

H1 2021

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, 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.

ISSUER INFORMATION

INFORMATION ABOUT THIS FINANCIAL REPORT

Type of report	Half-year report for H1 2021
For financial period	01.01.2021 – 30.06.2021
Date of publishing	31.08.2021
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

CONTACT DETAILS FOR INVESTORS

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FINANCIAL RESULTS HIGHLIGHTS



Sales Sphera Franchise Group

H1 2021

RON 444.5 mn
+46% vs H1 2020

Q1 2021

RON 211.4 mn
+7% vs Q1 2020

Q2 2020

RON 233.1 mn
+119% vs Q2 2020

Sales per geography



RON 394.8 mn
+46% vs H1 2020



RON 44.2 mn
+44% vs H1 2020



RON 5.6 mn
+67% vs H1 2020

Sales per brand



RON 384 mn
+50% vs H1 2020



RON 38.6 mn
+5% vs H1 2020



RON 22 mn
+83% vs H1 2020

119%

increase in topline in Q2 2021 vs Q2 2020

994%

increase in normalized EBITDA in Q2 2021 vs Q2 2020

137%

Increase in net profit Q2 2021 vs Q2 2020

#1

the best Q2 in history in terms of all-store performance for Taco Bell and KFC on all 3 markets

103%

Increase in like-for-like sales in Q2 2021 vs Q2 2020

161

KFC, Pizza Hut and Taco Bell restaurants on all 3 markets as of 30.06.2021

H1 2021 RESULTS ANALYSIS¹

After a long period of instability caused by the novel coronavirus pandemic, Sphera Franchise Group closed Q2 2021 with record-high results and the best second quarter in the company's history, registering RON 233.1 million in consolidated sales on all three markets of activity, a surge of 119% compared to the same period of last year. Despite ongoing lockdowns and limitations on the indoor dining, KFC stores present in Romania, Italy and Republic of Moldova as well as Taco Bell in Romania thrived between April and June 2021, registering the best sales for that period of the year. Combined with a strong first quarter of the year, Sphera Franchise Group closed H1 2021 with consolidated sales of RON 444.5 million, a 46% increase compared with H1 2020, normalized EBITDA of RON 30.7 million (+1,867%) and a net profit of RON 5.2 million (+123%).

In the first six months of 2021, restaurant expenses grew at a slower pace than the topline, reaching RON 408.7 million, a 37% increase compared to H1 2020. Food and material costs grew by 42%, reaching RON 143.5 million; the increase that was primarily volume driven. Moreover, the Group registered a 43% increase in payroll and employee benefits, mainly due to the uptake in store activity in Q2 2021 as compared to Q2 2020 and limited state aid measures. Rent costs registered a tempered increase of 16%, reaching RON 34 million as the Group continued renegotiations in Italy, Republic of Moldova as well as for Pizza Hut locations in Romania. Royalties, directly related to the topline, grew 48% reaching RON 26.5 million while advertising increased by 39%, up to RON 20.1 million. Depreciation and amortization, reaching RON 18 million was in line with H1 2020. Other operating expenses increased by 39%, reaching RON 64.4 million, driven by a 63% increase in third-party expenses (mainly due to increase in aggregators volume, resulting in a 148% cost increase YOY, representing 58% of third-party expenses in H1 2021, a 20pp increase compared to a share of 38% registered in H1 2020), 50% increase in maintenance and repairs and 14% increase in utilities costs.

In the first six months of 2021, the restaurants of the Group registered operating profit of RON 35.8 million, a 437% increase compared to the same period of last year. The G&A expenses grew slightly in this period, by 4%, reaching RON 25.4 million. Consequently, the Group recorded a 159% increase in operating profit, reaching RON 10.4 million. EBITDA grew a staggering 3,785% to RON 30 million, with EBITDA margin increasing with more than 6pp, reaching 7%. Normalized EBITDA reached RON 30.7 million, with normalized EBITDA margin of 7%. Finance costs increased by 22% (mainly due to postponement of principal repayment for bank loans), therefore the Group posted gross profit of RON 6.9 million (+134% YOY). The Group closed H1 2021 with a net profit of RON 5.2 million, a 123% increase compared to H1 2020.

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. 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.

Summary of interim Consolidated Financial Statements for H1 (results excluding IFRS16 impact):

Data in RON'000	H1-21	H1-20	Y/Y % H1-21/H1-20	% of Sales		Δ%
				H1-21	H1-20	
Restaurant sales	444,544	304,580	46.0%			
Restaurant expenses	408,708	297,903	37.2%	91.9%	97.8%	-5.9pp
Food and material	143,535	100,793	42.4%	32.3%	33.1%	-0.8pp
Payroll and employee benefits	102,197	71,315	43.3%	23.0%	23.4%	-0.4pp
Rent	33,950	29,295	15.9%	7.6%	9.6%	-2.0pp
Royalties	26,489	17,884	48.1%	6.0%	5.9%	0.1pp
Advertising	20,087	14,429	39.2%	4.5%	4.7%	-0.2pp
Other operating expenses, net	64,438	46,414	38.8%	14.5%	15.2%	-0.7pp
Depreciation and amortization	18,012	17,773	1.3%	4.1%	5.8%	-1.8pp
Restaurant operating profit	35,835	6,677	436.7%	8.1%	2.2%	5.9pp
General & Admin expenses, net	25,420	24,447	4.0%	5.7%	8.0%	-2.3pp
Operating Profit/(Loss)	10,415	(17,771)	158.6%	2.3%	-5.8%	8.2pp
Finance costs	3,534	2,902	21.8%	0.8%	1.0%	-0.2pp
Finance income	42	88	-52.1%	0.0%	0.0%	0.0pp
Profit/(Loss) before tax	6,924	-20,585	133.6%	1.6%	-6.8%	8.3pp
Income tax expense	559	796	-29.8%	0.1%	0.3%	-0.2pp
Specific Tax	1,179	978	20.5%	0.3%	0.3%	-0.0pp
Profit/(Loss) for the period	5,185	(22,360)	123.2%	1.2%	-7.3%	8.5pp
EBITDA	30,006	772	3,785.4%	6.7%	0.3%	6.5pp
Normalized EBITDA*	30,740	1,563	1,866.7%	6.9%	0.5%	6.4pp

(*) For the 6M period ended June 30th, 2021, EBITDA was normalized to exclude the accrued penalties due to Pizza Hut Europe (Master Franchisor) for the restaurants committed to be opened in 2019 and postponed for the future periods.

Summary of interim Consolidated Financial Statements for H1 – results and evolution presented with and without IFRS16 impact

Data in RON'000	H1-21		H1-20		Change (%)	
	1	2	1	2	H1-21/ H1-20 (1)	H1-21/ H1-20 (2)
Restaurant sales	444,544	444,544	304,580	304,580	46.0%	46.0%
Restaurant expenses	408,346	408,708	296,475	297,903	37.7%	37.2%
Food and material	143,535	143,535	100,793	100,793	42.4%	42.4%
Payroll and employee benefits	102,197	102,197	71,315	71,315	43.3%	43.3%
Rent	7,142	33,950	3,409	29,295	109.5%	15.9%
Royalties	26,489	26,489	17,884	17,884	48.1%	48.1%
Advertising	20,087	20,087	14,429	14,429	39.2%	39.2%
Other operating expenses, net	64,438	64,438	46,582	46,414	38.3%	38.8%
Depreciation and amortization	44,458	18,012	42,063	17,773	5.7%	1.3%
Restaurant operating Profit / (Loss)	36,198	35,835	8,104	6,677	346.7%	436.7%
General & Admin expenses, net	25,156	25,420	23,915	24,447	5.2%	4.0%
Operating Profit/(Loss)	11,042	10,415	(15,810)	(17,771)	169.8%	158.6%
Finance costs	10,002	3,534	9,303	2,902	7.5%	21.8%
Finance income	42	42	88	88	-52.3%	-52.1%
Profit/(Loss) before tax	1,082	6,924	(25,026)	(20,585)	104.3%	133.6%
Income tax expense/(credit)	(183)	559	335	796	-154.6%	-29.8%
Specific tax	1,179	1,179	978	978	20.5%	20.5%
Profit/(Loss) for the period	85	5,185	(26,339)	(22,360)	100.3%	123.2%
EBITDA	58,527	30,006	28,483	772	105.5%	3,785.4%
Normalized EBITDA*	59,261	30,740	29,274	1,563	102.4%	1,866.7%

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 penalty from franchisor for postponed development of Pizza Hut restaurants in 2019.

