

2021 PRELIMINARY FINANCIAL RESULTS

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



SPHERA

KFC



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

The preliminary condensed consolidated financial statements as of December 31st, 2021 **are unaudited**.

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

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

ISSUER INFORMATION

INFORMATION ABOUT THIS FINANCIAL REPORT

Type of report	Preliminary Financial Results
For financial period	01.01.2021 – 31.12.2021
Date of publishing	24.02.2022

ISSUER INFORMATION

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

INFORMATION ABOUT FINANCIAL INSTRUMENTS

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

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FINANCIAL RESULTS HIGHLIGHTS



SPHERA

Sales Sphera Franchise Group

2021 (Preliminary)

RON 1 bn
+41% vs 2020

Q1 2021

RON 211.4 mn
+7% vs Q1 2020

Q2 2021

RON 233.1 mn
+119% vs Q2 2020

Q3 2021

RON 284.2 mn
+44% vs Q3 2020

Q4 2021

RON 271.6 mn
+30% vs Q4 2020

Sales per geography



RON 873.7 mn
+40% vs 2020



RON 114.1 mn
+49% vs 2020



RON 12.4 mn
+43% vs 2020

Sales per brand



RON 861.5 mn
+41% vs 2020



RON 90 mn
+32% vs 2020



RON 48.8 mn
+65% vs 2020

RON 85.7 mn

Restaurant operating profit in 2021
vs RON 49.3 mn in 2020

67%

increase in normalized EBITDA
in 2021 vs 2020, reaching RON
73 mn

RON 27.4 mn

net profit in 2021 vs net loss of
RON 2.4 mn in 2020

RON 285.4 mn

In delivery sales in 2021, out of
which RON 82.3 mn just in Q4 2021

23%

Increase in like-for-like sales on
all 3 markets in Q4 2021 vs Q4
2020

170

KFC, Pizza Hut and Taco Bell
restaurants on all 3 markets as
of 31.12.2021, out of which 13
new restaurants opened in 2021

2021 RESULTS ANALYSIS

Sphera Franchise Group generated RON 271.6 million consolidated sales in Q4 2021, a 30% increase compared to same quarter of 2020 however, due to restrictions caused by the introduction of the green pass in Romania, recorded a slight decline of 4% quarter-on-quarter. Sales generated by KFC, Pizza Hut and Taco Bell in Romania in the last quarter of 2021 contributed with RON 231.1 million, a 24% increase compared to same period of 2020, however declined 7% q-o-q. Sales in the Republic of Moldova reached historic heights of RON 3.6 million, a 22% increase compared to the same period of last year and a 13% increase q-o-q while performance in Italy improved significantly, reaching RON 36.9 million, an 88% increase compared to Q4 2020 and an 11% q-o-q increase.

In terms of split per brand, in Q4 2021, KFC brought revenues in the total amount of RON 234.1 million (28% increase compared to Q4 2020; 4% q-o-q decline), Pizza Hut – RON 24.7 million (55% increase compared to Q4 2020; 7% q-o-q decline) and Taco Bell – RON 12.7 million (44% increase compared to Q4 2020; 9% q-o-q decline). The results clearly show the effect of the restrictions on the movement for the persons not holding a COVID-19 certificate in Romania, who throughout almost the entire Q4 of 2021 were restricted from entering any closed spaces, including restaurants, and shopping malls, having only the option of buying for delivery or using drive-thru restaurants.

Restaurant expenses grew marginally faster than the sales in Q4 2021, reaching RON 259.3 million, a 33% increase compared to Q4 2020. The increase was primarily driven by the payroll and employee benefits, which increased 44% compared to same quarter of 2020, reaching RON 63.6 million, determined by the need for the recalibration of the workforce related to the sales level and by the limited technical unemployment measures in Q4 2021 compared to Q4 2020. The costs of food and material appreciated 35%, reaching RON 91.4 million. The pressure on costs was partially absorbed through sales price increases but due to the significant increase in the inflation at the end of 2021, it grew slightly faster than the sales. Rent increased 22%, reaching 18.8 million as the Group had limited opportunities to renegotiate the rent agreements as opposed to a year ago, as well as the Group operated a larger number of restaurants (13 new restaurants in 2021). Advertising expenses increased 83%, reaching RON 17.6 million due to Group's continuous focus on communication, product innovation and digitalization. Royalties, directly related to the topline, grew 37% reaching RON 16.3 million. Depreciation and amortization reached RON 9.2 million, an 11% decrease compared to Q4 2020 impacted by the closing of the 4 identified non-viable Pizza Hut and Pizza Hut Delivery locations in Q4 2020. Other operating expenses increased 19%, reaching RON 42.4 million, driven by a 60% increase in utilities (reaching RON 9.9 million), a 15% increase in third-party expenses (amounting to RON 23.1 million), and a 38% increase in maintenance and repairs (amounting to RON 4.4 million) compared to Q4 2020. The increase in the third-party expenses was mainly due to increase in the aggregators' volumes.

Restaurant operating profit in Q4 2021 amounted to RON 14.9 million, a 3% increase compared to Q4 2020. The G&A expenses decreased with 23%, reaching RON 12 million and thus the operating profit amounted to RON 2.9 million, versus a loss of RON 1.2 million in Q4 2020. Finance costs increased 119% due to negative foreign exchange impact and additional financing contracted in Q4 2021, reaching RON 2.8 million. The Group ended Q4 2021 with a gross profit of RON 70K and a negative bottom line of RON 0.7 million, a decline compared to a positive net result of RON 2.3 million registered in Q4 2020.

