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FINANCIAL REPORT

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



TABLE OF CONTENTS

ISSUER INFORMATION	3
FINANCIAL RESULTS HIGHLIGHTS	4
9M 2021 RESULTS ANALYSIS	5
MAIN FINANCIAL RATIOS	10
SIGNIFICANT EVENTS IN Q3 2021 & AFTER CLOSING OF THE REPORTING PERIOD	11
DECLARATION FROM THE MANAGEMENT	14
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTHS PERIOD ENDED 30.09.2021 (UNAUDITED)	15

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 as of September 30th, 2021, **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.

NOTE: 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 in this report are providing financial results both including, as well as excluding the impact of IFRS 16. For more information on the impact of IFRS 16 Leases on the interim condensed consolidated financial statements of Sphera, please refer to the Interim Condensed Consolidated Financial Statements.

ISSUER INFORMATION

INFORMATION ABOUT THIS FINANCIAL REPORT

Type of report	Quarterly report for Q3 2021
For financial period	9M: 01.01.2021 – 30.09.2021 Q3: 01.07.2021 – 30.09.2021
Date of publishing	15.11.2021
According to	Annex 13 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

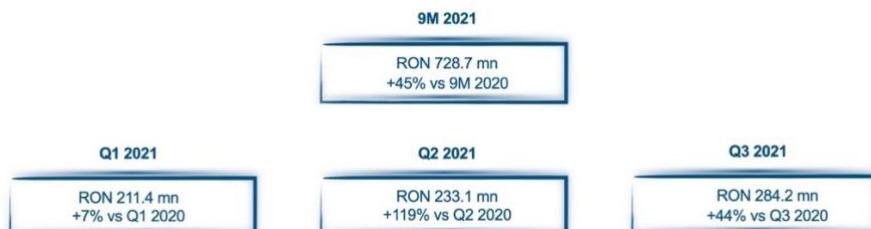
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FINANCIAL RESULTS HIGHLIGHTS



Sales Sphera Franchise Group



Sales per geography



Sales per brand



RON 60.5 mn

normalized EBITDA in 9M 2021 vs normalized EBITDA of RON 28.5 mn in 9M 2020

113%

increase in normalized EBITDA in 9M 2021 vs 9M 2020

RON 28.1 mn

net profit in 9M 2021 vs net loss of RON 4.7 mn in 9M 2020

#1

the best Q3 in history in terms of all-store performance for Taco Bell and KFC Romania, Italy, Moldova

37%

Increase in like-for-like sales in Q3 2021 vs Q3 2020

164

KFC, Pizza Hut and Taco Bell restaurants on all 3 markets as of 30.09.2021, out of which 7 restaurants opened in 2021

9M 2021 RESULTS ANALYSIS

Q3 2021 continued the positive trend of quarter-on-quarter increases, with Sphera Franchise Group closing the period with record-high results, registering RON 284.2 million in consolidated sales, a 44% increase compared to Q3 2020. Sales generated in Romania contributed with RON 247.9 million, Italy with RON 33.1 million while Republic of Moldova reached historic heights with turnover of RON 3.2 million. In terms of split per brand, in Q3 2021, KFC brought revenues in the total amount of RON 243.4 million, Pizza Hut – RON 26.7 million and Taco Bell RON 14 million. The increase in the revenues on all the three markets and across all the Group's brands was driven by several positive factors including the almost complete reopening of the local economies across the Europe, the return of the indoor dining, good weather as well as overall positive sentiment resulting from the signs indicating potential end of the pandemic and return to normality. Nonetheless, as of the end of September, a new wave of COVID-19 infections in Romania paired with the low levels of vaccinations hindered this enthusiasm, indicating potential negative impact on the HoReCa industry.

Restaurant expenses grew marginally faster than the sales in Q3 2021, reaching RON 249.2 million, a 47% increase compared to Q3 2020. The increase was primarily driven by the payroll and employee benefits, due to the lack of technical unemployment measures offered by the state and the calibration of the workforce related to the current sales level. The costs of food and material grew in line with the sales, reaching RON 92.7 million lei, a 46% increase y-o-y, the pressure on costs being partially absorbed through sales price increases. Rent increased 42%, reaching 19.7 million as the Group had limited opportunities to renegotiate the rent agreements as opposed to a year ago as well as the Group operated a larger number of restaurants. Advertising expenses increased 69%, reaching RON 15.3 million due to its continuous focus on communication, product innovation and digitalization. Royalties, directly related to the topline, grew 49% reaching RON 17.2 million. Depreciation and amortization reached RON 9.3 million, 6% increase compared to Q3 2020 mainly due to new openings. Other operating expenses increased by 24%, reaching RON 34.9 million, driven by a 45% increase in third-party expenses compared to Q3 2020. As it was in the case of previous quarters, the increase in the third-party expenses, which in Q3 2021 reached RON 20.2 million, was mainly due to increase in aggregators volume. Other notable increases under other operating expenses were utilities costs, which increased 37% in the analyzed period compared to Q3 2020, reaching RON 8.1 million.

Restaurant operating profit in Q3 2021 amounted to RON 35 million, a 24% increase compared to Q3 2020. As the G&A expenses increased 21% reaching RON 13.1 million, operating profit in Q3 2021 amounted to RON 21.9 million, a 26% increase compared to Q3 2020. Finance costs doubled due to FX negative impact, reaching RON 2 million, while financial income registered a decrease of 12%, reaching RON 0.8 million lei. Consequently, the Group ended Q3 2021 with an EBITDA of RON 32.1 million, +21% (normalized EBITDA of RON 29.8 million, +11% y-o-y), gross profit of RON 20 million, +22%, and a bottom line of RON 22.9 million, +30%.

Summary of interim Consolidated Financial Statements for Q3 (results excluding IFRS 16 Impact):

Data in RON'000	Q3-21	Q3-20	Y/Y % Q3-21/Q3-20	% of Sales		Δ%
				Q3-21	Q3-20	
Restaurant sales	284,175	197,865	43.6%			
Restaurant expenses	249,201	169,717	46.8%	87.7%	85.8%	1.9%
Food and material	92,706	63,726	45.5%	32.6%	32.2%	0.4%
Payroll and employee benefits	60,093	34,696	73.2%	21.1%	17.5%	3.6%
Rent	19,718	13,859	42.3%	6.9%	7.0%	-0.1%
Royalties	17,223	11,555	49.1%	6.1%	5.8%	0.2%
Advertising	15,261	9,006	69.5%	5.4%	4.6%	0.8%
Other operating expenses, net	34,857	28,063	24.2%	12.3%	14.2%	-1.9%
Depreciation and amortization	9,342	8,813	6.0%	3.3%	4.5%	-1.2%
Restaurant operating profit	34,974	28,148	24.3%	12.3%	14.2%	-1.9%
General & Admin expenses, net	13,057	10,788	21.0%	4.6%	5.5%	-0.9%
Operating Profit/(Loss)	21,918	17,360	26.3%	7.7%	8.8%	-1.1%
Finance costs	2,017	1,071	88.3%	0.7%	0.5%	0.2%
Finance income	83	94	-11.9%	0.0%	0.0%	0.0%
Profit/(Loss) before tax	19,984	16,383	22.0%	7.0%	8.3%	-1.2%
Income tax expense	(3,482)	(1,842)	89.1%	-1.2%	-0.9%	-0.3%
Specific tax expense	590	578	2.2%	0.2%	0.3%	-0.1%
Profit/(Loss) for the period	22,876	17,647	29.6%	8.1%	8.9%	-0.9%
EBITDA	32,067	26,538	20.8%	11.3%	13.4%	-2.1%
Normalized EBITDA*	29,807	26,908	10.8%	10.5%	13.6%	-3.1%