The G&A expenses grew by 4% in H1 2021, mainly due to cost optimization measures that focused on decreasing costs related to third-party services, transportation, and other expenses. These declines offset a 4% increase in payroll and employee benefits (driven primarily by increased activity volume), a 105% increase in depreciation and amortization as well as a 50% increase in banking changes. Overall, the share of G&A expenses in the consolidated sales decreased in the analyzed period, reaching 6%, down from 8% registered in H1 2020.

	Data in RON '000				Change (%)		Percentage of sales			
	H1-21	H1-21	H1-20	H1-20	2021/2020		H1-21	H1-21	H1-20	H1-20
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
General and administration (G&A) expenses, net	25,156	25,420	23,915	24,447	5.2%	4.0%	5.7%	5.7%	7.9%	8.0%
Payroll and employee benefits	16,279	16,279	15,630	15,630	4.2%	4.2%				
Third-party services	2,536	2,536	2,603	2,888	-2.6%	-12.2%				
Depreciation and amortization	3,027	1,579	2,231	770	35.7%	105%				
Rent	144	1,856	(23)	1,685	-726.1%	10.1%				
Banking charges	1,957	1,957	1,304	1,304	50%	50%				
Transport	328	328	617	617	-46.8%	-46.9%				
Other*	885	885	1,553	1,553	-43.0%	-43.0%				

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, USFN Romania (KFC Romania) and USFN Moldova (KFC Moldova) closed H1 2021 profitable, registering EBITDA of RON 38.4 million and RON 0.8 million, respectively, and net profit of RON 26.8 million and RON 0.5 million, respectively. CFF (Taco Bell Romania) closed H1 2021 with restaurant operating profit of RON 0.4 million, but the G&A expenses, finance costs and tax expenses dragged the bottom line to a net loss of RON 1.8 million. USFN Italy (KFC Italy) and ARS (Pizza Hut Romania) ended the first six months with a net loss of RON 13.5 million and RON 5.9 million, respectively. KFC Italy's performance continued to be impacted by the evolution of COVID-19 in the country and the prevailing restrictions that limited the reopening of the stores and thus negatively impacted the topline. Pizza Hut on the other hand continued to improve its bottom-line performance, registering another period of QOQ increases. The continuous improvement in ARS performance was driven as well by the decision of the Group to close the non-performing Pizza Hut locations in 2020.

Breakdown of consolidated results by Group companies – H1-2021 (excluding IFRS 16 Impact):

Data in RON'000	H1-21							
	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons. Adj.	SFG Cons
Restaurant sales	334,179	38,609	5,614	44,161	21,980	14,983	(14,983)	444,544
Dividend revenue	-	-	-	-	-	37,525	(37,525)	-
Restaurant expenses	290,856	39,801	4,802	51,894	21,549	-	(194)	408,708
Food and material	110,998	10,427	2,343	12,800	6,966	-	-	143,535
Payroll and employee benefits	71,353	10,596	796	14,484	4,968	-	-	102,197
Rent	24,197	3,769	325	3,805	1,855	-	-	33,950
Royalties	20,023	2,272	337	2,653	1,203	-	-	26,489
Advertising	14,166	2,052	207	2,622	1,216	-	(176)	20,087
Other operating expenses	40,797	8,696	643	10,276	4,030	-	(4)	64,438
Depreciation	9,321	1,989	150	5,255	1,311	-	(13)	18,012
Restaurant operating profit/(loss)	43,323	(1,192)	812	(7,733)	431	52,509	(52,315)	35,835
G&A expenses	15,009	3,792	148	4,225	1,266	15,707	(14,727)	25,420
Operating profit/(loss)	28,315	(4,984)	663	(11,958)	(835)	36,802	(37,588)	10,415
Finance costs	2,453	609	49	1,206	828	956	(2,567)	3,534
Finance income	1,983	5	-	0	-	621	(2,567)	42
Profit/(Loss) before tax	27,844	(5,588)	615	(13,163)	(1,663)	36,467	(37,588)	6,924
Income tax expense/(credit)	266	-	74	332	-	(113)	-	559
Specific tax expense	743	340	-	-	96	-	-	1,179
Profit/(Loss) for the period	26,835	(5,928)	541	(13,495)	(1,759)	36,580	(37,588)	5,185
EBITDA	38,377	(2,611)	831	(6,626)	520	37,119	(37,604)	30,006
Normalized EBITDA*	38,377	(1,877)	831	(6,626)	520	37,119	(37,604)	30,740

All the brands except Pizza Hut registered the highest all store sales ever recorded in the second quarter of the year (including pre-pandemic levels). In Q2 2021, the like-for-like sales across all Sphera brands skyrocketed, registering increases starting with 85% increase for USFN Italy, 99% increase for USFN Romania, 108% increase for ARS, 179% increase for USFN Moldova and 188% for CFF. Overall, the same stores performance across Sphera brands improved by 103% while all store performance for all the brands grew by 119%. Compared to same period of last year when Sphera operated 153 restaurants, at the end

of H1 2021, the number of restaurants grew with 8 net new stores, reaching 161 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
USFN RO	All Stores	-9.9%	-51.6%	-17.1%	-11.5%	14.3%	114.9%
	o/w Same Stores	-14.7%	-53.5%	-23.6%	-17.3%	6.9%	99.4%
ARS	All Stores	-15.8%	-68.8%	-51.4%	-55.8%	-32.6%	108.4%
	o/w Same Stores	-15.8%	-68.8%	-51.4%	-55.8%	-32.6%	108.4%
USFN MD	All Stores	-14.4%	-62.1%	-15.4%	-5.3%	18.9%	179.3%
	o/w Same Stores	-14.4%	-62.1%	-15.4%	-5.3%	18.9%	179.3%
USFN IT	All Stores	11.4%	-48.1%	-11.7%	-33.5%	2.8%	114.5%
	o/w Same Stores	-29.5%	-64.5%	-27.0%	-52.7%	-21.1%	85.0%
CFF	All Stores	46.0%	-55.9%	-3.0%	-9.2%	13.1%	245.4%
	o/w Same Stores	-10.3%	-64.4%	-24.1%	-22.9%	6.0%	188.0%
TOTAL	All Stores	-7.7%	-54.0%	-20.4%	-20.0%	6.6%	119.4%
	o/w Same Stores	-16.0%	-57.0%	-27.6%	-26.1%	-1.1%	102.7%

Q2 2021 was the best quarter for the Group on the Romanian market since the onset of the pandemic in terms of restaurant sales, as the revenues increased 119% YOY and 9% QOQ. Sales in Italy grew 114% YOY, registering a significant uptake compared to the previous two quarters as the restrictions started being lifted close to the end of Q2 2021. Republic of Moldova managed to increase sales 180% in Q2 2021 compared to same quarter of last year, the second highest turnover generated since the onset of the pandemic.

Data in RON '000	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Change Q2-21/Q2-20	Change H1-21/H1-20
Sales by region								
Romania	176,764	93,821	169,260	185,816	188,944	205,824	119.4%	45.9%
Italy	19,205	11,435	26,232	19,584	19,693	24,469	114.0%	44.1%
Rep. Moldova	2,345	1,009	2,371	2,953	2,791	2,823	179.8%	67.4%
Total sales	198,314	106,266	197,865	208,353	211,428	233,116	119.4%	46.0%

In Q2 2021, sales for delivery remained at comparable level to the previous quarter as over 29% of all orders were made for delivery, amounting to RON 68.3 million, down 2pp QOQ but nonetheless RON 2.5 million increase compared to Q1 2021. Delivery orders include sales made by aggregators as well as Sphera's own channels, using both own and third-party courier service. Sphera has own delivery service in Romania for KFC and Pizza Hut, while for Taco Bell as well as for KFC in Italy and the Republic of Moldova, the Group delivers exclusively through the food aggregating platforms such as Glovo, Food Panda, Takeaway or Tazz. As expected, the share of the delivery orders decreased slightly QOQ as the weather improved in Q2 2021 as well as restrictions on indoor dining on most of the markets of activity were lifted by the end of the quarter, thus contributing to increase in topline.

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

MAIN FINANCIAL RATIOS

The main financial ratios of Sphera Franchise Group (consolidated result) as of June 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 June 2021(1)		30 June 2021(2)		31 December 2020* / 30 June 2020** (1)	
Current ratio*						
<u>Current assets</u>	<u>153,318</u>		<u>156,446</u>		<u>153,481</u>	
Current liabilities	220,419	= 0.70	175,468	= 0.89	232,704	= 0.66
Debt to Equity ratio*						
<u>Interest-bearing debt (long term)</u>	<u>300,419</u>		<u>100,929</u>		<u>280,741</u>	
Equity	148,783	= 202%	166,635	= 61%	149,121	= 188%
<u>Interest-bearing debt (long term)</u>	<u>300,419</u>		<u>100,929</u>		<u>280,741</u>	
Capital employed	449,202	= 66.9%	267,563	= 37.7%	429,862	= 65.3%
Trade receivables turnover (days)**						
<u>Average receivables</u>	<u>16,675</u>		<u>16,675</u>		<u>34,197</u>	
Sales	444,544	= 6.75	444,544	= 6.75	305,580	= 20.21
Fixed asset turnover**						
<u>Sales</u>	<u>444,544</u>		<u>444,544</u>		<u>304,580</u>	
Net fixed assets	498,911	= 0.89	270,437	= 1.64	493,028	= 1.24

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 Q2 2021

COVID-19 RELATED UPDATES

COVID-19 VACCINATION CAMPAIGNS

Throughout Q2 2021, the anti-COVID-19 vaccination campaign continued in Romania, Italy, and the Republic of Moldova. At the time of publishing of this report, approximately 32% of Romanian population, 22% of Moldavian population as well as 67% of the Italian population is fully vaccinated. Romania is currently struggling with the promotion of the vaccinations as significant part of population remains skeptical. 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, ahead only of Bulgaria. The EU-wide percentage of fully vaccinated adults is 65%. The number of COVID-19 cases in Romania has been slowly increasing throughout the summer as almost all restrictions have been lifted, and at the time of the report, the number of cases registered the highest number of infections since May 2021. Nonetheless, at the current moment, there are no plans at the government level to reintroduce lockdowns or indoor dining restrictions.

LEASES

Despite the partial reopening of the economy, throughout Q2 2021, the Group continued to renegotiate the lease agreements whenever possible. Consequently, in Q2, the Group benefitted from rent discounts amounting to RON 1.52 million, out of which RON 0.9 were granted to ARS, 0.6 to USFN IT and 0.01 to USFN Moldova. Paired with RON 1.25 million in discounts obtained in Q1 2021, in H1 2021, the Group registered a saving in total amount of RON 2.77 million.

STAFF

As of June 30th, 2021, the Group had 4,392 employees, out of which 4,058 in Romania, 253 in Italy and 81 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 H1 2021 the Group continued the project of hiring employees from abroad. So far, Sphera hired 112 employees from Sri Lanka, with vast majority of them currently working for USFN Romania and approximately 15% for Taco Bell.

In terms of technical unemployment indemnities, in H1 2021 the Group registered RON 2.47 million, out of which RON 1.27 million were granted in Q1 2021 and RON 1.2 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. The Group has applied for the aid and the application is currently under analysis with the relevant authorities.

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 H1 2021, Sphera opened 4 new restaurants – 2 new KFC stores in Romania, in Sfantu Gheorghe and in Braila, 1 new KFC store in Italy – the first Drive Thru location outside of Romania, in Pomezia, Lazio and 1 new Taco Bell store, in Palas Mall in Iasi. At the same time, in Romania one PHD store was identified as non-viable and closed, being already impaired as of December 31st, 2020.

Consequently, as of 30.06.2021, Sphera operated 161 stores, out of which 140 based in Romania (88 KFC, 21 Pizza Hut, 17 Pizza Hut Delivery and 12 Taco Bell restaurants, 1 restaurant under Paul brand and 1 PHD subfranchise), 19 KFC restaurants in Italy and 2 in Moldova.

SIGNIFICANT EVENTS AFTER CLOSING OF THE REPORTING PERIOD

BUSINESS AND CAPITAL MARKET RELATED UPDATES

UPDATE TO THE PIZZA HUT RESTAURANT DEVELOPMENT PLAN

On August 13th, 2021, Sphera informed the investors about the closing of negotiations with 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 outlets, 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 is RON 0.9021. The ex-date for dividend is September 16th, with payment date being set up for September 30th.

LAUNCH OF MARKET MAKING FOR SFG SHARES

As of August 24th, 2021, BRK Financial Group acts as the Issuer Market Maker for Sphera Franchise Group with the purpose of enhancing the liquidity of SFG shares. The IMM is the participant in the BVB's trading system that has taken on the role of sustaining the liquidity of a financial instrument, based on a contract concluded with the issuer of the respective financial instruments, as well as with BVB. The specific parameters that apply to the IMM activity provided by BRK Financial Group to Sphera Franchise Group are available [HERE](#).

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 2021, the Group operates 161 restaurants in Romania, Italy, and the Republic of Moldova.

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

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

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

ABOUT THE BRANDS



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

Today, KFC is the leading chicken restaurant chain in Romania in terms of both total sales and number of restaurants. As of 30 June 2021, there were 88 KFC in Romania. In 2008, the Group opened the first KFC restaurant in the Republic of Moldova, and as of 30 June 2021, the Group operated two restaurants (both in Chisinau). In 2017 the Group opened the first two restaurants in Italy. As of 30 June 2021, there were 19 KFC restaurants operated by the Group spread across the central - northern region of Italy. Of all KFC restaurants operating in Romania, Italy and Republic of Moldova, as of June 30, 2021, 66 were food court locations (in malls or commercial centers), 23 were inline (street locations), while another 20 were Drive-Thru locations. In 2018, KFC Romania has launched the delivery activity, which is now carried out in most of the stores.

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



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

Pizza Hut is the largest casual dine-in restaurant chain in Romania in terms of both total sales and number of restaurants. As of 30 June 2021, there were 21 Pizza Hut Dine-In restaurants across the major cities of Romania and 17 Pizza Hut Delivery restaurants. Of the 21 Pizza Hut Dine-In restaurants operating in Romania as of 30 June 2021, 18 are located near food courts with our dedicated seating (in malls or commercial centers) and 3 are inline (street locations). At the same time, 6 out of the 17 Pizza Hut Delivery restaurants were located within commercial centers, while the remaining 11 were inline locations.

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



TACO BELL is the world's leading Mexican-inspired quick service restaurant (QSR). The restaurants serve a variety of Mexican inspired foods that include tacos, burritos, quesadillas, nachos, novelty and specialty items and a range of "value menu" products. The first Taco Bell store was launched in Bucharest, Romania, by Sphera Franchise Group in October 2017. As of 30 June 2021, the Group operated 12 Taco Bell restaurants based in commercial centers across Romania.

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

RISKS AND EXPECTATIONS REGARDING H2 2021

April 28th, 2021, the annual General Shareholders Meeting of Sphera Franchise Group took place, which approved the 2021 consolidated Budget and Activity Plan of the Group, which estimated RON 1,157.6 million in restaurant sales in 2021, RON 150.5 in restaurant operating profit and normalized EBITDA of RON 95 million. The management maintains these budget targets as well as the activity plan.

The evolution of the pandemic remains the key risk for Sphera's activity in the second half of the year. The budget adopted by shareholders in April assumed the progressive recovery of sales throughout 2021. For H1 2021, it was estimated that the activity of the Group will continue to be affected by restrictions imposed by the state and local authorities due to pandemic situation, however as of H2 2021, normal course of business was assumed. Consequently, the Group estimates RON 1,157.6 million in restaurant sales in 2021, RON 150.5 in restaurant operating profit and normalized EBITDA of RON 95 million. The delivery is expected to have a significant weight in total sales in 2021, of around 25%.

Especially in the context of the pandemic, the management would like to bring attention to the most critical risks as foreseen in H2 2021.

Risks related to ordering a lockdown – Considering the evolution of the COVID-19 pandemic, there exists a chance that lockdowns, including the temporary closure of restaurants, hotels, cafes, clubs, shopping malls, gradual closure of borders, limiting or prohibiting the movement of vehicles or people in/to certain areas can be implemented throughout Europe, including in the countries of activity of the Group. The lockdowns can be applied at the national level, impacting all the restaurants of the Group in one country of operation, as well as at a local level, impacting restaurants located in certain municipalities or regions that are subject to restrictions. The rapid change in the strategy of the Group throughout 2020 and the almost complete reliance on the delivery and take-out services to generate revenues have prepared the Group for another potential lockdown in H2 2021 thus lowering the extent of the negative impact of this risk. This, however, does not guarantee that in case of negative evolution of the pandemic in H2 2021 and potential lockdowns implemented at a scale similar to that from H1 2020, the Group will be able to meet the 2021 budget assumptions.

Risks related to the 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. This risk remains highlighted for H2 2021 as even though global but also local economies managed to recover faster than expected, there remains a risk that the novel coronavirus pandemic might negatively affect the global economy. A decrease in disposable income may affect the customer traffic, frequency, average ticket size as well as the Group's ability to pass the cost increases onto its customers. Nonetheless, this trend is offset by the overall affordability of the Groups products, which may also lead to the Group leading new clients, amongst the customers who may substitute more expensive dining options with Group's products.

Risks related to inability to meet the development plan – The Group estimates its continuous growth based on the development plan, which includes constant development of the restaurant network on all markets of the activity, in line with the targets agreed with master franchisor, YUM!. However, it is possible that the pace at which the company opens new stores may not be in line with expectations and estimates. There is also a risk that new locations as well as new restaurant concepts launched on Sphera's market of activity might underperform due to customer preferences, market specificities but also individual locations. Any of such or similar situations may have a negative impact on the company's financial situation.

Risks related to the competitive environment – The Group operates in a highly competitive market, particularly concerning 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, national, regional, and local businesses in the quick-service, casual dine-in and delivery and takeaway restaurant sectors. This competition can put downward pressure on product prices and demand

for the Group's products. In the context of the pandemic, in H1 2020, the Group has decided to include the food aggregators in its sales strategy to increase the customer base and extend the delivery coverage while avoiding the increase in personnel costs. This decision has allowed the Group to recover part of the revenues lost due to the temporary closing of the restaurants. The Group will maintain this strategy in the coming period.

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

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.

Price risk - Cost of sales represents the most significant expense of the Group. Gross margin is affected by several factors, including movements in the cost of sales, 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 case the primary suppliers cannot deliver the components in the contracted amounts and specifications, the Group's requirements exceed the minimum contracted amounts, or the Group is subjected to unanticipated price increases. Market conditions generally set prices of the Group's raw materials, and it might not be possible to pass these charges immediately onto customers.

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

As our core business is the operation of restaurants, the Group depends on consumer confidence in the quality and safety of food products offered in our restaurants. While the Group maintains high standards for the quality of food products and dedicates substantial resources to ensure that these standards are met, the spread of these illnesses is often beyond its control and the Group cannot assure that food-borne

diseases will not occur, as a result of consumption of its products. Product liability risks are currently not covered by product liability insurance.

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

Risk related to dependency on the franchisor – Sphera manages KFC (in Romania, Italy, and Moldova) and Pizza Hut and Taco Bell (in Romania), as a franchisee, and therefore a number of factors and decisions related to the business activities conducted by Sphera depend on the franchisors' decisions or on their agreement. The duration of the franchising agreements related to the KFC, Pizza Hut and Taco Bell brands is 10 years. Sphera has the option of extending this period for the next 10 years if it meets the conditions specified in the franchising agreements and other requirements, including the payment of the related continuation fee. 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 risks presented above are the most significant risks for the H2 2021 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 2021. There may be other risk factors and uncertainties of which the Group or the companies from 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 31st, 2021

We confirm to the best of our knowledge that the unaudited interim condensed consolidated and unaudited interim condensed separate financial statements for the six months period ended 30 June 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 six months of the 2021 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 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 SIX-
MONTH PERIOD ENDED 30 JUNE 2021 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021 (UNAUDITED)

	Note	Six-month period ended 30 June 2021	30 June 2020
Restaurant sales		444,544	304,580
Restaurant expenses			
Food and material expenses		143,535	100,793
Payroll and employee benefits	4	102,197	71,315
Rent		7,142	3,409
Royalties		26,489	17,884
Advertising		20,087	14,429
Other operating expenses, net	5	64,438	46,582
Depreciation, amortization and impairment of non-current assets	7	44,458	42,063
Restaurant operating profit		36,198	8,104
General and administration expenses, net	6	25,156	23,915
Operating profit/ (loss)		11,042	(15,810)
Finance costs	8	10,002	9,303
Finance income		42	88
Profit/(Loss) before tax		1,082	(25,026)
Income tax expense/(credit)		(183)	335
Specific tax expense		1,179	978
Profit/(Loss) for the period		85	(26,339)
Attributable to:			
Equity holders of the parent		(5)	(26,321)
Non-controlling interests		90	(18)
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		(76)	80
Total comprehensive income for the period, net of tax		10	(26,259)
Attributable to:			
Equity holders of the parent		(98)	(26,239)
Non-controlling interests		108	(19)

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-
MONTH PERIOD ENDED 30 JUNE 2021 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

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

	30 June 2021	31 December 2020
Assets		
Non-current assets	521,230	513,794
Property, plant and equipment	208,299	201,118
Right-of-use assets	230,403	230,454
Intangible assets	60,209	61,173
Trade and other receivables	490	402
Deposits for rent guarantee	7,528	7,017
Deferred tax assets	14,300	13,629
Current assets	153,318	153,481
Inventories	11,097	11,099
Trade and other receivables	14,988	18,361
Prepayments	3,299	2,112
Cash and short-term deposits	123,934	121,909
Total assets	674,548	667,275
Equity and liabilities		
Equity		
Issued capital (Note 10)	581,990	581,990
Share premium	(519,998)	(519,998)
Other reserves	(917)	(917)
Retained earnings	88,029	88,033
Foreign currency translation reserve	(334)	(240)
Equity attributable to equity holders of the parent	148,770	148,868
Non-controlling interests	13	253
Total equity	148,783	149,121
Non-current liabilities	305,346	285,450
Interest-bearing loans and borrowings (Note 9)	100,765	83,859
Lease liabilities	199,654	196,883
Net employee defined benefit liabilities (Note 4)	4,134	3,141
Trade and other payables	793	1,567
Current liabilities	220,419	232,704
Trade and other payables	124,600	118,505
Interest-bearing loans and borrowings (Note 9)	45,126	66,350
Lease liabilities	50,693	47,850
Total liabilities	525,765	518,154
Total equity and liabilities	674,548	667,275

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021
(UNAUDITED)

All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 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	-	-	-	(5)	-	(5)	90	85
Other comprehensive income								
Translation differences					(94)	(94)	18	(76)
Total comprehensive income	-	-	-	(5)	(94)	(98)	108	10
Cash dividends	-	-	-	-	-	-	(347)	(347)
At 30 June 2021	581,990	(519,998)	(917)	88,029	(334)	148,770	13	148,783

	Issued capital	Share premium	Other reserves	Retained earnings	Foreign currency translation reserve	Total equity	Non-controlling interest	Total equity
As at 1 January 2020	581,990	(519,998)	(1,178)	111,402	(166)	172,049	202	172,251
Loss for the period	-	-	-	(26,321)	-	(26,321)	(18)	(26,339)
Other comprehensive income								
Translation differences					82	82	(1)	80
Total comprehensive income	-	-	-	(26,321)	82	(26,239)	(19)	(26,259)
Cash dividends	-	-	-	(13,679)	-	(13,679)	-	(13,679)
At 30 June 2020	581,990	(519,998)	(1,178)	71,402	(84)	132,131	182	132,313

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

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

	Six-month period ended	
	30 June	30 June
	2021	2020
Operating activities		
Profit/(Loss) before tax	1,082	(25,026)
Adjustments to reconcile profit(loss) before tax to net cash flows:		
Depreciation of right-of-use assets	28,006	25,898
Depreciation and impairment of property, plant and equipment	17,285	16,736
Amortisation and impairment of intangible assets	2,193	1,659
Movement in current assets allowance	170	-
Rent concessions (discounts)	(2,769)	(4,419)
Unrealised net foreign exchange differences	3,274	3,208
(Gain)/Loss on disposal of property, plant and equipment	8	42
Finance income	(42)	(88)
Finance costs (interest)	7,090	6,645
Working capital adjustments:		
Decrease/(Increase) in trade and other receivables and prepayments	1,417	17,726
Decrease/(Increase) in inventories	2	1,573
Increase/(Decrease) in trade and other payables	6,325	3,436
Interest received	42	88
Interest paid	(7,024)	(6,592)
Income tax paid	(1,317)	(2,460)
Net cash flows from operating activities	55,742	38,426
Investing activities		
Proceeds from sale of property, plant and equipment	-	86
Purchase of intangible assets	(1,229)	(904)
Purchase of property, plant and equipment	(24,475)	(17,701)
Net cash flows used in investing activities	(25,704)	(18,519)
Financing activities		
Proceeds from borrowings		48,714
Repayment of borrowings	(5,561)	(11,601)
Payment of lease liabilities	(22,111)	(19,723)
Dividends paid to equity holders of the parent	-	(13,671)
Dividends paid to non-controlling interests	(158)	-
Net cash flows used in financing activities	(27,830)	3,719
Net increase in cash and cash equivalents	2,208	23,626
Net foreign exchange differences	(183)	8
Cash and cash equivalents at 1 January	121,909	57,272
Cash and cash equivalents at 30 June	123,934	80,906

**SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH
PERIOD ENDED 30 JUNE 2021 (UNAUDITED)**

All amounts in RON thousand, unless specified otherwise

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR
THE SIX-MONTH PERIOD ENDED 30 JUNE 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 109 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 June 2021) as well as pizza delivery points (18 locations as at 30 June 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 (12 restaurants as at 30 June 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 six-month period ended 30 June 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 six-month period ended 30 June 2021 included in this report are unaudited.

General accounting policies

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

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 statement. 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 June 2021 and 31 December 2020 were:

	30 June 2021	31 December 2020
RON – EUR	4.9267	4.8694
RON – USD	4.1425	3.9660
RON – MDL	0.2302	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 SIX-MONTH PERIOD ENDED 30 JUNE 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 June 2021 and 31 December 2020 are as follows:

Company name	Country of incorporation	Field of activity	Control 30 June 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%

The value of non-controlling interests in USFN, ARS and CFF as of 30 June 2021 is below 1 thousand RON therefore there are no other presentations thereof.

4 PAYROLL AND EMPLOYEE BENEFITS

	Six-month period ended	
	30 June 2021	30 June 2020
Payroll and employee benefits recognized in restaurant expenses	102,197	71,315
Payroll and employee benefits recognized in "General and administration expenses, net"	16,279	15,630
Total Payroll and employee benefits	118,476	86,945

For the six-month period ended 30 June 2021, payroll and employee benefits include government grants in total amount of 2,473 (19,095 for the six-months period ended 30 June 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 785 representing the value of project management and other technical activities performed by the Group's employees during the six-month period ended 30 June 2021 (2020: 388) 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 4,134 (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
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All amounts in RON thousand, unless specified otherwise

5 OTHER OPERATING EXPENSES, NET

	Six-month period ended	
	30 June 2021	30 June 2020
Third-party services	37,913	23,381
Utilities	11,074	9,726
Maintenance and repairs	6,610	4,417
Cleaning supplies	2,015	2,716
Transport	2,446	2,236
Small-wares	1,561	853
Penalties related to development franchise agreement (ARS)	734	791
Telephone and postage	496	392
Insurance	367	375
Net (gain)/loss on disposal of property, plant and equipment	8	42
Miscellaneous expenses and income, net	1,042	1,655
Provision for receivables, net	170	-
Total	64,438	46,582

6 GENERAL AND ADMINISTRATION EXPENSES, NET

	Six-month period ended	
	30 June 2021	30 June 2020
Payroll and employee benefits	16,279	15,630
Third-party services	2,536	2,603
Depreciation and amortization	3,027	2,231
Rent	144	(23)
Banking charges	1,957	1,304
Transport	328	617
Maintenance and repairs	158	147
Small-wares	59	26
Insurance	246	265
Advertising	75	487
Telephone and postage	145	131
Miscellaneous expenses and income, net	203	496
Total	25,156	23,915

7 DEPRECIATION AND AMORTIZATION

	Six-month period ended	
	30 June 2021	30 June 2020
Depreciation and amortization of right-of-use assets, recognized in "Restaurant expenses"	26,526	24,367
Depreciation, amortization and impairment of property, plant and equipment and intangible assets, recognized in "Restaurant expenses"	17,933	17,696
Depreciation, amortization and impairment recognized in "Restaurant expenses"	44,458	42,063
Depreciation and amortization of right-of-use assets recognized in "General and administration expenses, net"	1,481	1,531
Depreciation, amortization and impairment of property, plant and equipment and intangible assets recognized in "General and administration expenses, net"	1,546	700
Depreciation, amortization and impairment recognized in "General and administration expenses, net"	3,027	2,231
Total depreciation and amortization	47,485	44,294

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INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH
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All amounts in RON thousand, unless specified otherwise

8 FINANCE COSTS

	Six-month period ended	
	30 June	30 June
	2021	2020
Interest on loans and borrowings	2,727	2,300
Interest expense on lease liabilities	4,363	4,345
Interest cost on benefit obligation	6	5
Foreign exchange loss, net	2,906	2,653
Total finance costs	10,002	9,303

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INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

9 INTEREST-BEARING LOANS AND BORROWINGS

	Interest rate, %	Maturity	30 June 2021	31 December 2020
Current interest-bearing loans and borrowings				
Bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	20,831	36,450
Short term working capital facility	ROBOR 3M + relevant spread	1 year from contract date	24,339	29,900
Total current interest-bearing loans and borrowings			45,170	66,350
Non-current interest-bearing loans and borrowings				
Bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	100,721	83,859
Total non-current interest-bearing loans and borrowings			100,721	83,859
Total interest-bearing loans and borrowings			145,891	150,209

The Group has a credit facility from Alpha Bank Romania made up of 7 sub-limits, out of which can be accessed by companies included in the consolidation, as follows: credit facility for the development of new locations, issuance of bank guarantee letters, credit card, financing of Moldova subsidiary, financing of working capital and financing of Italian subsidiary. The loan is secured with property, plant and equipment of each restaurant location 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 January 2021, the parties agreed by an addendum to loan contract to extend the grace period for principal payments for twelve-month period, until 31 December 2021. All principal amounts initially due during suspension period will be paid beginning 1 January 2022 and loan maturities are postponed in accordance. Interest payments are not suspended.

Starting with 29 May 2021, the short-term borrowing arrangement with Vista Bank Romania in total amount of 10 million RON has been extended for another year. Credit facility is revolving and may be used by the Borrower during 12 months for financing of working capital needs and of generic company costs, as well as intragroup loans. As at 30 June 2021 and 31 December 2020, the loan balance with Vista Bank is nil.

The Group (USFN Romania - Borrower and Sphera Franchise Group SA - Guarantor) has a short-term credit facility agreement with Intesa Sanpaolo Romania Bank. The uncommitted credit facility amounting to RON 9.6 million is revolving and may be used by the Borrower to finance the working capital needs. Following a partial reimbursement in 2021, the loan facility balance with Intesa Sanpaolo amounts to 4,039 as at 30 June 2021 (31 December 2020: 9,600).

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 year ended 31 December 2020 as well as for the six-month period ended 30 June 2021.

Breaches in meeting standalone financial covenants allow the bank to cease any loan disbursement to the affected company and to immediately call the loan.

As of 30 June 2021 and 31 December 2020, American Restaurant System recorded a negative net worth, thus failing to meet the general financial terms at standalone level. As a result, American Restaurant System is not allowed to perform any further drawings from the loan. The long-term outstanding balance of ARS bank loans and borrowing of 1,334 is recorded as a current liability as a result of not meet the equity ratio individual contractual conditions.

The Group's short-term borrowing arrangement with the Intesa Sanpaolo contains several covenants, mainly of quantitative nature, out of which the most important are: the Borrower's ratio Total financial debt/ EBITDA at individual level should not exceed 4.4 for the year 2020 (condition met as of 30 June 2021 and 31 December 2020) and the amount of loans granted to Sphera Group entities by the Borrower (USFN RO) should not exceed 18 million EUR (condition not met as of 30 June 2021 and 31 December 2020, but waived by the bank in January 2021). Breaches in meeting the financial covenant at individual level would permit the bank to call the loan amount. However, the loan from Intesa Sanpaolo is presented as current liability.

10 ISSUED CAPITAL

	30 June 2021	31 December 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 June 2021 are: Tatika Investments Ltd. (28.2321%), Computerland Romania SRL (20.5327%), Wellkept Group SA (16.3400%), others (34.8953%). 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 is RON 0.9021 The payment of the dividends will start on 30 September 2021 (please see also Significant events after closing of the reporting period).

11 EBITDA

	Six-month period ended	
	30 June 2021	30 June 2020
Operating profit/(loss)	11,042	(15,810)
Adjustments to bridge operating profit/(loss) to EBITDA:		
Depreciation, amortization and impairment included in restaurant expenses	44,458	42,063
Depreciation, amortization and impairment included in general and administration expenses	3,027	2,231
EBITDA	58,527	28,483
Non-recurring expenses	734	791
Normalised EBITDA	59,261	29,274

For the six-month period ended 30 June 2021 and 30 June 2020, respectively, 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 (Note 5).

In August 2021, the Group signed a new agreement with YUM! which replaces the former development agreement for the period 2017 -2021. In terms of accrued initial fees for the 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 (please see also Significant events after closing of the reporting period).

12 RELATED PARTY DISCLOSURES

During the six-month period ended 30 June 2021 and 30 June 2020 respectively, the Group has carried out transactions with the following related parties:

<u>Related party</u>	<u>Nature of the relationship</u>	<u>Country of incorporation</u>	<u>Nature of transactions</u>
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

<u>Related party</u>	<u>Nature of the relationship</u>	<u>Country of incorporation</u>	<u>Nature of transactions</u>
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:

	<u>Transactions during the six-month period ended 30 June 2021</u>		<u>Balances as at 30 June 2021</u>	
	<u>Sales to related parties</u>	<u>Purchases from related parties</u>	<u>Amounts owed by related parties</u>	<u>Amounts owed to related parties</u>
Cinnamon Bake&Roll SRL	-	2	79	-
Moulin D'Or SRL	-	13	-	-
Lucian Vlad	-	129	-	-
Radu Dimofte	-	54	-	-
Wellkept Group SA	-	240	-	1
Midi Development SRL	1	-	-	-
Grand Plaza Hotel SA	-	363	66	17
Arggo Software Development and Consulting SRL	-	888	-	75
Elicom SRL	-	364	-	102
Elicom Connect SRL	-	6	-	3
Dorobanti 239 Imobiliare SRL	-	1,575	5	-
Baneasa Developments SRL	-	1,569	-	277
Baneasa Investments SA	-	306	128	23
Computerland Romania SRL	-	-	-	-
Fundatia Advance	73	-	-	-
	74	5,509	278	498

	Transactions during the six-month period ended 30 June 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	3	-	-
Lucian Vlad	-	109	-	-
Radu Dimofte	-	45	-	-
Wellkept Group SA	-	194	-	1
Midi Development SRL	7	-	-	-
Grand Plaza Hotel SA	-	258	66	19
Arggo Software Development and Consulting SRL	-	391	-	279
Elicom SRL	-	648	-	85
Elicom Connect SRL	-	5	-	2
Dorobanti 239 Imobiliare SRL	-	1,177	-	37
Baneasa Developments SRL	-	1,489	-	157
Baneasa Investments SA	-	187	128	57
Fundatia Advance	-	-	35	-
	170	4,513	339	637

The Group has granted a loan to Cinnamon Bake&Roll SRL. The loan balance as at 30 June 2021 was of 643 (31 December 2020: 639) and the interest accrual as at 30 June 2021 was of 66 (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 six months period ended 30 June 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:

	Six months ended	
	30 June 2021	30 June 2020
Short-term employee benefits	4,971	5,191
Total compensation of the key management personnel	4,971	5,191

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

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 taxes	673	340	96	(113)	-	996
Net profit/(loss)	10,404	(7,140)	(2,112)	36,520	(37,588)	85
Total assets	554,202	56,071	34,914	167,897	(138,536)	674,548
Total liabilities	534,489	67,310	48,543	64,877	(189,454)	525,765

Six-month period ended 30 June 2020	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	255,557	36,848	12,008	166	-	304,580
Inter-segment Revenues	-	-	-	12,133	(12,133)	-
Operating expenses	258,548	45,154	13,935	14,847	(12,094)	320,390
Segment operating profit	(2,991)	(8,306)	(1,927)	(2,548)	(39)	(15,811)
Finance costs	7,753	1,085	1,085	873	(1,492)	9,303
Finance income	571	9	-	1,000	(1,492)	88
Income taxes	692	362	67	192	-	1,313
Net profit/(loss)	(10,865)	(9,745)	(3,078)	(2,613)	(39)	(26,339)
Total assets 30 June 2020	505,517	70,073	37,550	79,788	(62,037)	630,891
Total liabilities 30 June 2020	421,329	74,285	47,924	63,127	(108,086)	498,578
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:

	Six-month period ended	
	30 June 2021	30 June 2020
Revenue from external customers		
Romania	394,769	270,585
Italy	44,161	30,640
Republic of Moldova	5,614	3,354
Total restaurant revenue	444,544	304,580

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

Bucharest, 31 August 2021

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 2021 (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.

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS (UNAUDITED)
 Prepared in accordance with Order of the Ministry of Public Finance no. 2844/2016
 30 June 2021

All amounts in RON thousand, unless specified otherwise

INTERIM CONDENSED SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021 (UNAUDITED)

		Six-month period ended	
	Note	30 June 2021	30 June 2020
Revenues			
Dividend revenues	7	37,525	-
Revenue from service contracts	7	14,983	12,299
Total revenues		52,509	12,299
Expenses			
Payroll and employee benefits*		12,986	11,117
Other expenses	3	2,627	3,730
Total expenses		15,612	14,847
Operating profit/(loss)		36,896	(2,548)
Finance costs		1,110	873
Finance income		621	1,000
Profit/(Loss) before tax		36,407	(2,421)
Income tax		(113)	192
Profit/(Loss) for the period		36,520	(2,613)
Total comprehensive income for the period, net of tax		36,520	(2,613)

* For the six-month period ended 30 June 2020, payroll and employee benefits include the amount of 443 representing technical unemployment indemnity recovered by the Company as part of the supportive measures for the employee-related costs granted by the Romanian Government to the companies affected by a temporary reduction and/or interruption of activity due to COVID-19 pandemic.

SPHERA FRANCHISE GROUP SA
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Prepared in accordance with Order of the Ministry of Public Finance no. 2844/2016
30 June 2021
All amounts in RON thousand, unless specified otherwise

**INTERIM CONDENSED SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021
(UNAUDITED)**

	30 June 2021	31 December 2020
Assets		
Non-current assets	631,207	631,432
Property, plant and equipment	2,324	2,342
Right-of-use assets	4,567	4,959
Intangible assets	125	170
Investments in subsidiaries	615,854	615,854
Trade and other receivables	7,143	7,025
Deferred tax assets	1,195	1,082
Current assets	152,548	113,470
Inventories	-	-
Trade and other receivables	129,922	108,373
Prepayments	225	214
Cash and short-term deposits	22,400	4,883
Total assets	783,755	744,902
Equity and liabilities		
Equity		
Issued capital	581,990	581,990
Legal reserve	6,921	6,922
Retained earnings	129,962	93,442
Total equity	718,874	682,354
Non-current liabilities	49,327	46,870
Interest-bearing loans and borrowings (Note 5)	45,361	42,570
Lease liabilities	3,966	4,300
Current liabilities	15,554	15,678
Interest-bearing loans and borrowings (Note 5)	1,947	3,849
Lease liabilities	1,029	1,027
Trade and other payables	12,578	10,802
Total liabilities	64,881	62,548
Total equity and liabilities	783,755	744,902

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INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS (UNAUDITED)
 Prepared in accordance with Order of the Ministry of Public Finance no. 2844/2016
 30 June 2021

All amounts in RON thousand, unless specified otherwise

INTERIM CONDENSED SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021 (UNAUDITED)

	<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 for the period	-	-	36,520	36,520
Total comprehensive income	-	-	36,520	36,520
As at 30 June 2021	581,990	6,921	129,963	718,874

	<u>Issued capital</u>	<u>Legal Reserves</u>	<u>Retained earnings</u>	<u>Total equity</u>
As at 1 January 2020	581,990	3,607	44,061	629,658
Loss for the period	-	-	(2,613)	(2,613)
Total comprehensive income	-	-	(2,613)	(2,613)
Dividends			(13,679)	(13,679)
As at 30 June 2020	581,990	3,607	27,768	613,365

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS (UNAUDITED)
Prepared in accordance with Order of the Ministry of Public Finance no. 2844/2016
30 June 2021

All amounts in RON thousand, unless specified otherwise

INTERIM CONDENSED SEPARATE STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021 (UNAUDITED)

	Six-month period ended	
	30 June 2021	30 June 2020
Operating activities		
Profit/(loss) before tax	36,407	(2,421)
Adjustments to reconcile profit/(loss) before tax to net cash flows:		
Dividend revenue	(37,525)	-
Depreciation and amortization of property, plant and equipment, right-of-use and intangible assets	860	915
Rent concessions (discounts)		(80)
Net foreign exchange differences	128	145
Finance income	(621)	(1,000)
Finance costs (interest)	966	817
Working capital adjustments:		
Decrease in trade and other receivables, small inventories and prepayments	(4,267)	(4,937)
Increase/(Decrease) in trade and other payables	1,791	3,277
Dividends received	36,862	-
Interest received	19	-
Interest paid	(375)	(388)
Net cash flows from operating activities	34,245	(3,672)
Investing activities		
Purchase of right of use assets	169	-
Purchase of property, plant and equipment and intangible assets	(423)	(228)
Loans to related parties	(15,929)	(3,452)
Net cash flows used in investing activities	(16,183)	(3,681)
Financing activities		
Proceeds from borrowings	-	6,000
Repayment of borrowings	-	(1,267)
Payment of lease liabilities	(546)	(488)
Dividends paid	-	(13,687)
Net cash flows used in financing activities	(546)	(9,442)
Net increase in cash and cash equivalents	17,516	(16,796)
Cash and cash equivalents at 01 January	4,883	19,233
Cash and cash equivalents at 30 June	22,400	2,437

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30 June 2021

All amounts in RON thousand, unless specified otherwise

NOTES TO THE INTERIM SEPARATE FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021 (UNAUDITED)

14 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 109 restaurants) under the Kentucky Fried Chicken ("KFC"), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (21 restaurants as at 30 June 2021) as well as pizza delivery points (18 locations as at 30 June 2021) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (12 restaurants as at 30 June 2021) and one restaurant under Paul brand, in Romania.

15 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 2021 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 2020.

The interim condensed separate financial statements for six-month period ended 30 June 2021 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 2020.

The amendments to IFRS effective since 1 January 2021 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 exchange rate RON – EUR as at 30 June 2021 and 31 December 2020 were:

	<u>30 June 2021</u>	<u>31 December 2020</u>
RON – EUR	4.9267	4.8694
RON – USD	4.1425	3.9660

16 OTHER EXPENSES

	Six-month period ended	
	<u>30 June 2021</u>	<u>30 June 2020</u>
Third-party expenses	1,020	1,183
Advertising and sponsorship**	31	934
Depreciation and amortization	860	915
Travel expenses	138	187
Office supplies	119	126
Insurance	149	135
Other taxes	118	91
Rent***	45	(1)
Banking charges	29	24
Maintenance & Repairs	57	53
Utilities	20	26
Miscellaneous expenses	41	57
Total other expenses	<u>2,627</u>	<u>3,730</u>

**For the six-month period ended 30 June 2020, include the value of sponsorship of 484 granted to Romania Red Cross organisation for acquiring medical equipment

*** For the six-month period ended 30 June 2020, the rent expenses include the impact of rent discounts of 80 related to the COVID-19 pandemic, recognised in accordance with requirements of the amendment to IFRS 16 Leases, *Covid-19-Related Rent Concessions*

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17 INVESTMENTS IN SUBSIDIARIES

Details of the carrying value of investments in subsidiaries as of 30 June 2021 and 31 December 2020, respectively are as follows:

Company name	Country of incorporation	Field of Activity	Share interest percent	Carrying value
US Food Network SA	Romania	Restaurants	99.9997%	519,704
American Restaurant System SA	Romania	Restaurants	99.9997%	37,898
California Fresh Flavors SRL	Romania	Restaurants	99.9900%	100
US Food Network SRL	Moldova	Restaurants	80.0000%	1,735
US Food Network SRL	Italy	Restaurants	100.0000%	56,417
Total				615,854

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18 INTEREST-BEARING LOANS AND BORROWINGS

	<u>Interest rate, %</u>	<u>Maturity</u>	<u>30 June 2021</u>	<u>31 December 2020</u>
Current interest-bearing loans and borrowings				
Bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	1,947	3,849
Total current interest-bearing loans and borrowings			1,947	3,849
Non-current interest-bearing loans and borrowings				
Bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	13,541	11,459
Loan from related parties (including accrued interest) (Note 7)	4% fixed interest rate	Within 5 years from contract signing date	31,820	31,111
Total non-current interest-bearing loans and Borrowings			45,361	42,570
Total interest-bearing loans and borrowings			47,308	46,419

The Company has received a multicurrency credit facility from its subsidiary US FOOD NETWORK SA, the maximum limit being 20 million EUR. 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. 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.

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As a result of a request made to Alpha Bank Romania by the Borrowers (the Company together with its subsidiaries) on the base of Emergency Ordinance 37/2020, the parties agreed by an addendum to loan contract to suspend temporarily all loan principal payments due by the Borrowers until 31 December 2021. All principal amounts initially due during suspension period will be paid beginning 1 January 2022 and loan maturities will be postponed in accordance. Interest payments are not suspended.

Starting with 29 May 2020, Sphera entered in a short-term borrowing arrangement with Vista Bank Romania. In 2021, the credit facility was extended for another 12 months, until 22 May 2022. 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.

19 ISSUED CAPITAL

	30 June 2021	31 December 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 June 2021 are: Tatika Investments Ltd. (28.2321%), Computerland Romania SRL (20.5327%), Wellkept Group SA (16.3400%), others (34.8953%). 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 is RON 0.9021. The payment of the dividends will start on 30 September 2021 (please see Events after closing of the reporting period).

20 RELATED PARTY DISCLOSURES

During the six-month period ended 30 June 2021 and 30 June 2020 respectively, the Company has carried out transactions with the following related parties:

<u>Related party</u>	<u>Nature of the relationship</u>	<u>Country of incorporation</u>	<u>Nature of transactions</u>
US Food Network SA	Subsidiary	Romania	Dividends, 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
US Food Network SRL	Subsidiary Entity with several common members of key management personnel	Italy	Loan provided, sale of services
Cinnamon Bake&Roll SRL	Entity with several common members	Romania	Acquisition of goods
Midi Development SRL		Romania	Services

Moulin D'Or SRL	of key management personnel Entity affiliated to shareholders of the parent	Romania	Sale of services, acquisition of goods Rent training center
Wellkept Group SA	Shareholder	Romania	Dividends
Lunic Franchising and Consulting Ltd.	Shareholder	Cyprus	Dividends
Computerland Romania SRL	Shareholder	Romania	Dividends
Grand Plaza Hotel SA	Entity affiliated to a shareholder of the parent	Romania	Acquisition of goods and services
Baneasa Developments SRL	Entity affiliated to a shareholder of the parent	Romania	Acquisition of goods and 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 2021			30 June 2021	
	Dividends revenues	Sales	Purchases	Amounts owed by related parties	Amounts owed to related parties
US Food Network SA	36,300	11,616	3	85,372	-
US Food Network SRL (Republic of Moldova)	1,225	-	-	699	-
American Restaurant System SA	-	2,063	5	3,761	3,546
California Fresh Flavors SRL	-	789	-	1,382	-
US Food Network SRL (Italy)	-	515	-	1,691	-
Moulin D'Or SRL	-	-	1	-	-
Midi Development SRL	-	-	-	-	-
Wellkept Group SA	-	-	240	-	1
Grand Plaza Hotel SA	-	-	2	-	-
Baneasa Developments SRL	-	-	-	-	-
Arggo Software Development and Consulting SRL	-	-	84	-	-
Loans and interest from related parties	-	-	-	-	31,820
Loans and interest to related parties (please see below)	-	-	-	42,870	-
Total	37,525	14,983	335	135,773	35,368

Related party	Six-month period ended 30 June 2020			31 December 2020	
	Dividends revenues	Sales	Purchases	Amounts owed by related parties	Amounts owed to related parties
US Food Network SA	-	8,765	3	83,540	-
US Food Network SRL (Republic of Moldova)	-	-	-	-	-
American Restaurant System SA	-	2,100	5	1,309	2,650
California Fresh Flavors SRL	-	588	-	450	-
US Food Network SRL (Italy)	-	680	-	1,159	-
Moulin D'Or SRL	-	160	3	-	-
Midi Development SRL	-	6	-	-	-
Wellkept Group SA	-	-	194	-	1
Grand Plaza Hotel SA	-	-	4	-	-
Baneasa Developments SRL	-	-	2	-	-
Arggo Software Development and Consulting SRL	-	-	92	-	37
Loans and interest from related parties	-	-	399	-	31,111
Loans and interest to related parties (please see below)	-	-	-	26,121	-
Total	-	12,299	701	112,579	33,800

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 2021		
	Interest expense	Interest payable	Loan payable
US Food Network SA	591	3,175	28,646
Total	591	3,175	28,646
Related party	Six-month period ended 30 June 2021		
	Interest income	Interest receivable	Loan receivable
California Fresh Flavors SRL	176	920	8,475
US Food Network SRL (Italy)	246	2,528	20,824
American Restaurant System SA	179	2,239	7,883
Total	602	5,687	37,182

Related party	Six-month period ended 30 June 2020	31 December 2020	
	Interest expense	Interest payable	Loan payable
US Food Network SA	399	2,552	28,560
Total	399	2,552	28,560
	Interest income	Interest receivable	Loan receivable
California Fresh Flavors SRL	195	735	8,458
US Food Network SRL (Italy)	680	2,254	4,757
American Restaurant System SA	371	2,035	7,883
Total	1,245	5,024	21,097

One of the intercompany loans granted in September 2017 by the Company to California Fresh Flavors is payable within a period of one to five years from the contract date (principal due of 6,178) and the other one is due within 12 months from the contract signing date, December 2019, with renewal option. In December 2020, the short-term loan agreement was extended until December 2021.

The loans granted to US Food Network Srl (Italy) and American Restaurant System SA are payable within one-year period, with renewal option.

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. There have been no guarantees provided or received for any related party receivables or payables.

Compensation of key management personnel of the Company:

	Six-month period ended	
	30 June 2021	30 June 2020
Short-term employee benefits	3,733	4,320
Total compensation paid to key management personnel	3,733	4,320

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

Bucharest, 31 August 2021

Chief Executive Officer
Calin Ionescu

Chief Financial Officer
Valentin Budes