Summary of Preliminary Consolidated Financial Statements for Q4 (results excluding IFRS 16 impact):

Data in RON'000	Q4-21	Q4-20	Y/Y % Q4-21/Q4-20	% of Sales		Δ%
				Q4-21	Q4-20	
Restaurant sales	271,594	208,352	30.4%			
Other restaurant income	2,627	726	262.1%			
Restaurant expenses	259,302	194,635	33.2%	95.5%	93.4%	2.1%
Food and material	91,404	67,818	34.8%	33.7%	32.5%	1.1%
Payroll and employee benefits	63,579	44,114	44.1%	23.4%	21.2%	2.2%
Rent	18,847	15,440	22.1%	6.9%	7.4%	-0.5%
Royalties	16,275	11,835	37.5%	6.0%	5.7%	0.3%
Advertising	17,571	9,598	83%	6.5%	4.6%	1.9%
Other operating expenses, net	42,440	35,527	19.5%	15.6%	17.1%	-1.4%
Depreciation and amortization	9,185	10,303	-10.9%	3.4%	4.9%	-1.6%
Restaurant operating profit	14,919	14,442	3.3%	5.5%	6.9%	-1.4%
General & Admin expenses, net	12,060	15,669	-23.0%	4.4%	7.5%	-3.1%
Operating Profit/(Loss)	2,859	(1,226)		1.1%	-0.6%	1.6%
Finance costs	2,813	1,283	119.2%	1.0%	0.6%	0.4%
Finance income	24	55	-55.6%	0.0%	0.0%	0.0%
Profit/(Loss) before tax	70	(2,455)		0.0%	-1.2%	1.2%
Income tax expense	70	(5,110)		0.0%	-2.5%	2.5%
Specific tax expense	654	316	106.8%	0.2%	0.2%	0.1%
Profit/(Loss) for the period	(655)	2,339		-0.2%	1.1%	-1.3%
EBITDA	12,930	9,596	34.7%	4.8%	4.6%	0.2%
Normalized EBITDA*	12,930	15,618	-17.2%	4.8%	7.5%	-2.7%

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

With Q4 2021 results significantly contributing to the overall result, Sphera Franchise Group ended 2021 with consolidated restaurant sales of RON 1 billion, a historical milestone for the Group, a 41% increase compared to the 2020 result. Sales in Romania contributed 87% to this result (RON 873.7 million), Italy 11% (RON 114.1 million) and Republic of Moldova 1% (RON 12.4 million). In terms of brand performance, KFC, present across three markets, brought 86% (RON 861.5 million) of the revenue, Pizza Hut 9% (RON 90 million) while Taco Bell contributed 5% (RON 48.8 million) to total sales.

Throughout 2021 the Group improved cost control as the restaurant expenses increased at a slower pace than the sales while the G&A costs registered a decline of 1% compared to 2020. The restaurant expenses amounted to RON 917.2 million, driven by a 50% increase in the payroll and employee benefits, which reached RON 225.9 million, and a 41% increase in the food and material costs, which reached RON 327.6 million – both positions putting the biggest pressure due to the general inflationary environment felt throughout 2021. Rent increased 24% reaching RON 72.5 million due to larger number of stores operated nonetheless, throughout the full year, the Group continued the rent renegotiations in Italy as well as for Pizza Hut locations in Romania. In total, in 2021 the Group managed to obtain rent discounts of RON 3.8 million, a third of discounts that were obtained in 2020 (RON 11.6 million). Royalties increased by 45% to RON 60 million while advertising costs increased 60% to RON 52.9 million as the marketing activity was reduced in 2020 due to the pandemic. Other operating expenses grew 29%, reaching RON 141.7 million, with the main contributors being third-party expenses (RON 81.2 million) and utilities (RON 29 million). The third-party expenses, which primarily consist of the aggregators' fees, increased by 42% compared to 2020; however as of Q3 2021, the Group has been offsetting part of these costs by increasing the prices of the products sold for delivery, thus mitigating a major part of the effect that the increasing sales on delivery had on the bottom line. The Group ended 2021 with restaurant operating profit of RON 85.7 million, a 74% increase compared to 2020.

The G&A expenses declined by almost 1% in 2021 as they reached RON 50.5 million, registering a 2.1pp decrease in the share of sales generated. The operating result increased significantly, from operating loss of RON 1.6 million to operating profit of RON 35.2 million in 2021. Finance costs increased 59% in 2021 reaching 8.4 million primarily due to foreign exchange negative impact. The gross profit in 2021 was RON 27 million versus RON 6.7 million loss in 2020. Due to the specific tax facilities, the bottom line in 2021 reached RON 27.4 million, significant improvement compared to the net loss of RON 2.4 million in 2020.

Summary of Preliminary Consolidated Financial Statements for FY (results excluding IFRS16 impact):

Data in RON'000	2021P	2020	Y/Y % 2021/2020	% of Sales		Δ%
				2021	2020	
Restaurant sales	1,000,312	710,797	40.7%			
Other restaurant income	2,627	726	262.1%			
Restaurant expenses	917,211	662,256	38.5%	91.7%	93.2%	-1.5%
Food and material	327,645	232,338	41.0%	32.8%	32.7%	0.1%
Payroll and employee benefits	225,869	150,124	50.5%	22.6%	21.1%	1.5%
Rent	72,515	58,593	23.8%	7.2%	8.2%	-1.0%
Royalties	59,987	41,274	45.3%	6.0%	5.8%	0.2%
Advertising	52,919	33,033	60.2%	5.3%	4.6%	0.6%
Other operating expenses, net	141,735	110,004	28.8%	14.2%	15.5%	-1.3%
Depreciation and amortization	36,540	36,889	-0.9%	3.7%	5.2%	-1.5%
Restaurant operating profit	85,729	49,267	74.0%	8.6%	6.9%	1.6%
General & Admin expenses, net	50,537	50,904	-0.7%	5.1%	7.2%	-2.1%
Operating Profit/(Loss)	35,192	(1,637)		3.5%	-0.2%	3.7%
Finance costs	8,364	5,256	59.1%	0.8%	0.7%	0.1%
Finance income	150	237	-36.9%	0.0%	0.0%	0.0%
Profit/(Loss) before tax	26,978	(6,656)		2.7%	-0.9%	3.6%
Income tax expense (credit)	(2,853)	(6,156)	-53.7%	-0.3%	-0.9%	0.6%
Specific Tax	2,424	1,872	29.4%	0.2%	0.3%	0.0%
Profit/(Loss) for the year	27,407	(2,373)		2.7%	-0.3%	3.1%
EBITDA	75,004	36,907	103.2%	7.5%	5.2%	2.3%
Normalized EBITDA*	73,477	44,088	66.7%	7.3%	6.2%	1.1%

(*) For 2021, EBITDA was normalized to exclude the reversal of accrued penalties due to Pizza Hut Europe (Master Franchisor) for the restaurants committed to be opened in 2019 and postponed for the future periods, following the signing of the new Development Agreement. For the year ended 31 December 2020, EBITDA was normalized to exclude the following expenses: impairment loss of goodwill (4,420), accrued penalties due to Pizza Hut Europe (Master Franchisor - YUM!) for the restaurants committed to be opened in 2019 and postponed for the future periods (1,528) and accrued costs related to the Italian subsidiary's development agreement terminated in 2020 (1,234).

Summary of Preliminary Consolidated Financial Statements for FY – results and evolution presented with and without IFRS16 impact

Data in RON'000	2021P		2020		Change (%)	
	1	2	1	2	2021/ 2020 (1)	2021/ 2020 (2)
Restaurant sales	1,000,312	1,000,312	710,797	710,797	40.7%	40.7%
Other restaurant sales	2,627	2,627	726	726	262.1%	262.1%
Restaurant expenses	915,260	917,211	657,425	662,256	39.2%	38.5%
Food and material	327,645	327,645	232,338	232,338	41.0%	41.0%
Payroll and employee benefits	225,869	225,869	150,124	150,124	50.5%	50.5%
Rent	17,058	72,515	5,293	58,593	222.3%	23.8%
Royalties	59,987	59,987	41,274	41,274	45.3%	45.3%
Advertising	52,919	52,919	33,033	33,033	60.2%	60.2%
Other operating expenses, net	141,735	141,735	109,479	110,004	29.5%	28.8%
Depreciation and amortization	90,046	36,540	85,884	36,889	4.8%	-0.9%
Restaurant operating Profit	87,680	85,729	54,098	49,267	62.1%	74.0%
General & Admin expenses, net	49,947	50,537	51,140	50,904	-2.3%	-0.7%
Operating Profit/(Loss)	37,733	35,192	2,958	(1,637)	1,175.4%	
Finance costs	20,497	8,364	17,314	5,256	18.4%	59.1%
Finance income	150	150	237	237	-36.9%	-36.9%
Profit/(Loss) before tax	17,386	26,978	(14,118)	(6,656)		
Income tax expense/(credit)	(3,701)	(2,853)	(6,380)	(6,156)	-42.0%	-53.7%
Specific tax	2,424	2,424	1,872	1,872	29.4%	29.4%
Profit/(Loss) for the year	18,664	27,407	(9,610)	(2,373)		
EBITDA	133,921	75,004	93,810	36,907	42.8%	103.2%
Normalized EBITDA*	132,394	73,477	100,992	44,088	31.1%	66.7%

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

(*) In 2021, Normalized EBITDA – excludes the reversal of accrued penalties from franchisor for postponed development of Pizza Hut restaurants in 2019, following the signing of the new Development Agreement. In 2020, Normalized EBITDA – excludes the following expenses: impairment loss of goodwill ARS (4,420), accrued penalties due to Pizza Hut Europe (Master Franchisor - YUM!) for the restaurants committed to be opened in 2019 and postponed for the future periods (1,528) and accrued costs related to the Italian subsidiary's development agreement terminated in 2020 (1,234).

The G&A expenses decreased by 1% in 2021 compared to 2020, despite a 5% increase in payroll, which reached RON 30.4 million, primarily from an increased volume of activity. Throughout the year, the Group

continued to perform cost optimization measures focused on decreasing costs related to third-party services (-2%, down to RON 5.9 million), transportation (-16%, down to RON 0.8 million), and other expenses (-68%, down to RON 2.2 million).

	Data in RON '000				Change (%)		Percentage of sales				
	2021	2021	2020	2020	2021/		2021	2021	2020	2020	
	(1)	(2)	(1)	(2)	2020/	2020/	(1)	(2)	(1)	(2)	
				2020 (1)	2020 (2)						
General and administration (G&A) expenses, net	49,947	50,537	51,140	50,904	-2.3%	-0.7%	5.0%	5.1%	7.2%	7.2%	
Payroll and employee benefits	30,374	30,374	28,955	28,955	4.9%	4.9%					
Third-party services	5,925	5,925	6,041	6,041	-1.9%	-1.9%					
Depreciation and amortization	6,142	3,272	4,968	1,655	23.6%	97.7%					
Impairment of goodwill	-	-	4,420	4,420	-100.0%	-100.0%					
Rent	357	3,816	394	3,472	-9.4%	9.9%					
Banking charges	4,122	4,122	2,810	2,810	46.7%	46.7%					
Transport	781	781	929	929	-16.0%	-16.0%					
Other*	2,246	2,246	2,622	2,622	-14,3%	-14,3%					

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

*Other expenses include maintenance & repairs, smallware, insurance, advertising, phone & postage, miscellaneous expenses.

In terms of individual performance, in 2021 all the brands on all three markets of activity improved their performance compared to 2020 – CFF (Taco Bell) sales grew 65%, USFN Moldova (KFC Moldova) by 43%, USFN Romania (KFC Romania) by 39%, USFN Italy (KFC Italy) by 49% and ARS (Pizza Hut) by 32%.

All the brands, except for USFN Italy, ended 2021 with a restaurant operating profit. USFN Romania generated restaurant operating profit of RON 87.4 million, operating profit of RON 51.9 million, EBITDA normalized of RON 79.8 million and a net profit of RON 47.6 million. USFN Moldova closed 2021 with a restaurant operating profit of RON 2 million, a positive EBITDA of RON 2 million and a net result of RON 1.4 million. CFF ended 2021 with a restaurant operating profit of RON 0.8 million, a positive EBITDA of RON 0.9 million and a net loss of RON -3.7 million while ARS registered restaurant operating profit of RON 1.1 million, a negative normalized EBITDA of RON -3.5 million and a net loss of RON -9 million. USFN Italy was the only company that did not reach restaurant operating profit, registering a loss of RON 5.9 million, operating loss of RON 15 million and a net loss of 13.7 million. The result was impacted by the effect of the COVID-19 restrictions from the first half of 2021, paired with a still relatively smaller scale of activity and the fact that significant part of the stores has not yet reached maturity.

Breakdown of consolidated preliminary results by Group companies – 12M-2021 (excluding IFRS 16 Impact):

Data in RON'000	12M-21							
	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons. Adj.	SFG Cons
Restaurant sales	734,962	90,011	12,428	114,141	48,771	28,968	(28,970)	1,000,312
Dividend revenue	-	-	-	-	-	37,525	(37,525)	-
Other restaurant income	1,314	1,314	-	-	-	-	-	2,627
Restaurant expenses	648,876	90,254	10,474	120,078	47,958		(429)	917,211
Food and material	250,878	24,476	5,203	31,557	15,531	-	-	327,645
Payroll and employee benefits	154,995	25,809	1,685	31,879	11,501	-	-	225,869
Rent	51,324	8,867	702	7,669	3,953	-	-	72,515
Royalties	44,358	5,299	746	6,849	2,736	-	-	59,987
Advertising	38,062	4,911	471	7,137	2,737	-	(399)	52,919
Other operating expenses	90,214	16,882	1,361	24,529	8,760	-	(12)	141,735
Depreciation	19,045	4,010	305	10,458	2,739	-	(18)	36,540
Restaurant operating profit/(loss)	87,400	1,071	1,955	(5,937)	813	66,493	(66,066)	85,729
G&A expenses	35,502	7,881	322	9,080	2,656	36,156	(41,061)	50,537
Operating profit/(loss)	51,898	(6,810)	1,632	(15,017)	(1,844)	30,337	(25,005)	35,192
Finance costs	5,810	1,510	69	2,946	1,704	2,003	(5,678)	8,364
Finance income	4,140	8	-	5	-	1,675	(5,678)	150
Profit/(Loss) before tax	50,229	(8,313)	1,564	(17,959)	(3,547)	30,009	(25,005)	26,978
Income tax expense/(credit)	1,053	31	210	(4,286)	-	139	-	(2,853)
Specific tax expense	1,534	689	-	-	200	-	-	2,424
Profit/(Loss) for the year	47,641	(9,033)	1,354	(13,673)	(3,748)	29,869	(25,005)	27,407
EBITDA	72,576	(2,010)	1,974	(4,403)	940	30,955	(25,028)	75,004
Normalized EBITDA*	79,839	(3,537)	1,974	(4,403)	940	36,355	(37,691)	73,477

* At individual level, Normalized EBITDA excludes the following: USFN RO - the impairment loss for the intercompany loan granted to ARS (7,263), ARS - the impact of reversal of penalties due to the master franchisor, following the signing of the new Development Agreement (-1,527) and SFG - the impairment loss for the investment in ARS (5,360).

In Q4 2021, all the brands continued to register sales increases, both like-for-like (+23%) and all stores performance (+30%). USFN Italy saw a significant uptake of 93% in Q4 2021 for like-for-like sales (88% all stores) compared to Q4 2020 due to a reopening of the local economy at the end of 2021 as well as the fact that Q4 2020 was one of the weakest quarters due to the spread of COVID-19 and the related restrictions. The remaining brands registered steady double-digit increases ranging from 20% increase in all store performance for USFN Romania to 55% all store increase for ARS. As of December 31st, 2021, Sphera operated 170 restaurants, a net increase of 12 restaurants compared to December 31st, 2020.

		Y/Y Q1-20	Y/Y Q2-20	Y/Y Q3-20	Y/Y Q4-20	Y/Y Q1-21	Y/Y Q2-21	Y/Y Q3-21	Y/Y Q4-21
USFN RO	All Stores	-9.9%	-51.6%	-17.1%	-11.5%	14.3%	114.9%	42.8%	20.3%
	o/w Same Stores	-14.7%	-53.5%	-23.6%	-17.3%	6.9%	99.4%	35.9%	13.7%
ARS	All Stores	-15.8%	-68.8%	-51.4%	-55.8%	-32.6%	108.4%	71.4%	54.6%
	o/w Same Stores	-15.8%	-68.8%	-51.4%	-55.8%	-32.6%	108.4%	71.4%	47.5%
USFN MD	All Stores	-14.4%	-62.1%	-15.4%	-5.3%	18.9%	179.3%	35.3%	22.3%
	o/w Same Stores	-14.4%	-62.1%	-15.4%	-5.3%	18.9%	179.3%	35.3%	22.3%
USFN IT	All Stores	11.4%	-48.1%	-11.7%	-33.5%	2.8%	114.5%	26.0%	88.0%
	o/w Same Stores	-29.5%	-64.5%	-27.0%	-52.7%	-21.1%	85.0%	17.8%	93.0%
CFF	All Stores	46.0%	-55.9%	-3.0%	-9.2%	13.1%	245.4%	62.8%	43.6%
	o/w Same Stores	-10.3%	-64.4%	-24.1%	-22.9%	6.0%	188.0%	38.6%	24.6%
TOTAL	All Stores	-7.7%	-54.0%	-20.4%	-20.0%	6.6%	119.4%	43.6%	30.3%
	o/w Same Stores	-16.0%	-57.0%	-27.6%	-26.1%	-1.1%	102.7%	36.7%	23.4%

When analyzing the activity per market, the dynamic of the growth slowed down in Q4 2021 on the Romanian and Moldavian markets registering, respectively, 24% and 22% increase. In parallel, the evolution on the Italian market accelerated in Q4 2021 due to the higher immunization rate and lower COVID-19 restrictions.

Data in RON '000	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	Change 2021/2020	Change Q4'21/Q4'20
Sales by region										
Romania	176,764	93,821	169,260	185,816	188,944	205,824	247,867	231,113	39.6%	24.4%
Italy	19,205	11,435	26,232	19,584	19,693	24,469	33,108	36,872	49.3%	88.3%
Rep. Moldova	2,345	1,009	2,371	2,953	2,791	2,823	3,206	3,608	43.2%	22.2%
Total sales	198,314	106,266	197,865	208,353	211,428	233,116	284,175	271,594	40.7%	30.4%

In Q4 2021, sales for delivery on all the markets, for all the brands, registered a q-o-q increase due to the colder weather, another wave of COVID-19 infections and finally, the introduction of the green certificate on the Romanian market. The largest increase in sales for delivery was registered for ARS, which noted a 14pp q-o-q uptake in the share of sales for delivery, followed by USFN Moldova +9pp, CFF + 8pp and USFN Romania +7pp. Due to the lowering on the restrictions in Italy, USFN Italy registered a moderate increase in sales for delivery of 1pp.

In Q4 2021, 30% of all orders were made for delivery, amounting to approximately RON 82.3 million, a 6pp q-o-q increase. In 2021, the total value of orders for delivery amounted to RON 285.4 million. Delivery orders include sales made by aggregators as well as using Sphera's own channels, through own or third-party courier service. Sphera has own delivery service in Romania for Pizza Hut and KFC, while for Taco Bell, KFC Italy and the KFC Republic of Moldova, the Group delivers exclusively through the food aggregating platforms such as Glovo, Food Panda, Takeaway, Tazz, Foodinho, Deliveroo, Just Eat, and Uber Eats.

Sales by entity, by Country		Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21
USFN RO	delivery	6%	44%	23%	28%	28%	27%	23%	30%
	non-delivery	94%	56%	77%	72%	72%	73%	77%	70%
ARS	delivery	33%	68%	53%	63%	57%	53%	42%	56%
	non-delivery	67%	32%	47%	37%	43%	47%	58%	44%
CFF	delivery	11%	81%	40%	42%	44%	42%	34%	42%
	non-delivery	89%	19%	60%	58%	56%	58%	66%	58%
USFN IT	delivery	0%	32%	11%	23%	25%	16%	11%	12%
	non-delivery	100%	68%	89%	77%	75%	84%	89%	88%
USFN MD	delivery	13%	60%	23%	25%	33%	35%	28%	37%
	non-delivery	87%	40%	77%	75%	67%	65%	72%	63%
All	delivery	9%	47%	24%	31%	31%	29%	24%	30%
	non-delivery	91%	53%	76%	69%	69%	71%	76%	70%

MAIN FINANCIAL RATIOS

The main financial ratios of Sphera Franchise Group (preliminary consolidated result) as of December 31st, 2021 (including and excluding IFRS 16 impact) are presented below, together with the result as of 2020 (including IFRS 16 impact).

<i>Financial data in RON '000</i>	FY 2021(1)		FY 2021(2)		FY 2020(1)	
Current ratio						
Current assets	193,441		196,569		153,481	
Current liabilities	249,098	= 0.78	201,874	= 0.97	232,704	= 0.66
Debt to Equity ratio						
Interest-bearing debt (long term)	347,928		146,148		280,741	
Equity	132,051	= 263%	153,562	= 95%	149,121	= 188%
Interest-bearing debt (long term)	347,928		146,148		280,741	
Capital employed	479,979	= 72.5%	299,710	= 48.8%	429,862	= 65.3%
Trade receivables turnover (days)						
Average receivables	24,491		24,491		28,825	
Sales	1,000,312	= 8.81	1,000,312	= 8.81	710,797	= 14.6
Fixed asset turnover						
Sales	1,000,312		1,000,312		710,797	
Net fixed assets	514,233	= 1.95	284,964	= 3.51	492,745	= 1.44

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 Q4 2021 & AFTER CLOSING OF THE REPORTING PERIOD

COVID-19 RELATED UPDATES

COVID-19 VACCINATION CAMPAIGNS

Romania was one of the first countries in the EU to lift restrictions and relax other measures in H1 2021, however the vaccinations campaign in Romania slowed down in Q3 2021, which led to a significant spike in COVID-19 infections starting with September 2021. In response to the low number of vaccinations, as of October 25th, 2021, the COVID-19 'Green Certificate' became mandatory for any indoor access, to public institutions, banks, restaurants, cinemas, gyms, and shopping malls. The pass shows someone has been vaccinated or recently recovered from the virus. Since its introduction, the green pass has been maintained across the country, having a direct negative impact on sales due to significantly lower foot traffic in malls and restaurants.

At the time of publishing of this report, according to European Centre for Disease Prevention and Control's (ECDC) COVID-19 Vaccine Tracker, approximately 42% of Romanian adult population, 39% of Moldavian population as well as 78% of the Italian population is fully vaccinated. The vaccination rate is significantly lower for the customer segment of 15-18 years old. The EU-wide percentage of fully vaccinated adults is approximately 71%.

LEASES

In Q4 2021, the Group continued to renegotiate the lease agreements whenever possible. Consequently, in Q4, the Group benefitted from rent discounts amounting to RON 0.6 million, out of which RON 0.4 million were granted to USFN Italy and 0.2 million to ARS. In 2021, the Group registered savings in total amount of RON 3.85 million, a third of savings registered in 2020 (RON 11.6 million).

STAFF

As of December 31st, 2021, the Group had 4,757 employees, out of which 4,387 in Romania, 290 in Italy and 80 in the Republic of Moldova. COVID-19 pandemic put additional pressure on the HoReCa industry as many employees decided to requalify to other sectors. Consequently, in 2021 the Group continued the project of hiring employees from abroad. So far, Sphera hired over 200 employees from Sri Lanka, with most of them currently working for USFN Romania, approximately 11% for Taco Bell and 4% for ARS.

In terms of technical unemployment indemnities, there were limited technical unemployment grants provided in Q4 2021 (RON 0.3 million). In Q1 2021 the Group registered RON 1.27 million in the technical unemployment indemnities, RON 1.2 million in Q2 2021, and RON 15K in Q3 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. On December 28th, 2021, the Group has informed the market that it has received the first tranche of the state aid payment, in the following amounts:

- RON 615,684 received by USFN Romania representing 46.87% of sums due according to the financing contract in total amount of RON 1,313,600;
- RON 615,684 received by ARS, representing 46.87% of sums due according to the financing contract in total amount of RON 1,313,600.

The second tranche of the payment has been received by the Group in January 2022.

HORECA SPECIFIC TAX FACILITY

The Group has posted specific tax in amount of RON 2.4 million due for 2021, taking into consideration the total period of 180 days of exemption when calculating 2021 annual tax amount.

BUSINESS AND CAPITAL MARKET RELATED UPDATES

DEVELOPMENT OF THE NETWORK

In 2021, Sphera Franchise Group has fulfilled the restaurant development plan as agreed with Master Franchisor, YUM!, having opened a total of 13 new restaurants, out of which 6 KFC restaurants in Romania and 2 KFC restaurants in Italy as well as 3 Pizza Hut restaurants and 2 Taco Bell restaurants in Romania.

In Q4 2021, Sphera opened 6 new restaurants, out of which 4 restaurants were KFC - a food court restaurant in Barlad, a drive thru KFC in Corbeanca, another food court restaurant Ploiesti Value Centre as well as one restaurant in Verona, Italy, on Piazza Delle Erbe. The Group also opened two new Pizza Hut restaurants – a Fast Casual Delivery restaurant in Targu Mures and a Pizza Hut Express in Buzau.

Consequently, as of 31.12.2021, Sphera operated 170 stores, out of which 148 based in Romania (92 KFC, 22 Pizza Hut, 19 Pizza Hut Delivery and 13 Taco Bell restaurants, 1 restaurant under Paul brand and 1 PHD subfranchise), 20 KFC restaurants in Italy and 2 KFC restaurants in Moldova.

GENERAL MEETING OF THE SHAREHOLDERS

On December 29th, 2021, the Board of Directors of Sphera Franchise Group convened the Ordinary General Meeting of the Shareholders for February 4th, 2022. During the OGSM, the shareholders elected a new Board of Directors consisting of Mr. Silviu-Gabriel Carmaciu, Mr. Mihai Ene, Mr. Lucian Hoanca, Mr. Razvan Lefter and Mr. Georgios Repidonis. The mandate of the Board of Directors is until May 30th, 2023.

In the same OGSM, the shareholders approved the dividend distribution amounting to RON 35,000,884.61 from the undistributed net profit of 2020, fixing a gross dividend per share at RON 0.9021. The ex-date is May 6th, 2022, registration date is May 9th, 2022, and the payment date is May 30th, 2022.

The shareholders have also approved the appointment of Ernst & Young Assurance Services S.R.L. as the statutory financial auditor of the Company, for a period of 3 years related to the financial years of 2022, 2023 and 2024.

INCLUSION IN THE FTSE GLOBAL MICROCAP

On February 18th, 2022, FTSE Russell announced that SFG shares will be included, as of March 21st, 2022, in the FTSE Russell indices for Emerging Markets, FTSE Global Micro Cap index. FTSE Global Micro Cap Index includes global micro-cap stocks, and it is suitable as the basis for investment products, such as funds, derivatives, and exchange-traded funds.

Inclusion in the FTSE index has been part of Sphera Franchise Group's strategy to increase the visibility of the company on an international arena as well as improve the daily liquidity of the shares.

DECLARATION FROM THE MANAGEMENT

Bucharest, February 24th, 2022

We confirm to the best of our knowledge that the unaudited preliminary condensed consolidated financial statements for the twelve month period ended 31 December 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 in 2021 and their impact on the preliminary condensed consolidated financial statements.

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes

**SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
YEAR ENDED 31 DECEMBER 2021 (UNAUDITED)**

All amounts in RON thousand, unless specified otherwise

Preliminary Condensed Consolidated Financial Statements for the year ended 31 December 2021 (unaudited)

The consolidated financial information included in this Preliminary Financial Report is based on the Sphera Franchise Group SA unaudited IFRS preliminary condensed consolidated financial statements for the year ended 31 December 2021.

SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR
ENDED 31 DECEMBER 2021 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

PRELIMINARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED
31 DECEMBER 2021 (UNAUDITED)

	<u>Note</u>	<u>2021</u>	<u>2020</u>
Restaurant sales		1,000,312	710,797
Other restaurant income*		2,627	726
Restaurant expenses			
Food and material expenses		327,645	232,338
Payroll and employee benefits	4	225,869	150,124
Rent		17,058	5,293
Royalties		59,987	41,274
Advertising		52,919	33,033
Other operating expenses, net	5	141,735	109,479
Depreciation, amortization and impairment of non-current assets		90,046	85,884
Restaurant operating profit		87,680	54,098
General and administration expenses, net	6	49,947	51,140
Operating profit		37,733	2,958
Finance costs		20,497	17,314
Finance income		150	237
Profit/(Loss) before tax		17,386	(14,118)
Income tax expense/(credit)		(3,701)	(6,380)
Specific tax expense		2,424	1,872
Profit/(Loss) for the period		18,664	(9,610)
Attributable to:			
Equity holders of the parent		18,425	(9,689)
Non-controlling interests		239	79
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Remeasurement (loss)/gain on defined benefit plan		(397)	262
Exchange differences on translation of foreign operations		12	(103)
Total comprehensive income for the period, net of tax		18,279	(9,451)
Attributable to:			
Equity holders of the parent		18,010	(9,502)
Non-controlling interests		269	51

*Other restaurant income refers to the state aid received for the reduction of the turnover due to the Covid-19 business disruption in Romania (2021) and Italy (2020).

SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR
ENDED 31 DECEMBER 2021 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

PRELIMINARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021
(UNAUDITED)

	Note	31 December 2021	31 December 2020
Assets			
Non-current assets		540,873	513,794
Property and equipment		222,069	201,118
Right-of-use assets		230,958	230,454
Intangible assets		61,206	61,173
Trade and other receivables		-	402
Deposits for rent guarantee		7,554	7,017
Deferred tax assets		19,086	13,629
Current assets		193,441	153,481
Inventories		13,391	11,099
Trade and other receivables		30,621	18,361
Prepayments		3,313	2,112
Cash and short-term deposits		146,116	121,909
Total assets		734,314	667,275
Equity and liabilities			
Equity			
Issued capital	7	581,990	581,990
Share premium		(519,998)	(519,998)
Other reserves		(1,314)	(917)
Retained earnings		71,457	88,033
Foreign currency translation reserve		(258)	(240)
Equity attributable to equity holders of the parent		131,877	148,868
Non-controlling interests		174	253
Total equity		132,051	149,121
Non-current liabilities		353,165	285,450
Interest-bearing loans and borrowings		146,110	83,859
Lease liabilities		201,819	196,883
Net employee defined benefit liabilities	4	4,235	3,141
Trade and other payables		1,001	1,567
Current liabilities		249,098	232,704
Trade and other payables		128,438	118,505
Interest-bearing loans and borrowings		66,479	66,350
Lease liabilities		54,181	47,850
Total liabilities		602,263	518,154
Total equity and liabilities		734,314	667,275

SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2021 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

PRELIMINARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 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	-	-	-	18,425	-	18,425	239	18,664
Other comprehensive income								
Remeasurement gain/(loss) on defined benefit plan	-	-	(397)	-	-	(397)	-	(397)
Translation differences	-	-	-	-	(18)	(18)	30	12
Total comprehensive income	-	-	(397)	18,425	(18)	18,010	269	18,279
Cash dividends	-	-	-	(35,001)	-	(35,001)	(347)	(35,348)
At 31 December 2021	581,990	(519,998)	(1,314)	71,457	(258)	131,877	174	132,051
As at 1 January 2020	581,990	(519,998)	(1,178)	111,402	(166)	172,050	201	172,251
Loss for the period	-	-	-	(9,689)	-	(9,689)	79	(9,610)
Other comprehensive income								
Remeasurement gain/(loss) on defined benefit plan	-	-	262	-	-	262	-	262
Translation differences	-	-	-	-	(75)	(75)	(28)	(103)
Total comprehensive income	-	-	262	(9,689)	(75)	(9,502)	51	(9,451)
Cash dividends	-	-	-	(13,679)	-	(13,679)	-	(13,679)
At 31 December 2020	581,990	(519,998)	(917)	88,033	(240)	148,868	252	149,121

SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
YEAR ENDED 31 DECEMBER 2021 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

PRELIMINARY CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31
DECEMBER 2021 (UNAUDITED)

	2021	2020
Operating activities		
Profit/(Loss) before tax	17,386	(14,118)
Adjustments to reconcile profit(loss) before tax to net cash flows:		
Depreciation of right-of-use assets	56,733	52,564
Depreciation and impairment of property, plant and equipment	34,858	35,050
Amortisation and impairment of intangible assets	4,597	7,659
Rent concessions (Note 2)	(3,846)	(11,607)
Movement in current assets allowance	170	-
Unrealised net foreign exchange differences	3,659	4,339
(Gain)/Loss on disposal of property, plant and equipment and right-of-use assets	8	(480)
Finance income	(150)	(237)
Finance costs (interest)	14,846	14,092
Working capital adjustments:		
Decrease/(Increase) in trade and other receivables and prepayments	(13,765)	30,148
Decrease/(Increase) in inventories	(2,292)	532
Increase in trade and other payables	11,724	9,007
Interest received	150	237
Interest paid	(14,475)	(13,961)
Income tax paid	(2,731)	(2,624)
Net cash flows from operating activities	106,872	110,600
Investing activities		
Proceeds from sale of property, plant and equipment	-	125
Purchase of intangible assets	(4,630)	(2,979)
Purchase of property, plant and equipment	(55,817)	(33,378)
Net cash flows used in investing activities	(60,447)	(36,231)
Financing activities		
Proceeds from borrowings	65,222	58,313
Repayment of borrowings	(4,747)	(17,601)
Payment of lease liabilities	(47,550)	(36,694)
Dividends paid to equity holders of the parent	(34,663)	(13,674)
Dividends paid to non-controlling interests	(347)	-
Net cash flows used in financing activities	(22,085)	(9,655)
Net increase in cash and cash equivalents	24,340	64,714
Net foreign exchange differences	(133)	(78)
Cash and cash equivalents at 1 January	121,909	57,272
Cash and cash equivalents at 31 December	146,116	121,909

**SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
YEAR ENDED 31 DECEMBER 2021 (UNAUDITED)**

All amounts in RON thousand, unless specified otherwise

**NOTES TO THE PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2021 (UNAUDITED)**

1 CORPORATE INFORMATION

These preliminary 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 (“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 114 restaurants as at 31 December 2021) under the Kentucky Fried Chicken (“KFC”), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (22 restaurants) as well as pizza delivery points (20 locations) under the Pizza Hut (“PH”) and Pizza Hut Delivery (“PHD”) brands, spread across Romania, one chain of restaurants under the “Taco Bell” brand (13 restaurants) and one restaurant under Paul brand, in Romania.

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 PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The preliminary condensed consolidated financial statements of the Group have been prepared in line with the accounting policies that will be used in preparing the 2021 annual consolidated financial statements which are consistent with those used in preparation of the 2020 annual consolidated financial statements. The final, audited, annual consolidated financial statements will be published in March 2022.

The preliminary 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 of 31 December 2020.

The Group’s preliminary condensed consolidated financial statements are presented in Romanian New Lei (“RON”) and all values are rounded to the nearest thousand RON, except when otherwise indicated. Accordingly, there may be rounding differences.

The preliminary condensed consolidated financial statements for the year ended 31 December 2021 included in this report are unaudited.

SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
YEAR ENDED 31 DECEMBER 2021 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

General accounting policies

The accounting policies and valuation methods adopted in the preparation of the preliminary 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 preliminary condensed consolidated financial statements. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

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

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

Foreign currencies

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

	31 December 2021	31 December 2020
RON – EUR	4.9481	4.8694
RON – USD	4.3707	3.9660
RON – MDL	0.2463	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.

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.

SPHERA FRANCHISE GROUP SA
PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE
YEAR ENDED 31 DECEMBER 2021 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

3 GROUP INFORMATION

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

<u>Company name</u>	<u>Country of incorporation</u>	<u>Field of activity</u>	<u>Control 31 December 2021</u>	<u>Control 31 December 2020</u>
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 Food Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%	100.0000%

4 PAYROLL AND EMPLOYEE BENEFITS

	<u>2021</u>	<u>2020</u>
Payroll and employee benefits recognised in restaurant expenses	225,869	150,124
Payroll and employee benefits recognized in "General and administration expenses, net"	30,374	28,955
Total Payroll and employee benefits	256,243	179,079

For the year ended 31 December 2021, total payroll and employee benefits include government grants in total amount of 2,800 related only to the restaurant expenses (2020: 28,332 (out of which 27,555 included in Restaurant expenses and 779 in General and administration expenses)) 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 and 41.5% Tax Romanian State Aid).

Payroll costs of 1,661 representing the value of project management and other technical activities performed by the Group's employees for the year ended 31 December 2021 (1,128 for the year ended 31 December 2020) 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 4,235 (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".

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All amounts in RON thousand, unless specified otherwise

5 OTHER OPERATING EXPENSES, NET

	<u>2021</u>	<u>2020</u>
Third-party services	81,234	57,187
YUM penalties (Note 8)	(1,527)	2,762
Utilities	29,027	21,757
Maintenance and repairs	14,710	10,383
Cleaning supplies	4,989	6,891
Small-wares	2,409	2,262
Transport	6,185	4,328
Telephone and postage	1,304	839
Insurance	806	768
Net (gain)/loss on disposal of property and equipment and right-of-use assets	8	(480)
Miscellaneous expenses and income, net	2,420	2,782
Provision for receivables, net	170	-
Total	<u>141,735</u>	<u>109,479</u>

Third party services refer to services rendered to restaurants and may include: food aggregators, security, cleaning, waste disposal, meal tickets settlement, cash collection, IT and HR services etc. These costs are directly dependent on number of restaurants in operation or sales volume (i.e. food aggregators) and are influenced by contract prices negotiated with suppliers.

6 GENERAL AND ADMINISTRATION EXPENSES, NET

	<u>2021</u>	<u>2020</u>
Payroll and employee benefits	30,374	28,955
Third-party services	5,925	6,041
Depreciation, amortization and impairment of non-current assets	6,142	4,968
Impairment of goodwill (ARS)	-	4,420
Rent	357	394
Banking charges	4,122	2,810
Transport	781	929
Maintenance and repairs	388	300
Small-wares	153	79
Insurance	572	536
Advertising	345	491
Telephone and postage	331	300
Miscellaneous expenses and income, net	457	917
Total	<u>49,947</u>	<u>51,140</u>

7 ISSUED CAPITAL

	<u>31 December</u> <u>2021</u>	<u>31 December</u> <u>2020</u>
Authorised shares (Sphera)		
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 31 December 2021 are: Tatika Investments Ltd. (28.6089%), Computerland Romania SRL (20.5327%), Wellkept Group SA (16.3400%) and free float (34.5184%).

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The shareholders of Sphera Franchise Group SA as at 31 December 2020 are: Tatika Investments Ltd. (28.2320%), Computerland Romania SRL (20.5326%), Wellkept Group SA (16.3400%), Lunic Franchising and Consulting LTD (10.8412%) and free float (24.0539%).

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

At the Ordinary General Shareholders Meeting held on 04 February 2022, the shareholders of Sphera Franchise Group SA approved the distribution of dividends in total amount of 35,001 from the undistributed profit from 2020. The gross dividend per share is RON 0.9021. The payment date of the dividends will be 30 May 2022.

8 EBITDA

	<u>2021</u>	<u>2020</u>
Operating profit	37,733	2,958
Adjustments to bridge operating profit to EBITDA:		
Depreciation, amortization and impairment of non-current assets included in restaurant expenses	90,046	85,884
Depreciation, amortization and impairment of non-current assets included in general and administration expenses	6,142	4,968
EBITDA	133,921	93,810
Normalization adjustments	(1,527)	7,182
Normalised EBITDA	132,394	100,992

For the year ended 31 December 2021, EBITDA was normalized to exclude the impact of the reversal of the accrued penalties due to Pizza Hut Europe (Master Franchisor - YUM!), following the signing of the new development agreement in August 2021.

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

9 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 two more immaterial operating segments, one being Paul restaurant which is managed by USFN and which was aggregated into the KFC segment and the management and other support services provided by Sphera to other related parties (2020).

Inter-segment revenues are eliminated and reflected in the "Eliminations" column.

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

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2021	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	861,530	90,011	48,771	-	-	1,000,312
Inter-segment revenues	-	-	-	28,967	(28,967)	-
Other income	1,314	1,314	-	-	-	2,627
Dividend revenues	-	-	-	37,525	(37,525)	-
Operating expenses	820,671	99,263	50,801	35,962	(41,490)	965,206
Segment operating profit	42,173	(7,938)	(2,030)	30,530	(25,002)	37,733
Finance costs	17,293	2,566	2,136	2,268	(3,767)	20,497
Finance income	2,234	8	-	1,675	(3,767)	150
Income taxes	(3,871)	31	-	139	-	(3,701)
Specific tax expense	1,534	689	200	-	-	2,424
Net profit/(loss)	29,451	(11,217)	(4,367)	29,798	(25,002)	18,664

2020	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	612,723	68,403	29,512	167	-	710,797
Inter-segment revenues	7	-	-	23,656	(23,663)	-
Other income	727	-	-	-	-	727
Dividend revenues	-	-	-	85,223	(85,223)	-
Operating expenses	595,110	83,164	31,665	42,819	(44,194)	708,564
Segment operating profit	18,339	(14,761)	(2,153)	66,227	(64,692)	2,960
Finance costs	14,690	2,225	1,940	1,903	(3,444)	17,314
Finance income	1,688	25	-	1,968	(3,444)	237
Income taxes	(6,340)	43	-	(83)	-	(6,380)
Specific tax expense	1,123	620	129	-	-	1,872
Net profit/(loss)	10,554	(17,624)	(4,222)	66,375	(64,692)	(9,610)

Geographic information:

Revenue from external customers	Year ended	
	2021	2020
Romania	873,743	625,663
Italy	114,141	76,456
Republic of Moldova	12,428	8,678
Total restaurant revenue	1,000,312	710,797

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

Bucharest, February 24, 2022

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes