Income tax expense/(credit)		(140)	(113)
Profit		48,522	36,520
Comprehensive income		48,522	36,520

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INTERIM CONDENSED SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022 (UNAUDITED)

	30 June 2022	31 December 2021
Assets		
Non-current assets	696,427	666,947
Property, plant and equipment	1,873	2,252
Right-of-use assets	4,411	4,324
Intangible assets	467	116
Investments in subsidiaries (Note 4)	652,724	624,064
Loan receivables	35,869	35,248
Net deferred tax assets	1,083	943
Current assets	73,116	94,270
Trade and other current receivables (including short-term loans)	70,778	81,605
Current prepayments	124	320
Cash and cash equivalents	2,214	12,345
Total assets	769,543	761,217
Equity and liabilities		
Equity		
Issued capital (Note 6)	581,990	581,990
Legal reserve	8,419	8,419
Retained earnings	100,264	86,743
Total equity	690,673	677,152
Non-current liabilities	63,233	38,963
Long-term borrowings (Note 5)	59,428	35,147
Non-current lease liabilities	3,805	3,816
Current liabilities	15,637	45,102
Short-term borrowings (Note 5)	7,618	37,621
Current lease liabilities	1,030	946
Trade and other current payables	6,989	6,535
Total liabilities	78,870	84,065
Total equity and liabilities	769,543	761,217

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INTERIM CONDENSED SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022 (UNAUDITED)

	<u>Issued capital</u>	<u>Legal reserves</u>	<u>Retained earnings</u>	<u>Total equity</u>
As at 1 January 2022	581,990	8,419	86,743	677,152
Profit	-	-	48,522	48,522
Total comprehensive income	-	-	48,522	48,522
Dividends			(35,001)	(35,001)
As at 30 June 2022	581,990	8,419	100,264	690,673

	<u>Issued capital</u>	<u>Legal Reserves</u>	<u>Retained earnings</u>	<u>Total equity</u>
As at 1 January 2021	581,990	6,921	93,443	682,354
Profit	-	-	36,520	36,520
Total comprehensive income	-	-	36,520	36,520
As at 30 June 2021	581,990	6,921	129,963	718,874

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INTERIM CONDENSED SEPARATE STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022 (UNAUDITED)

	Six-month period ended	
	30 June 2022	30 June 2021
Operating activities		
Profit before tax	48,382	36,407
Adjustments to reconcile profit before tax to net cash flows:		
Dividend revenue	(49,493)	(37,525)
Depreciation and amortization of property, plant and equipment, right-of-use and intangible assets	929	860
Adjustments for (gain)/loss on disposal of property, plant and equipment and right-of-use assets	(129)	-
Adjustments for unrealised foreign exchange losses/(gains)	(6)	128
Adjustments for finance income (interest)	(1,048)	(621)
Adjustments for finance costs (interest)	1,464	966
Working capital adjustments:		
Adjustments for decrease/(increase) in trade and other receivables and prepayments	(3,327)	(4,267)
Adjustments for (decrease)/increase in trade and other payables	162	1,791
Dividends received	35,000	36,862
Interest received classified as operating activities	332	19
Interest paid classified as operating activities	(4,972)	(375)
Cash flows from/used in operating activities	27,294	34,245
Investing activities		
Purchase of property, plant and equipment and intangible assets classified as investing activities	(302)	(254)
Proceeds from sale of property, plant and equipment	129	-
Loans to related parties	-	(15,929)
Cash flows from/used in investing activities	(173)	(16,183)
Financing activities		
Proceeds from borrowings	-	-
Repayment of borrowings	(1,955)	-
Payment of lease liabilities	(590)	(546)
Net dividends paid	(34,707)	-
Cash flows from/used in financing activities	(37,252)	(546)
Net increase/(decrease) in cash and cash equivalents	(10,131)	17,516
Cash and cash equivalents at 01 January	12,345	4,883
Cash and cash equivalents at 30 June	2,214	22,400

NOTES TO THE INTERIM SEPARATE FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022 (UNAUDITED)

1 REPORTING ENTITY

These interim condensed separate financial statements are prepared by Sphera Franchise Group SA. Sphera Franchise Group SA ("Sphera" or "the Company") was incorporated on 16 May 2017 as a joint stock company and is registered at No. 239 Calea Dorobanti, Bucharest, Romania. The Company renders management and support services such as marketing, project management and store network development, sales support, human resources and other services to its subsidiaries. Sphera Franchise Group SA is listed on Bucharest Stock Exchange under the symbol "SFG".

Sphera Franchise Group SA together with its subsidiaries are referred hereinafter as "SFG" or "the Group". The Group operates quick service and takeaway restaurant concepts (a chain of 116 restaurants as at 30 June 2022) under the Kentucky Fried Chicken ("KFC"), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (22 restaurants as at 30 June 2022) as well as pizza delivery points (21 locations as at 30 June 2022) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (14 restaurants as at 30 June 2022) and one restaurant under Paul brand, in Romania.

2 BASIS OF PREPARATION OF THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

The interim condensed separate unaudited financial statements of Sphera Franchise Group SA as of and for the six-month period ended 30 June 2022 have been prepared in accordance with IAS 34 Interim Financial Reporting.

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

The interim condensed separate financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual separate financial statements as at 31 December 2021.

The interim condensed separate financial statements for six-month period ended 30 June 2022 included in this report are unaudited.

General accounting policies

The accounting policies and valuation methods adopted in the preparation of the interim condensed separate financial statements are consistent with those followed in the preparation of the Company's annual separate financial statements for the year ended 31 December 2021.

The amendments to IFRS effective since 1 January 2022 do not have a material effect on the Company's interim condensed separate financial statements. The Company has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

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Foreign currencies

The foreign exchange rates as at 30 June 2022 and 31 December 2021 were:

	30 June 2022	31 December 2021
RON – EUR	4.9454	4.9481
RON – USD	4.7424	4.3707

3 OTHER EXPENSES

	Six-month period ended	
	30 June 2022	30 June 2021
Third-party services	1,673	1,020
Advertising	21	31
Depreciation and amortization	927	860
Travel expenses	232	138
Office supplies	85	119
Insurance	168	149
Other taxes	63	118
Rental expenses	63	45
Banking charges	16	29
Maintenance and repairs	95	57
Utilities	30	20
Miscellaneous expenses	29	41
Total	3,402	2,627

4 INVESTMENTS IN SUBSIDIARIES

Details of the carrying value of investments in subsidiaries as of 30 June 2022 and 31 December 2021, respectively are as follows:

Company name	Country of incorporation	Field of Activity	Share interest percent	Carrying value as at 30 June 2022	Carrying value as at 31 December 2021
US Food Network SA	Romania	Restaurants	99.9997%	519,704	519,704
American Restaurant System SA (Note 7)	Romania	Restaurants	99.9997%	48,831	32,498
California Fresh Flavors SRL (Note 7)	Romania	Restaurants	99.9900%	12,428	100
US Food Network SRL	Moldova	Restaurants	80.0000%	1,735	1,735
US Food Network SRL	Italy	Restaurants	100.0000%	70,026	70,027
Total				652,724	624,064

5 BORROWINGS

	Interest rate, %	Maturity	30 June 2022	31 December 2021
Short-term borrowings				
Current portion of the long-term bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	7,618	5,149
Loan from related parties (including accrued interest)	4% fixed interest rate	Within 5 years from contract signing/renewal date	-	32,472
Total current borrowings			7,618	37,621
Long-term borrowings				
Long-term portion of the bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	30,554	35,147
Loan from related parties (including accrued interest) (Note 7)	4% fixed interest rate	Within 5 years from contract signing date	28,874	-
Total long-term borrowings			59,428	35,147
Total borrowings			67,046	72,768

In 2017, the Company has received a multicurrency credit facility from its subsidiary US FOOD NETWORK SA for a 5 year-period, with term extension option, the maximum limit being EUR 20 million. In March 2022, the intercompany loan agreement was extended for another 5-year period. The loan agreement contains no covenants or other special terms.

The Company is part of a credit facility from Alpha Bank Romania signed jointly by the Company and its Romanian subsidiaries. As at 30 June 2022, the Company may, jointly with other companies from Sphera Group, draw from one sub-limit dedicated to financing the Italian subsidiary. The loan is secured with pledge on current accounts opened with the bank, promissory notes issued, pledge on receivables from and shares owned by the Company in its Moldova and Italia subsidiary as well as on future dividends from these subsidiaries. In August 2022, the Extraordinary General Shareholders Meeting approved the increase of the amount available for utilization of the uncommitted long term loan facility for the Group, as well as the extension of the maturity/validity of the short-term facility and the facility for issuance of letters of guarantees agreements of the Group companies with maintaining all guarantees previously constituted in the guarantee of the facilities.

5 BORROWINGS (continued)

Starting with 29 May 2020, Sphera entered in a short-term borrowing arrangement with Vista Bank Romania in total amount of RON 10 million. The credit facility is revolving and may be used by the Borrower for financing of working capital needs and of generic company costs, as well as intragroup loans. In May 2022, the term of the loan facility was extended until 28 May 2023. As at 30 June 2022 and 31 December 2021, respectively, the loan balance with Vista Bank is nil.

The borrowing arrangement of the Group with the Alpha Bank contains several covenants, mainly of quantitative nature, out of which the most important relates to the ratio bank net debt, including non-cash loan utilized for letter of guarantee / EBITDA at a consolidated level, excluding the impact of IFRS 16, which should not exceed at any point in time 2.5. Breaches in meeting the financial covenant at Group consolidated level would permit the bank to call the loan amount needed to meet the financial covenant. There have been no breaches of the consolidated financial covenant for the years ended 31 December 2021 and 31 December 2020.

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6 ISSUED CAPITAL

	30 June 2022	31 December 2021
Authorised shares		
Ordinary shares of 15 RON each	38,799,340	38,799,340
Share capital (RON thousand)	581,990	581,990

The shareholders of Sphera Franchise Group SA as at 30 June 2022 are: Tatika Investments Ltd. (28.6089%), Computerland Romania SRL (20.5327%), Wellkept Group SA (16.4537%) and free float (34.4048%).

As at 31 December 2021, the shareholder structure was: Tatika Investments Ltd. (28.6089%), Computerland Romania SRL (20.5327%), Wellkept Group SA (16.3400%) and free float (34.5184%).

At the Ordinary General Shareholders Meeting held on 4 February 2022, the shareholders of Sphera Franchise Group SA approved the distribution of dividends in total amount of RON 35,001, from the undistributed profit from 2020. The gross dividend per share was RON 0.9021. The payment of dividends was processed on 30 May 2022.

7 RELATED PARTY DISCLOSURES

During the six-month period ended 30 June 2022 and 31 June 2021 respectively, the Company has carried out transactions with the following related parties:

Related party	Nature of the relationship	Country of incorporation	Nature of transactions
US Food Network SA	Subsidiary	Romania	Dividends received, loan received, sale of services, acquisition of goods and services
American Restaurant System SA	Subsidiary	Romania	Sale of services, loan provided, acquisition of goods and services, VAT tax group
California Fresh Flavors SRL	Subsidiary	Romania	Loan provided, sale of services
US Food Network SRL	Subsidiary	Republic of Moldova	Dividends received
US Food Network SRL	Subsidiary	Italy	Sale of services, loan provided
Arggo Software Development and Consulting SRL	Entity affiliated to shareholders of the parent	Romania	IT services
Wellkept Group SA	Shareholder	Romania	Rent training center, Dividends
Tatika Investments Ltd.	Shareholder	Cyprus	Dividends
Radu Dimofte	Beneficial owner of Wellkept Group SA, Tatika Investments Ltd. and ultimate beneficiary owner of Sphera	Romania	-
Computerland Romania SRL	Shareholder	Romania	Dividends, acquisition of IT equipment/licenses
Lunic Franchising and Consulting Ltd.	Shareholder (until January 2022)	Cyprus	Dividends
Moulin D'Or SRL	Entity affiliated to shareholders of the parent	Romania	Acquisition of goods and services

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Related party	Nature of the relationship	Country of incorporation	Nature of transactions
Grand Plaza Hotel SA	Entity affiliated to shareholders of the parent	Romania	Acquisitions of services

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

Related party	Six-month period ended 30 June 2022			30 June 2022	
	Dividends revenues	Sales	Purchases	Amounts owed by related parties	Amounts owed to related parties
US Food Network SA	49,493	12,347	2	63,397	-
American Restaurant System SA	-	2,377	6	2,039	867
California Fresh Flavors SRL	-	1,069	-	587	-
US Food Network SRL (Italy)	-	692	-	692	-
Wellkept Group SA	-	-	247	-	13
Grand Plaza Hotel SA	-	-	4	-	-
Arggo Software Development and Consulting SRL	-	-	131	-	10
Computerland Romania SRL	-	-	40	-	26
Loans and interest from related parties (please see below)	-	-	-	-	28,874
Loans and interest to related parties (please see below)	-	-	-	39,500	-
Total	49,493	16,485	430	106,215	29,790

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Related party	Six-month period ended 30 June 2021			31 December 2021	
	Dividends revenues	Sales	Purchases	Amounts owed by related parties	Amounts owed to related parties
US Food Network SA	36,300	11,616	3	46,162	-
US Food Network SRL (Republic of Moldova)	1,225	-	-	-	-
American Restaurant System SA	-	2,063	5	1,408	953
California Fresh Flavors SRL	-	789	-	762	-
US Food Network SRL (Italy)	-	515	-	217	-
Moulin D'Or SRL	-	-	1	-	-
Wellkept Group SA	-	-	240	-	4
Grand Plaza Hotel SA	-	-	2	-	-
Arggo Software Development and Consulting SRL	-	-	84	-	47
Loans and interest from related parties (please see below)	-	-	-	-	32,472
Loans and interest to related parties (please see below)	-	-	-	67,469	-
Total	37,525	14,983	335	116,018	33,476

Interest income and interest expense and related accrued balances as well as the balances of the intercompany loan receivables and payables are presented below:

Related party	Six-month period ended 30 June 2022		
	Interest expense	Interest payable	Loan payable
US Food Network SA	596	201	28,674
Total	596	201	28,674

	Six-month period ended 30 June 2022		
	Interest income	Interest receivable	Loan receivable
California Fresh Flavors SRL	15	1,124	53
US Food Network SRL (Italy)	641	3,794	32,030
American Restaurant System SA	60	2,498	-
Total	716	7,416	32,083

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Related party	Six-month period ended 30 June 2021	31 December 2021	
	Interest expense	Interest payable	Loan payable
US Food Network SA	591	3,794	28,678
Total	591	3,794	28,678

	Interest income	Interest receivable	Loan receivable
California Fresh Flavors SRL	176	1,109	12,382
US Food Network SRL (Italy)	246	3,155	32,048
American Restaurant System SA	179	2,442	16,333
Total	602	6,706	60,763

The loans granted to US Food Network Srl (Italy) and California Fresh Flavors are payable within a period of one to two years, with renewal option, and the loan granted to American Restaurant System SA is payable within a period of one to five years, with renewal option.

In January 2022, the General Shareholders Meetings of American Restaurant System SA and California Fresh Flavors SRL approved the increase of the subsidiaries' equity (share capital and share premium) by conversion of the existing shareholder loans to equity and by cash contribution of the minority shareholder. SFG's contribution to the increase of the equity of American Restaurant System SA was of 16,333 and to the increase of the equity of California Fresh Flavors SRL of 12,328. The shareholding structure of the subsidiaries remained unchanged.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding trade balances at the period end are unsecured, interest free and settled in cash.

Compensation of key management personnel of the Company:

	Six-month period ended	
	30 June 2022	30 June 2021
Short-term employee benefits	2,884	3,733
Total compensation paid to key management personnel	2,884	3,733

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

Bucharest, 30 August 2022

Chief Executive Officer
Calin Ionescu

Chief Financial Officer
Valentin Budes