(*EBITDA normalized to exclude the reversal of accrued penalties due to Pizza Hut Europe (Master Franchisor) for the restaurants committed to be opened in 2019 and postponed for the future periods, following the signing of the new Development Agreement

Within Q3 2021 results significantly improving the YTD performance, Sphera closed the first nine months of 2021 with RON 728.7 million in consolidated sales on all three markets of activity, a 45% increase compared to 9M 2020. Sales generated in Romania contributed to 88% of this result, amounting to RON 642.6 million, followed by Italy bringing in the contribution of 11% amid sales of RON 77.3 million while Moldova generated 1% of total sales, in the amount of RON 8.8 million.

Within the nine-month period, the Group managed to control the restaurant expenses, which increased at a slower pace than the sales, registering a 41% year-on-year increase and reaching RON 657.9 million. The largest increase has been registered on the payroll and employee benefits where the Group has felt the biggest pressure in 2021, especially in Q3 2021. The food and material costs increased 44%, reaching RON 236.2 million while rent saw a tempered increase of 24%, reaching RON 53.7 million as the Group continued renegotiations in Italy (between Q1 and Q3), Republic of Moldova (Q1 and Q2) as well as for Pizza Hut locations in Romania (between Q1 and Q3). Royalties increased 48%, to RON 43.7 million while advertising costs grew 51%, to RON 35.3 million. Other operating expenses continued to grow, reaching RON 99.3 million, driven primarily by a continued, q-o-q increase in the aggregator fees. In Q3 2021, the Group has decided to offset part of these costs by increasing the prices of the products sold for delivery, thus mitigating the major part of the effect that the increasing sales on delivery had on the bottom line. The Group ended 9M 2021 with restaurant operating profit of RON 70.8 million, double compared to 9M 2020.

The G&A expenses increased by 9% in 2021, reaching RON 38.5 million however registering an almost 2pp decrease as a share of sales generated. The operating result increased significantly, from operating loss of RON 0.4 million to operating profit of RON 32.3 million in 9M 2021. As finance costs increased 40% in 9M 2021, to RON 5.6 million and finance income reached RON 0.1 million (-31%), the gross result went from loss of RON 4.2 million to a gross profit of RON 26.9 million. The net result for the first nine months of 2021 ended up with a bottom line of RON 28.1 million, a significant increase compared to the net loss of RON 4.7 million registered for the first nine months of 2020.

Summary of interim Consolidated Financial Statements for 9M (results excluding IFRS16 impact):

Data in RON'000	9M-21	9M-20	Y/Y %		% of Sales	
			9M-21/9M-20	9M-21	9M-20	Δ%
Restaurant sales	728,719	502,445	45.0%			
Restaurant expenses	657,909	467,620	40.7%	90.3%	93.1%	-2.8%
Food and material	236,241	164,520	43.6%	32.4%	32.7%	-0.3%
Payroll and employee benefits	162,290	106,011	53.1%	22.3%	21.1%	1.2%
Rent	53,668	43,154	24.4%	7.4%	8.6%	-1.2%
Royalties	43,712	29,439	48.5%	6.0%	5.9%	0.1%
Advertising	35,348	23,435	50.8%	4.9%	4.7%	0.2%
Other operating expenses, net	99,295	74,477	33.3%	13.6%	14.8%	-1.2%
Depreciation and amortization	27,355	26,585	2.9%	3.8%	5.3%	-1.5%
Restaurant operating profit	70,810	34,825	103.3%	9.7%	6.9%	2.8%
General & Admin expenses, net	38,477	35,235	9.2%	5.3%	7.0%	-1.7%
Operating Profit/(Loss)	32,333	(411)		4.4%	-0.1%	
Finance costs	5,551	3,973	39.7%	0.8%	0.8%	0%
Finance income	125	182	-31.3%	0.0%	0.0%	0%
Profit/(Loss) before tax	26,908	(4,202)		3.7%	-0.8%	
Income tax expense	(2,923)	(1,045)	179.6%	-0.4%	-0.2%	
Specific Tax	1,769	1,556	13.7%	0.2%	0.3%	-0.1%
Profit/(Loss) for the period	28,062	(4,712)		3.9%	-0.9%	
EBITDA	62,074	27,310	127.3%	8.5%	5.4%	3.1%
Normalized EBITDA*	60,547	28,471	112.7%	8.3%	5.7%	2.6%

(*) For the 9M period ended September 30th, 2021, EBITDA was normalized to exclude the reversal of accrued penalties due to Pizza Hut Europe (Master Franchisor) for the restaurants committed to be opened in 2019 and postponed for the future periods, following the signing of the new Development Agreement.

Summary of interim Consolidated Financial Statements for 9M – results and evolution presented with and without IFRS16 impact

Data in RON'000	9M-21	9M-21	9M-20	9M-20	Change (%)	
	1	2	1	2	9M-21/ 9M-20 (1)	9M-21/ 9M-20 (2)
Restaurant sales	728,719	728,719	502,445	502,445	45.0%	45.0%
Restaurant expenses	657,132	657,909	464,129	467,620	41.6%	40.7%
Food and material	236,241	236,241	164,520	164,520	43.6%	43.6%
Payroll and employee benefits	162,290	162,290	106,011	106,011	53.1%	53.1%
Rent	13,005	53,668	3,085	43,154	321.6%	24.4%
Royalties	43,712	43,712	29,439	29,439	48.5%	48.5%
Advertising	35,348	35,348	23,435	23,435	50.8%	50.8%
Other operating expenses, net	99,295	99,295	74,230	74,477	33.8%	33.3%
Depreciation and amortization	67,241	27,355	63,410	26,585	6.0%	2.9%
Restaurant operating Profit / (Loss)	71,587	70,810	38,316	34,825	86.8%	103.3%
General & Admin expenses, net	38,060	38,477	35,025	35,235	8.7%	9.2%
Operating Profit/(Loss)	33,527	32,333	3,292	(411)	918.5%	
Finance costs	14,417	5,551	13,953	3,973	3.3%	39.7%
Finance income	125	125	182	182	-31.3%	-31.3%
Profit/(Loss) before tax	19,236	26,908	(10,479)	(4,202)		
Income tax expense/(credit)	(3,667)	(2,923)	(1,338)	(1,045)	174.1%	179.6%
Specific tax	1,769	1,769	1,556	1,556	13.7%	13.7%
Profit/(Loss) for the period	21,133	28,062	(10,697)	(4,712)		
EBITDA	105,322	62,074	70,092	27,310	50.3%	127.3%
Normalized EBITDA*	103,795	60,547	71,253	28,471	45.7%	112.7%

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 reversal of accrued penalties from franchisor for postponed development of Pizza Hut restaurants in 2019, following the signing of the new Development Agreement.

The G&A expenses grew 9% in 9M 2021 compared to same period of last year, driven by an 11% increase in payroll which reached RON 24.3 million, resulting primarily from an increased volume of activity. Throughout the year, the Group continued to perform cost optimization measures focused on decreasing costs related to third-party services (-13%), transportation (-27%), and other expenses (-29%). The depreciation and amortization increased 110%, banking charges 39% while rent increased 10%.

	Data in RON '000				Percentage of sales					
	9M-21	9M-21	9M-20	9M-20	2021/ 2020 (1)	2021/ 2020 (2)	9M-21	9M-21	9M-20	9M-20
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
General and administration (G&A) expenses, net	38,060	38,477	35,025	35,235	8.7%	9.2%	5.2%	5.3%	7.0%	7.0%
Payroll and employee benefits	24,297	24,297	21,972	21,972	10.6%	10.6%				
Third-party services	4,075	4,075	4,702	4,702	-13.3%	-13.3%				
Depreciation and amortization	4,554	2,386	3,391	1,136	34.3%	110.1%				
Rent	233	2,818	86	2,551	171.5%	10.4%				
Banking charges	2,910	2,910	2,090	2,090	39.3%	39.3%				
Transport	553	553	760	760	-27.2%	-27.2%				
Other*	1,437	1,437	2,025	2,025	-29.0%	-29.0%				

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, in the first nine months of 2021 all the brands on all three markets of activity improved their performance compared to the same period of 2020 – CFF (Taco Bell) sales grew 75%, USFN Moldova (KFC Moldova) by 54%, USFN Romania (KFC Romania) by 48%, USFN Italy (KFC Italy) by 36% and ARS (Pizza Hut) by 25%.

USFN Romania, USFN Moldova, ARS and CFF closed the first nine months of 2021 with a restaurant operating profit. USFN Romania generated restaurant operating profit of RON 74.5 million, operating profit of RON 52.2 million, EBITDA of RON 67.5 million and a net profit of RON 49.6 million. Similarly, USFN Moldova closed the 9-month period with a restaurant operating profit of RON 1.4 million, a positive EBITDA of RON 1.4 million and a net result of RON 0.95 million. CFF closed the 9-month period with a restaurant operating profit of RON 0.8 million, a positive EBITDA of RON 0.9 million and a net loss of RON -2.6 million. ARS closed the 9-month period with a restaurant operating profit of RON 1.5 million, a negative normalized EBITDA of RON -2.3 million and a net loss of RON -5.9 million. Nonetheless, ARS continued to improve its bottom-line performance,

registering another period of QOQ increases and ending 9 months period with a result improved by 50%, from net loss of RON 11.8 million registered in 2020, to net loss of RON 5.9 million. USFN Italy (KFC Italy) performance is penalized by the COVID-19 restrictions heavily present in the first two quarters generating a relatively small scale of activity, the Italian operations closing the nine months period with a net loss for the period of RON 12.5 million, an improvement compared to the net loss of RON 17.5 million registered for 9M 2020.

Breakdown of consolidated results by Group companies – 9M-2021 (excluding IFRS 16 Impact):

Data in RON'000	9M-21							SFG Cons
	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons, Adj,	
Restaurant sales	541,312	65,302	8,820	77,269	36,022	22,400	(22,406)	728,719
Dividend revenue	-	-	-	-	-	37,525	(37,525)	-
Restaurant expenses	466,849	63,818	7,446	84,871	35,218		(293)	657,909
Food and material	181,723	17,513	3,644	21,931	11,430	-	-	236,241
Payroll and employee benefits	111,385	18,212	1,214	23,067	8,411	-	-	162,290
Rent	37,983	6,281	510	5,968	2,927	-	-	53,668
Royalties	32,694	3,844	529	4,640	2,006	-	-	43,712
Advertising	25,028	3,484	342	4,749	2,013	-	(269)	35,348
Other operating expenses	63,900	11,481	981	16,539	6,402	-	(8)	99,295
Depreciation	14,136	3,003	226	7,977	2,028	-	(16)	27,355
Restaurant operating profit/(loss)	74,463	1,484	1,374	(7,602)	804	59,926	(59,639)	70,810
G&A expenses	22,240	5,861	223	6,625	2,031	23,512	(22,015)	38,477
Operating profit/(loss)	52,223	(4,377)	1,151	(14,227)	(1,227)	36,413	(37,624)	32,333
Finance costs	3,936	952	56	1,987	1,246	1,357	(3,983)	5,551
Finance income	3,030	6	-	0	-	1,072	(3,983)	125
Profit/(Loss) before tax	51,318	(5,323)	1,095	(16,213)	(2,473)	36,129	(37,624)	26,908
Income tax expense/(credit)	625	25	147	(3,724)	-	3	-	(2,923)
Specific tax expense	1,115	510	-	-	144	-	-	1,769
Profit/(Loss) for the period	49,578	(5,858)	948	(12,490)	(2,618)	36,126	(37,624)	28,062
EBITDA	67,490	(790)	1,404	(6,141)	868	36,886	(37,643)	62,074
Normalized EBITDA*	67,490	(2,316)	1,404	(6,141)	868	36,886	(37,643)	60,547

All the brands except for Pizza Hut registered the highest all store sales ever recorded in the third quarter of the year (including pre-pandemic levels). In Q3 2021, the like-for-like sales across all Sphera brands continued the double-digit growth, registering increases of 71% for ARS, 36% for USFN Romania, 39% for CFF, 35% for USFN Moldova, and 18% for USFN Italy. Overall, the same stores performance across Sphera brands improved by 37% in Q3 2021, while all store performance for all the brands grew by 44%. Compared to same period of last year, when Sphera operated 157 restaurants, at the end of Q3 2021, the number of restaurants grew with 7 net new stores, reaching 164 locations on all three markets of activity.

	Y/Y Q1-20	Y/Y Q2-20	Y/Y Q3-20	Y/Y Q4-20	Y/Y Q1-21	Y/Y Q2-21	Y/Y Q3-21	
USFN RO	All Stores	-9.9%	-51.6%	-17.1%	-11.5%	14.3%	114.9%	42.8%
	o/w Same Stores	-14.7%	-53.5%	-23.6%	-17.3%	6.9%	99.4%	35.9%
ARS	All Stores	-15.8%	-68.8%	-51.4%	-55.8%	-32.6%	108.4%	71.4%
	o/w Same Stores	-15.8%	-68.8%	-51.4%	-55.8%	-32.6%	108.4%	71.4%
USFN MD	All Stores	-14.4%	-62.1%	-15.4%	-5.3%	18.9%	179.3%	35.3%
	o/w Same Stores	-14.4%	-62.1%	-15.4%	-5.3%	18.9%	179.3%	35.3%
USFN IT	All Stores	11.4%	-48.1%	-11.7%	-33.5%	2.8%	114.5%	26.0%
	o/w Same Stores	-29.5%	-64.5%	-27.0%	-52.7%	-21.1%	85.0%	17.8%
CFF	All Stores	46.0%	-55.9%	-3.0%	-9.2%	13.1%	245.4%	62.8%
	o/w Same Stores	-10.3%	-64.4%	-24.1%	-22.9%	6.0%	188.0%	38.6%
TOTAL	All Stores	-7.7%	-54.0%	-20.4%	-20.0%	6.6%	119.4%	43.6%
	o/w Same Stores	-16.0%	-57.0%	-27.6%	-26.1%	-1.1%	102.7%	36.7%

When analyzing the activity per market, the dynamic of the growth registered in Q3 2021 on the Romanian market is similar with YTD 2021 evolution, an improved performance was also registered in Italy market versus last year (higher immunization rate, lower restrictions).

Data in RON '000	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Change 9M-21/9M-20	Change Q3-21/Q3-20
Sales by region									
Romania	176,764	93,821	169,260	185,816	188,944	205,824	247,867	46.1%	46.4%
Italy	19,205	11,435	26,232	19,584	19,693	24,469	33,108	35.9%	26.2%
Rep. Moldova	2,345	1,009	2,371	2,953	2,791	2,823	3,206	54.1%	35.2%
Total sales	198,314	106,266	197,865	208,353	211,428	233,116	284,175	45.0%	43.6%

In Q3 2021, sales for delivery on all the markets, for all the brands, registered a q-o-q decrease. The largest decrease in sales for delivery was registered for ARS, which noted a 11pp q-o-q decline in sales for delivery, due to the lifting on the indoor restrictions in Romania. Rest of the companies from the group registered more moderate declines – CFF saw a decline of 8pp, USFN Moldova of 7pp, USFN Italy of 5pp, while USFN Romania of 4pp.

In Q3 2021, 24% of all orders were made for delivery, amounting to approximately RON 68.7 million, a 5pp q-o-q decrease, but approximately same absolute value as in Q2 2021, when sales for delivery amounted to RON 68.4 million. As expected, the share of the delivery orders decreased QOQ due to the weather as well as lifting on the indoor dining restrictions. Delivery orders include sales made by aggregators as well as using Sphera's own channels, through own or third-party courier service. Sphera has own delivery service in Romania for Pizza Hut and KFC, while for Taco Bell, KFC Italy and the KFC Republic of Moldova, the Group delivers exclusively through the food aggregating platforms such as Glovo, Food Panda, Takeaway or Tazz.

Sales by entity, by Country		Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21
USFN RO	delivery	6%	44%	23%	28%	28%	27%	23%
	non-delivery	94%	56%	77%	72%	72%	73%	77%
ARS	delivery	33%	68%	53%	63%	57%	53%	42%
	non-delivery	67%	32%	47%	37%	43%	47%	58%
CFF	delivery	11%	81%	40%	42%	44%	42%	34%
	non-delivery	89%	19%	60%	58%	56%	58%	66%
USFN IT	delivery	0%	32%	11%	23%	25%	16%	11%
	non-delivery	100%	68%	89%	77%	75%	84%	89%
USFN MD	delivery	13%	60%	23%	25%	33%	35%	28%
	non-delivery	87%	40%	77%	75%	67%	65%	72%
All	delivery	9%	47%	24%	31%	31%	29%	24%
	non-delivery	91%	53%	76%	69%	69%	71%	76%

MAIN FINANCIAL RATIOS

The main financial ratios of Sphera Franchise Group (consolidated result) as of September 30th, 2021 (including and excluding IFRS 16 impact) are presented below, together with the result from the same period of 2020 (including IFRS 16 impact).

<i>Financial data in RON '000</i>	30 September 2021(1)	30 September 2021(2)	31 December 2020*/ 30 September 2020** (1)			
Current ratio*						
Current assets	143,689	= 0.60	146,817	= 0.76	153,481	= 0.66
Current liabilities	239,936		194,430		232,704	
Debt to Equity ratio*						
Interest-bearing debt (long term)	294,850	= 219%	92,414	= 60%	280,741	= 188%
Equity	134,877		155,073		149,121	
Interest-bearing debt (long term)	294,850	= 68.6%	92,414	= 37.3%	280,741	= 65.3%
Capital employed	429,727		247,486		429,862	
Trade receivables turnover (days)**						
Average receivables	18,387	= 6.81	18,387	= 6.81	29,284	= 15.74
Sales	728,719		728,719		502,445	
Fixed asset turnover**						
Sales	728,719	= 1.44	728,719	= 2.65	502,445	= 1.36
Net fixed assets	504,669		274,543		492,293	

Notes: Annualized values, based on ASF methodology.

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

SIGNIFICANT EVENTS IN Q3 2021 & AFTER CLOSING OF THE REPORTING PERIOD

COVID-19 RELATED UPDATES

COVID-19 VACCINATION CAMPAIGNS

Romania was one of the first countries in the EU to lift restrictions and relax other measures throughout 2021, however the vaccinations campaign in Romania slowed down throughout Q3 2021, which lead at to a significant spike in COVID-19 infections starting with September 2021. In the first week of November, Romania recorded the highest daily number of COVID-19 deaths since the pandemic started. In response to the low number of vaccinations, as of October 25th, the COVID-19 'Green Certificate' became mandatory for any indoor access, to public institutions, banks, restaurants, cinemas, gyms and shopping malls. The pass shows someone has been vaccinated or recently recovered from the virus. Since the introduction of the rules that only allow the entrance of persons with 'Green Certificate' in public indoor spaces, the number of vaccinations have increased however, at the same time, most of economic operators in the HoReCa and retail sectors, Sphera Franchise Group included, have witnessed a decrease in sales due to lower foot traffic.

At the time of publishing of this report, according to European Centre for Disease Prevention and Control's (ECDC) COVID-19 Vaccine Tracker, approximately 34% of Romanian population, 34% of Moldavian population as well as 78% of the Italian population is fully vaccinated. The vaccination rate is even lower for the customer segment of 15-18 years old. According to European Centre for Disease Prevention and Control's COVID-19 Vaccine Tracker, Romania is now second to last in the EU for the share of adults vaccinated with at least one dose. The EU-wide percentage of fully vaccinated adults is approximately 70%.

LEASES

Despite the partial reopening of the economy, throughout Q3 2021, the Group continued to renegotiate the lease agreements whenever possible. Consequently, in Q3, the Group benefitted from rent discounts amounting to RON 0.5 million, out of which RON 335K were granted to USFN Italy and 158K to ARS. Paired with RON 1.25 million in discounts obtained in Q1 2021, and RON 1.52 million obtained in Q2 2021, in the first nine months of 2021, the Group registered a saving in total amount of RON 3.26 million.

STAFF

As of September 30th, 2021, the Group had 4,567 employees, out of which 4,245 in Romania, 242 in Italy and 80 in the Republic of Moldova. COVID-19 pandemic put additional pressure on the HoReCa industry as many employees decided to requalify to other sectors. Consequently, in 2021 the Group continued the project of hiring employees from abroad. So far, Sphera hired 201 employees from Sri Lanka, with the vast majority of them currently working for USFN Romania, approximately 15% for Taco Bell and 3% for ARS.

In terms of technical unemployment indemnities, there was no significant technical unemployment granted in Q3 2021 (RON 15K). In H1 2021 the Group registered RON 2.47 million in the technical unemployment indemnities, out of which RON 1.27 million were granted in Q1 2021 and RON 1.2 million were granted in Q2 2021.

HORECA AID IN ROMANIA

On December 30th, 2020, Emergency Ordinance 224/30.12.2020 was published that stipulates that companies from HoReCa sector can apply for a state aid in the amount that represents 20% of the loss of turnover in 2020 compared to 2019, capped at EUR 800,000 at Group level. According to the notifications received from the authorities, the Group could be eligible for RON 2.6mn (USFN and ARS - RON 1.3mn each). The process is still on-going, not being finalized.

HORECA SPECIFIC TAX FACILITY

At the end of 2020, the Romanian government adopted the payment exemption regarding specific income tax due in 2021 by the economic operators from HoReCa sector, for a period of 90 days, starting from January 1st, 2021. On March 25th, the payment exemption was prolonged for another 90 days, starting with April 1st, 2021. The Group has posted specific income tax in amount of RON 1.2 million due for H1 2021, taking into consideration the total period of 180 days of exemption when calculating 2021 annual tax amount. The total impact of this measure on Sphera's result was a saving of estimated RON 2.3 million for the year 2021. On

June 24th, Emergency Ordinance 59/2021 was published that stipulates that the payment of H1 specific tax is postponed to December 25, 2021.

BUSINESS AND CAPITAL MARKET RELATED UPDATES

DEVELOPMENT OF THE NETWORK

In Q3 2021, Sphera opened 3 new restaurants – a 24/7 drive-thru KFC Pallady as well as a Taco Bell restaurant at Arena Mall Bacau and a PHD in Bucharest Orhideea, the first Fast Casual Delivery restaurant. In October 2021, Sphera opened a drive thru restaurant in Corbeanca – the 90th KFC store in Romania. One restaurant, KFC in Italy, on Via Fiumara in Genova, was temporarily closed in September for roof restoration purposes.

Consequently, as of 30.09.2021, Sphera operated 164 stores, out of which 143 based in Romania (89 KFC, 21 Pizza Hut, 18 Pizza Hut Delivery and 13 Taco Bell restaurants, 1 restaurant under Paul brand and 1 PHD subfranchise), 19 KFC restaurants in Italy and 2 in Moldova.

UPDATE TO THE PIZZA HUT RESTAURANT DEVELOPMENT PLAN

On August 13th, 2021, Sphera informed the investors about the closing of negotiations between master franchisor YUM! and ARS regarding the development plan for Pizza Hut. The original restaurant rollout plan as agreed between YUM! and ARS, applicable for period 2017-2021, considered opening of 8 new restaurants in 2020 and 9 new restaurants in 2021, in Romania. During the renegotiations, the parties have agreed on a minimum net new unit target (base tier) for the period 2021- 2023. The new minimum net unit target as agreed by the parties is as follows:

- 3 new Pizza Hut restaurants in 2021;
- 3 new Pizza Hut restaurants in 2022;
- 4 new Pizza Hut restaurants in 2023.

All net new units shall be fast-casual delivery outlet; however out of the new restaurants, ARS will be permitted to open 1 express outlet in 2021, 1 express outlet in 2022, and no more than 2 express outlets in 2023.

ARS will also benefit of progressive financial incentives, depending on the number of net new restaurants being opened. For each new net restaurant that exceeds the base tier, ARS will benefit of additional financial incentives. In terms of the initial franchise fees for years 2019 and 2020 related to the previous development plan as well as accrued penalties for not meeting the minimum target for new Pizza Hut restaurants from 2019, the parties agreed to use these amounts in entirety as a reinvestment credit, which will be deployed into development of the Pizza Hut and Pizza Hut Delivery network in Romania.

DIVIDEND

On August 19th, 2021, the Ordinary General Shareholder Meeting of the Group approved the distribution of dividends in the total amount of RON 35 million, from the undistributed profit from 2019 and 2020. The gross dividend per share in the amount of RON 0.9021 was paid to the shareholders on September 30th, 2021.

2021 CONSOLIDATED RESULTS GUIDANCE

Following the Meeting of the Board of Directors of Sphera Franchise Group SA on November 12th, 2021, the management informed the shareholders, through Current Report 37/2021, about the updated guidance of the 2021 consolidated results.

The 2021 Consolidated Revenue and Expenditure Budget was approved in the Ordinary General Meeting of the Shareholders on April 28th, 2021, and was later confirmed in the Report of the Company presenting the half year results for 2021, published on August 31st, 2021. The budget assumed a progressive recovery of sales throughout 2021 on all three markets of the activity and that as of H2 2021, the normal course of business will be resumed by Sphera Franchise Group. When preparing the 2021 Budget, the management took into consideration, based on the forecasts provided by the Romanian government regarding the success of the vaccination campaign, that the vaccination rate in Romania will be similar with the rest of the European countries and consequently, majority of the population will be immunized in H2 2021 thus no longer requiring significant restrictions. The company has nonetheless underlined that the evolution of the pandemic remained the key risk for Sphera's activity in H2 2021.

Considering the ongoing evolution of the pandemic, particularly on the main market of the Group's activity – Romania, the management of Sphera Franchise Group decided to inform the market about the new estimate for the consolidated 2021 results:

Indicator	2021 Updated Guidance		2021 Approved Budget		2021 Updated Guidance vs. 2021 Approved Budget	2020 Actual		2021 Updated Guidance vs. 2020 Actual	2021 Approved Budget vs. 2020 Actual
	RON millions	% Sales	RON millions	% Sales		%	RON millions	% Sales	
Restaurant Sales	1,010.7	100.0%	1,157.6	100.0%	-12.7%		710.8	100.0%	42.2%
Other income	0.0		0.0				0.7		
Food and Material	329.7	32.6%	379.5	32.8%	-13.1%		232.3	32.7%	41.9%
Restaurant Gross Margin	681.0	67.4%	778.1	67.2%	-12.5%		479.2	67.4%	42.1%
Restaurant Operational Expenses	559.4	55.3%	627.5	54.2%	-10.9%		390.3	54.9%	43.3%
Restaurant Operating Profit	121.6	12.0%	150.5	13.0%	-19.2%		88.9	12.5%	36.8%
G&A Expenses	49.2	4.9%	55.5	4.8%	-11.5%		44.8	6.3%	9.7%
EBITDA (normalized, excluding IFRS 16 impact)	72.4	7.2%	95.0	8.2%	-23.8%		44.1	6.2%	64.3%
									115.5%

Compared with the Approved Budget, the management is estimating a decrease in sales of 12.7%. This is a result of the limited capacity applied in the restaurants in Romania, as imposed by the authorities as well as the introduction of the 'Green Certificate', which is required when entering the restaurants and commercial centers. The management has also revised the restaurant operational expenses as a result of the increase in the energy costs.

The Company will continue to maintain a strong financial profile and liquidity control. As of September 30th, 2021, the consolidated cash and cash equivalents of the Group totalled RON 110.4 million.

DECLARATION FROM THE MANAGEMENT

Bucharest, November 15th, 2021

We confirm to the best of our knowledge that the unaudited interim condensed consolidated financial statements for the nine months period ended 30 September 2021 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 nine months of the 2021 financial year and their impact on the interim condensed consolidated financial statements.

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021 (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 NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021 (UNAUDITED)**

	Note	Nine-month period ended	
		30 September 2021	30 September 2020
Restaurant sales		728,719	502,445
Restaurant expenses			
Food and material expenses		236,241	164,520
Payroll and employee benefits	4	162,290	106,011
Rent		13,005	3,085
Royalties		43,712	29,439
Advertising		35,348	23,435
Other operating expenses, net	5	99,295	74,230
Depreciation, amortization and impairment of non-current assets	7	67,241	63,410
Restaurant operating profit		71,587	38,316
General and administration expenses, net	6	38,060	35,025
Operating profit/ (loss)		33,527	3,292
Finance costs	8	14,417	13,953
Finance income		125	182
Profit/(Loss) before tax		19,236	(10,479)
Income tax expense/(credit)		(3,667)	218
Specific tax expense		1,769	-
Profit/(Loss) for the period		21,133	(10,697)
Attributable to:			
Equity holders of the parent		20,967	(10,736)
Non-controlling interests		166	39
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Exchange differences on translation of foreign operations		(28)	(22)
Total comprehensive income for the period, net of tax		21,105	(10,719)
Attributable to:			
Equity holders of the parent		20,914	(10,753)
Non-controlling interests		191	33

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2021 (UNAUDITED)

	30 September 2021	31 December 2020
Assets		
Non-current assets	530,730	513,794
Property, plant and equipment	214,343	201,118
Right-of-use assets	231,892	230,454
Intangible assets	58,433	61,173
Trade and other receivables	170	402
Deposits for rent guarantee	7,577	7,017
Deferred tax assets	18,315	13,629
Current assets	143,689	153,481
Inventories	11,758	11,099
Trade and other receivables	18,412	18,361
Prepayments	3,141	2,112
Cash and short-term deposits	110,378	121,909
Total assets	674,419	667,275
Equity and liabilities		
Equity		
Issued capital (Note 9)	581,990	581,990
Share premium	(519,998)	(519,998)
Other reserves	(917)	(917)
Retained earnings	73,999	88,033
Foreign currency translation reserve	(293)	(240)
Equity attributable to equity holders of the parent	134,781	148,868
Non-controlling interests	96	253
Total equity	134,877	149,121
Non-current liabilities	299,606	285,450
Interest-bearing loans and borrowings	92,362	83,859
Lease liabilities	202,487	196,883
Net employee defined benefit liabilities (Note 4)	4,358	3,141
Trade and other payables	398	1,567
Current liabilities	239,936	232,704
Trade and other payables	137,636	118,505
Interest-bearing loans and borrowings	49,992	66,350
Lease liabilities	52,307	47,850
Total liabilities	539,542	518,154
Total equity and liabilities	674,419	667,275

SPHERA FRANCHISE GROUP SA

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021
(UNAUDITED)**

All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021 (UNAUDITED)

	Issued capital	Share premium	Other reserves	Retained earnings	Foreign currency translation reserve	Total equity	Non-controlling interest	Total equity
As at 1 January 2021	581,990	(519,998)	(917)	88,033	(240)	148,868	252	149,120
Profit for the period	-	-	-	20,967	-	20,967	166	21,133
Other comprehensive income								
Translation differences	-	-	-	-	(53)	(53)	25	(28)
Total comprehensive income	-	-	-	20,967	(53)	20,914	191	21,105
Dividends	-	-	-	(35,001)	-	(35,001)	(347)	(35,348)
At 30 September 2021	581,990	(519,998)	(917)	73,999	(293)	134,781	96	134,877
As at 1 January 2020	581,990	(519,998)	(1,178)	111,402	(166)	172,049	202	172,251
Loss for the period	-	-	-	(10,736)	-	(10,736)	39	(10,697)
Other comprehensive income								
Translation differences	-	-	-	-	(17)	(17)	(6)	(22)
Total comprehensive income	-	-	-	(10,736)	(17)	(10,753)	33	(10,719)
Dividends	-	-	-	(13,679)	-	(13,679)	-	(13,679)
At 30 September 2020	581,990	(519,998)	(1,178)	86,986	(182)	147,618	235	147,853

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021 (UNAUDITED)

	Nine-month period ended	September	September
	30	30	2020
	September	September	2021
Operating activities			
Profit/(Loss) before tax	19,236	(10,479)	
Adjustments to reconcile profit/(loss) before tax to net cash flows:			
Depreciation of right-of-use assets	42,223	39,301	
Depreciation and impairment of property, plant and equipment	26,196	25,008	
Amortisation and impairment of intangible assets	3,376	2,492	
Rent concessions (discounts)	(3,263)	(8,715)	
Movement in current assets allowance	170	-	
Unrealised net foreign exchange differences	4,781	4,858	
(Gain)/Loss on disposal of property, plant and equipment	8	47	
Finance income	(125)	(182)	
Finance costs (interest)	10,674	10,353	
Working capital adjustments:			
Decrease/(Increase) in trade and other receivables and prepayments	(1,577)	27,159	
Decrease/(Increase) in inventories	(659)	1,709	
Increase/(Decrease) in trade and other payables	19,978	9,086	
Interest received	125	182	
Interest paid	(10,490)	(10,283)	
Income tax paid	(1,662)	(2,527)	
Net cash flows from operating activities	108,991	88,009	
Investing activities			
Proceeds from sale of property, plant and equipment	-	86	
Purchase of intangible assets	(1,822)	(1,867)	
Purchase of property, plant and equipment	(39,429)	(25,236)	
Net cash flows used in investing activities	(41,251)	(27,018)	
Financing activities			
Proceeds from borrowings	48,719		
Repayment of borrowings	(9,600)	(11,601)	
Payment of lease liabilities	(34,591)	(28,248)	
Dividends paid to equity holders of the parent	(34,663)	(13,671)	
Dividends paid to non-controlling interests	(158)	-	
Net cash flows used in financing activities	(79,011)	(4,801)	
Net increase in cash and cash equivalents	(11,270)	56,191	
Net foreign exchange differences	(261)	(145)	
Cash and cash equivalents at 1 January	121,909	57,272	
Cash and cash equivalents at 30 September	110,378	113,318	

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021 (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 110 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 (21 restaurants as at 30 September 2021) as well as pizza delivery points (19 locations as at 30 September 2021, 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 (13 restaurants as at 30 September 2021) 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 nine-month period ended 30 September 2021 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 2020.

The interim condensed consolidated financial statements for nine-month period ended 30 September 2021 included in this report are unaudited.

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

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 2020. The amendments effective since 1 January 2021 do not have a material impact on the Group's interim condensed consolidated financial statements. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

In May 2020 IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases that provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification.

The Group has applied the amendment to IFRS 16 already in 2020 for the first time, the effect of the accounting being presented as "rent concessions" (discounts). One of the conditions of applying the amendment was that it related to a reduction in lease payments due originally on or before 30 June 2021. However, the pandemic has continued beyond the period envisaged when the 2020 Amendment was issued. In April 2021 IASB has extended the amendment to IFRS 16 and the entities were allowed to apply the amendment to a reduction in lease payments originally due on or before 30 June 2022 (the 2021 Amendment).

Foreign currencies

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

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

The exchange rate RON – EUR as at 30 September 2021 and 31 December 2020 were:

	30 September 2021	31 December 2020
RON – EUR	4.9471	4.8694
RON – USD	4.2653	3.9660
RON – MDL	0.2402	0.2305

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.

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

Group companies

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

3 GROUP INFORMATION

Investments in controlled companies

Details of the Group consolidated subsidiaries at 30 September 2021 and 31 December 2020 are as follows:

Company name	Country of incorporation	Field of activity	Control 30 September 2021	Control 31 December 2020
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

	Nine-month period ended	
	30 September 2021	30 September 2020
Payroll and employee benefits recognized in restaurant expenses	162,290	106,011
Payroll and employee benefits recognized in "General and administration expenses, net"	24,297	21,972
Total Payroll and employee benefits	186,587	127,982

For the nine-month period ended 30 September 2021, payroll and employee benefits include government grants in total amount of 2,488 (26,753 for the nine-months period ended 30 September 2020) 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 1,179 representing the value of project management and other technical activities performed by the Group's employees during the nine-month period ended 30 September 2021 (2020: 730) 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 4,358 (3,141 as at 31 December 2020) 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".

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

5 OTHER OPERATING EXPENSES, NET

	Nine-month period ended	
	30 September 2021	30 September 2020
Third-party services	58,066	36,883
Utilities	19,128	15,584
Maintenance and repairs	10,349	7,214
Cleaning supplies	3,425	4,782
Transport	4,210	3,083
Small-wares	2,299	1,596
Penalties related to development franchise agreement (Note 10)	(1,527)	1,160
Telephone and postage	964	650
Insurance	578	554
Net (gain)/loss on disposal of property, plant and equipment	8	47
Miscellaneous expenses and income, net	1,624	2,677
Provision for receivables, net	170	-
Total	<u>99,295</u>	<u>74,230</u>

6 GENERAL AND ADMINISTRATION EXPENSES, NET

	Nine-month period ended	
	30 September 2021	30 September 2020
Payroll and employee benefits	24,297	21,972
Third-party services	4,075	4,702
Depreciation and amortization	4,554	3,391
Rent	233	86
Banking charges	2,910	2,090
Transport	553	760
Maintenance and repairs	248	213
Small-wares	124	53
Insurance	374	398
Advertising	126	536
Telephone and postage	239	195
Miscellaneous expenses and income, net	326	630
Total	<u>38,060</u>	<u>35,025</u>

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

7 DEPRECIATION AND AMORTIZATION

	Nine-month period ended	30 September	30 September
	2021	2020	
Depreciation and amortization of right-of-use assets, recognized in "Restaurant expenses"	40,006	36,940	
Depreciation, amortization and impairment of property, plant and equipment and intangible assets, recognized in "Restaurant expenses"	27,235	26,470	
Depreciation, amortization and impairment recognized in "Restaurant expenses"	67,241	63,410	
Depreciation and amortization of right-of-use assets recognized in "General and administration expenses, net"	2,336	2,360	
Depreciation, amortization and impairment of property, plant and equipment and intangible assets recognized in "General and administration expenses, net"	2,218	1,030	
Depreciation, amortization and impairment recognized in "General and administration expenses, net"	4,554	3,391	
Total depreciation and amortization	71,795	66,801	

8 FINANCE COSTS

	Nine-month period ended	30 September	30 September
	2021	2020	
Interest on loans and borrowings	4,109	3,709	
Interest expense on lease liabilities	6,565	6,643	
Interest cost on benefit obligation	10	7	
Foreign exchange loss, net	3,733	3,593	
Total finance costs	14,417	13,953	

9 ISSUED CAPITAL

	30 September	31 December
	2021	2020
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 September 2021 are: Tatika Investments Ltd. (28.2321%), Computerland Romania SRL (20.5327%), Wellkept Group SA (16.3400%), others (34.8952%). As at 31 December 2020, the shareholders structure was: Tatika Investments Ltd. (28.2320%), Computerland Romania SRL (20.5326%), Wellkept Group SA (16.3400%), Lunic Franchising and Consulting LTD (10.8412%) and others (24.0539%).

At the Ordinary General Shareholders Meeting held on 19 August 2021, the shareholders of Sphera Franchise Group SA approved the distribution of dividends in total amount of 35,001 from the undistributed profit from 2019 and 2020. The gross dividend per share was RON 0.9021. The payment of the dividends was processed on 30 September 2021.

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

10 EBITDA

	Nine-month period ended	
	30 September 2021	30 September 2020
Operating profit/(loss)	33,527	3,292
Adjustments to bridge operating profit/(loss) to EBITDA:		
Depreciation, amortization and impairment included in restaurant expenses	67,241	63,410
Depreciation, amortization and impairment included in general and administration expenses	4,554	3,391
EBITDA	105,322	70,092
Non-recurring (revenues)/expenses	(1,527)	1,160
Normalised EBITDA	103,795	71,253

For the nine-month period ended 30 September 2021, EBITDA was normalized to exclude the impact of the reversal of the accrued penalties due to Pizza Hut Europe (Master Franchisor - YUM!), following the signing of the new development agreement (please see also the section *Update to the Pizza Hut restaurant development plan*).

For the nine-month period ended 30 September 2020, 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.

11 RELATED PARTY DISCLOSURES

During the nine-month period ended 30 September 2021 and 30 September 2020 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	Sale of goods and services
Midi Development SRL	Entity with common members of key management personnel	Romania	Services
Grand Plaza Hotel SA	Entity affiliated to a shareholder of the parent	Romania	Rent and utilities store PH Dorobanti
Arggo Software Development and Consulting SRL	Entity affiliated to a shareholder of the parent	Romania	Implementation services, IT services
Lunic Franchising and Consulting LTD	Shareholder	Cyprus	Payment of dividends
Wellkept Group SA	Shareholder	Romania	Rent training center and payment of dividends
Tatika Investments Ltd.	Shareholder	Cyprus	Payment of dividends
Computerland Romania SRL	Shareholder	Romania	Payment of dividends
Cinnamon Bake&Roll SRL	Entity with common members of key management personnel	Romania	Sale of goods and services, loans provided
Lucian Vlad	Beneficial owner of Lunic Franchising and Consulting Ltd.	Romania	Rent store KFC Mosilor

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

Related party	Nature of the relationship	Country of incorporation	Nature of transactions
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

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

	Transactions during the nine-month period ended 30 September 2021		Balances as at 30 September 2021	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL	-	2	69	-
Moulin D'Or SRL	-	63	-	-
Lucian Vlad	-	166	-	-
Radu Dimofte	-	69	-	-
Wellkept Group SA	-	353	-	1
Midi Development SRL	1	-	-	-
Grand Plaza Hotel SA	-	620	66	17
Arggo Software Development and Consulting SRL	-	1,121	-	31
Elicom SRL	-	509	-	55
Elicom Connect SRL	-	8	-	2
Dorobanti 239 Imobiliare SRL	-	2,287	5	-
Baneasa Developments SRL	-	2,561	-	284
Baneasa Investments SA	-	354	128	-
Computerland Romania SRL	-	-	-	-
Fundatia Advance	73	-	-	-
	74	8,113	268	390

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

	Transactions during the nine-month period ended 30 September 2020		Balances as at 31 December 2020	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL	-	7	110	-
Moulin D'Or SRL	163	39	-	-
Lucian Vlad	-	163	-	-
Radu Dimofte	-	68	-	-
Wellkept Group SA	-	207	-	1
Midi Development SRL	9	-	-	-
Grand Plaza Hotel SA	-	446	66	19
Arggo Software Development and Consulting SRL	-	717	-	279
Elicom SRL	-	850	-	85
Elicom Connect SRL	-	8	-	2
Dorobanti 239 Imobiliare SRL	-	1,917	-	37
Baneasa Developments SRL	-	2,217	-	157
Baneasa Investments SA	-	305	128	57
Fundatia Advance	-	-	35	-
	172	6,944	339	637

The Group has granted a loan to Cinnamon Bake&Roll SRL. The loan balance as at 30 September 2021 was of 645 (31 December 2020: 639) and the interest accrual as at 30 September 2021 was of 68 (31 December 2020: 61).

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the period end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the nine months period ended 30 September 2021 and for similar period of the year 2020, 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:

	Nine months ended	
	30 September 2021	30 September 2020
Short-term employee benefits	7,487	6,573
Total compensation of the key management personnel	7,487	6,573

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

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

12 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 Group's service revenues resulting from the contracts signed with other related parties are presented in the "Other" category (166 for the nine-month period ended 30 September 2020).

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.

Nine-month period ended	30 September 2021	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	627,395	65,302	36,022	-	-	-	728,719
Inter-segment Revenues	-	-	-	22,406	(22,406)	-	-
Dividend revenues	-	-	-	37,525	(37,525)	-	-
Operating expenses	586,263	70,505	37,363	23,368	(22,308)	695,191	
Segment operating profit/(loss)	41,138	(5,203)	(1,341)	36,557	(37,623)	33,528	
Finance costs	12,132	1,688	1,570	1,577	(2,550)	14,417	
Finance income	1,597	6	-	1,072	(2,550)	125	
Income tax expense	(3,695)	25	-	3	-	(3,667)	
Specific tax expense	1,115	510	144	-	-	1,769	
Net profit/(loss)	33,183	(7,420)	(3,055)	36,050	(37,624)	21,134	
Total assets	573,248	52,597	35,568	129,115	(116,110)	674,419	
Total liabilities	530,709	64,118	50,142	61,566	(166,993)	539,542	

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

	Nine-month period ended						
	30 September 2020	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	429,222	52,423	20,633	167		-	502,445
Inter-segment Revenues				17,327	(17,327)		-
Operating expenses	410,864	62,759	22,191	20,594	(17,254)		499,154
Segment operating profit	18,354	(10,336)	(1,558)	(3,100)	(73)		3,292
Finance costs	11,526	1,969	1,574	1,360	(2,476)		13,953
Finance income	1,162	17	-	1,479	(2,476)		182
Income taxes	(737)	559	108	288	-		218
Net profit/(loss)	8,731	(12,847)	(3,240)	(3,269)	(73)		(10,698)
Total assets							
30 September 2020	534,085	65,433	35,024	74,254	(53,738)		655,058
Total liabilities							
30 September 2020	430,395	72,756	45,559	58,248	(99,753)		507,205
Total assets							
31 December 2020	553,806	62,231	35,368	129,046	(113,179)		667,275
Total liabilities							
31 December 2020	506,559	66,331	46,886	62,549	(164,172)		518,154

Geographic information:

	Nine-month period ended	
	30 September 2021	30 September 2020
Revenue from external customers		
Romania	642,630	439,847
Italy	77,269	56,873
Republic of Moldova	8,820	5,725
Total restaurant revenue	728,719	502,445

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

Bucharest, November 15th, 2021

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes