# 2021 ANNUAL REPORT

SPHERA FRANCHISE GROUP

SPHERA

KFC Pizza Hut Pizza Hut TACO BELL

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DISCLAIMER: Unless mentioned otherwise, the amounts in this report are expressed in '000 RON.

# ISSUER INFORMATION

## INFORMATION ABOUT THIS FINANCIAL REPORT

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|---|---|
| Type of report | Annual Report |
| For financial period | 01.01.2021 – 31.12.2021 |
| Date of publishing | 28.03.2022 |
| According to | Annex 15 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 | 581,990,100 RON |
| 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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Ernst & Young Assurance Services S.R.L.
25. MAR. 2022
Signed for identification
Semnat pentru identificare

SPHERA

# LETTER FROM THE CEO

Dear Shareholders,

We publish this report two years since the beginning of the COVID-19 pandemic. The recovery process is still ongoing, and we expect it to continue also in 2022. However, as the pandemic is over, we are witnessing a challenging global context, which we expect will put pressure on businesses worldwide.

But, before we jump into the future, I would like to present to you a short recap of the accomplishments of my colleagues from last year. In 2021, Sphera Franchise Group posted consolidated sales of over RON 1 billion, a historic milestone for the Group and a 41% increase compared to 2020.

As of 31 December 2021, we operate 170 restaurants, out of which 148 restaurants in Romania, 2 in the Republic of Moldova and 20 in Italy. In 2021 alone, we opened 13 new stores across Romania and Italy – 6 new KFC restaurants in Romania, 2 Pizza Hut Fast Casual Delivery units, 1 Pizza Hut Express unit, 2 Taco Bell restaurants, and another 2 new KFC stores in Italy. These new openings represent our firm commitment to continue the development of all the three restaurants on the markets where we are active. The expansion will continue this year, and we aim to open more restaurants in 2022 than we did in 2021.

2021 was the year when Sphera launched new types of Pizza Hut restaurants on our home market, Romania – the Fast Casual Delivery and Express. Unlike the classic Pizza Hut restaurants, the fast-casual concept offers customers the opportunity to order at the counter and eat at the table or elsewhere. It is a concept that addresses customers who do not have time for the formal ceremony of a restaurant, who prefer the convenience and speed of sitting down and enjoying their meal. We believe in this new concept, and therefore our plan for Pizza Hut is to open another 6 new restaurants in the next couple of years.

2022 is a year we look forward to as we mark a series of significant events at Sphera level: the 25th anniversary of KFC's presence in Romania and the inauguration of KFC's 100th local restaurant, 5 years since Sphera was listed on the Bucharest Stock Exchange and 5 years since the launch of Taco Bell in Romania. We thus believe we will have many reasons to celebrate.

Even the last two years have been marked intensively by the global pandemic, our teams in all three markets have achieved exceptional results, despite the challenges. Therefore, we are pleased with the results generated by the Group last year, especially in the continuously demanding context, which, on top of the COVID-19 pandemic, included also rising inflation as well as challenges to the supply chain. We feel that we are coming out of this pandemic stronger than ever and that we have significantly improved our operating model in these last two years. Our cash position is strong, our development plans for 2022 remain ambitious, and we are confident about our performance for this year. We believe that our shareholders share this viewpoint. Earlier this year, the General Meeting of Shareholders approved the distribution of dividends of RON 35 million, which will be paid out on 30 May 2022.

We continue our journey alongside our shareholders. We are all more pleased with the recognition received from the FTSE Russell and the inclusion of Sphera's shares in the FTSE Global Micro Cap index, which will put us on the radar of institutional investors worldwide. In 2022, we will pay particular attention to sustainability aspects as we know it is a growing priority for investors. In this context, by July this year, we will publish the 2020 & 2021 Sustainability Report of our Group, which will give you a better insight into our business model.

Despite the volatility in the market, we are ready to write a new chapter in the history of Sphera Franchise Group, with outstanding results for all brands, in all the markets of activity.

**Călin Ionescu**

# DIRECTORS' REPORT

SPHERA

# CORPORATE INFORMATION

Sphera Franchise Group SA together with its subsidiaries: US Food Network SA ("USFN"), US Food Network SRL Italy ("USFN Italy"), US Food Network SRL Moldova ("USFN Moldova"), California Fresh Flavors SRL ("Taco Bell") and American Restaurant System SA ("ARS") form "the Group" (or "SFG").

Sphera Franchise Group SA (the "legal Parent", "Sphera" or the „Company") was incorporated on 16 May 2017 by the shareholders of USFN and ARS as a joint stock company and is registered at no. 239 Dorobanti Avenue, Bucharest, Romania. Sphera Franchise Group's shares floated on the Main Market of the Bucharest Stock Exchange on November 9th, 2017, after a successful Initial Public Offering. Since September 24th, 2018, the shares of Sphera Franchise Group, available under "SFG" symbol are included in the Main Index of Bucharest Stock Exchange, BET, which is the benchmark index for the Romanian capital market. As of March 21st, 2022, SFG shares are included in the FTSE Global Micro Cap index, which follows global micro-cap stocks, and it is suitable as the basis for investment products, such as funds, derivatives, and exchange-traded funds. Sphera Franchise Group is the first and the only foodservice operator listed on the Bucharest Stock Exchange.

The Group operates quick service and takeaway restaurant concepts (a chain of 114 restaurants as of December 31st, 2021) under the Kentucky Fried Chicken ("KFC"), spread across Romania (92 restaurants) as well as in the Republic of Moldova (2 restaurants) and in Italy (20 restaurants). The Group also operates a chain of pizza restaurants (22 restaurants as of 31 December 2021) as well as pizza delivery points (20 locations, including 1 subfranchise) 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 as of 31 December 2021) and one restaurant under Paul brand, in Romania. As of 31 December 2020, the Group had 4,757 employees, out of which 4,387 work in Romania, 290 in Italy and 80 in the Republic of Moldova.

In 2017, ahead of listing on Bucharest Stock Exchange, the Group underwent reorganization that resulted in the establishment of Sphera as the legal parent company of US Food Network SA (USFN), American Restaurant System SA (ARS), US Food Network S.r.l. ("USFN Italy" or the "Italian subsidiary"), US Food Network SRL ("USFN Moldova" or the "Moldavian subsidiary") and California Fresh Flavors SRL (Taco Bell). The purpose of the reorganization was to ensure a better coordination of activities and enhance value creation, by taking advantage of the synergies at group level and by achieving economies of scale. In terms of activities, Sphera renders to the benefit of the Group entities services such as management services, marketing support, development and project management, sales support, human resources, and other services.

# GROUP STRUCTURE

Details of the Sphera's investments in controlled companies also representing the Group's consolidated subsidiaries as of 31 December 2021 and 31 December 2020 are as follows:

| Company name | Incorporation | Field of activity | Control 31.12.2021 | Control 31.12.2020 |
|---|---|---|---|---|
| US Food Network SA | Romania | Restaurants | 99.9997% | 99.9997% |
| American Restaurant System SA | Romania | Restaurants | 99.9997% | 99.9997% |
| California Fresh Flavors SRL | Romania | Restaurants | 99.9900% | 99.9900% |
| US Food Network SRL | Moldova | Restaurants | 80.0000% | 80.0000% |
| US Food Network S.r.l. | Italy | Restaurants | 100.0000% | 100.0000% |

Sphera has become the parent company of USFN and ARS on 30 May 2017, following the contribution by shareholders of USFN and ARS of 99.9997% of the shares in the two companies in exchange for shares in Sphera. On 8 June 2017 and 14 June 2017, Sphera purchased the shares held by USFN in US Food Network SRL (Republic of Moldova) and respectively US Food Network S.r.l. (Italy). In June 2017, Sphera set up the newest subsidiary of the Group, California Fresh Flavors, bringing in its portfolio the Taco Bell brand.

US Food Network SA (USFN), the subsidiary which operates the KFC franchise in Romania was incorporated in 1994 as a limited liability company and further has changed the organization form as joint stock company with registered office at no. 239 Dorobanti Ave., 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 Dorobanti Ave., 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 S.r.l operating the KFC franchise in Italy was incorporated in 2016 as a limited liability company and is registered at No. 5 Viale Francesco Restelli, Milano, Italy. The Group owns 100% of the company's shares.

California Fresh Flavors SRL ("Taco Bell") 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 Dorobanti Ave., Bucharest, Romania.

# SCOPE OF BUSINESS

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 31 December 2021, the Group operates 170 restaurants in Romania, Italy, and the Republic of Moldova.

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

- Quick-service restaurants - through KFC restaurants (in Romania, the Republic of Moldova and Italy), Taco Bell restaurants (in Romania) and Pizza Hut Express restaurants (in Romania, new concept launched in 2021);
- Full-service restaurants - through Pizza Hut Dine-In restaurants in Romania;
- Delivery restaurants and Fast Casual Delivery restaurants - through Pizza Hut delivery units in Romania.

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

## ABOUT THE BRANDS

KFC

**KFC** is the world's second-largest restaurant chain as measured by sales. KFC is a quick-service restaurant specialized in fried chicken and chicken meals. As of December 2021, there were more than 25,000 KFC Restaurants located in 145 countries and territories in the world. The first KFC restaurant was launched in Bucharest, Romania in 1997 by the Group.

Today, KFC is the leading chicken restaurant chain in Romania in terms of both total sales and number of restaurants. As of 31 December 2021, there were 92 KFC restaurants in Romania. In 2008, the Group opened the first KFC restaurant in the Republic of Moldova, and as of December 31st, 2021, the Group operated two restaurants (both in Chisinau). In 2017 the Group opened the first two restaurants in Italy. As of 31 December 2021, there were 20 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 31 December 2021, 68 were food court locations (in malls or commercial centers), 24 were inline (street locations), while another

22 were Drive-Thru locations. In 2018, KFC Romania has lunched the delivery activity, which is now carried out in most of the stores, with delivery either carried own by own staff, or in collaboration with food aggregator platforms.

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 chicken meat pieces, and some include portions of French fries and non-alcoholic drinks.

**PIZZA HUT** is a casual dine-in restaurant, known for its Italian American cuisine. With over 18,000 restaurants in more than 100 countries, it is the world's largest pizza chain in terms of locations. Restaurants serve a diverse menu which includes pizza and pasta, salads as well as side dishes and desserts. Pizza Hut entered the Romanian market in 1994, with the opening of its first location on Calea Dorobanților in Bucharest.

**PIZZA HUT DELIVERY** is the concept for home delivery launched by Pizza Hut. Pizza Hut Delivery has been present on the Romanian market since December 2007, with the opening of its first location in Vitan area, Bucharest.

Pizza Hut is the largest casual dine-in restaurant chain in Romania in terms of both total sales and number of restaurants. On 31 December 2021 there were 22 Pizza Hut Dine-In restaurants across the major cities of Romania and 19 Pizza Hut Delivery restaurants. Of the 22 Pizza Hut Dine-In restaurants operating in Romania as of 31 December 2021, 19 (including 1 Pizza Hut Express location) are located near food courts with dedicated seating (in malls or commercial centers) and 3 are inline (street locations). For Pizza Hut Delivery, 8 out of the 19 Pizza Hut Delivery restaurants were located within commercial centers (including 1 Fast Casual Delivery location), 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), with over 7,000 locations worldwide. The restaurants serve a variety of Mexican inspired foods that include tacos, burritos, quesadillas, nachos, novelty and specialty items and a range of "value menu" products. The first Taco Bell store was launched in Bucharest, Romania, by Sphera Franchise Group in October 2017. As of 31 December 2021, the Group operated 13 Taco Bell restaurants, all of them 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.

# SHAREHOLDERS AND ISSUED CAPITAL

The share capital of Sphera Franchise Group SA on 31 December 2021 equaled to RON 581,990,100, divided into 38,799,340 ordinary shares with a nominal value of RON 15 per share. The share capital on 31 December 2020 was the same.

The shareholders of Sphera Franchise Group SA as of 31 December 2021 and 31 December 2020 are as follows:

| **Shareholder** | **Percent of shares on 31.12.2021** | **Percent of shares on 31.12.2020** |
|---|---|---|
| Tatika Investments Ltd. | 28.61% | 28.23% |
| Computerland Romania SRL | 20.53% | 20.53% |
| Wellkept Group SA | 16.34% | 16.34% |
| Lunic Franchising and Consulting LTD | n/a – included in free-float | 10.85% |
| Free-float | 34.52% | 24.05% |

# MANAGEMENT OF THE GROUP

## BOARD OF DIRECTORS

Company is managed by the Board of Directors whose members are appointed for a mandate of 4 years. As of November 25th, 2020, the number of the Board Members of the Company, is 5 members, out of whom 2 must be independent.

The structure of the Board of Directors as of 31 December 2021 was the following:

| **Name** | **Date of appointment** | **Title** | **Role** | **Number of SFG shares held on 31.12.2021** |
|---|---|---|---|---|
| Lucian Hoanca | 25 April 2019 | Chairman of the BoD | Non-executive member | - |
| Silviu Gabriel Cârmaciu | 25 April 2019 | Vice-Chairman of the BoD | Non-executive member | - |
| Georgios Vassilios Repidonis | 25 April 2019 | Member of the BoD | Non-executive member | - |
| Valentin Arnaoutou | 25 April 2019 | Member of the BoD | Independent member | - |
| Razvan Stefan Lefter | 25 April 2019 | Member of the BoD | Independent member | 70,000 shares |

There were no changes to the structure of the Board of Directors in the course of 2021.

## LUCIAN HOANCĂ

Born in 1957, Mr Hoanca is a non-executive member of the Board of Directors of Sphera Franchise Group since 2018, as well as the Chairman of the Board since October 2020. He is also chairman of the Group's Nomination and Remuneration Committee. Mr Hoancă graduated from the Faculty of Foreign Languages at the University of Bucharest, being licensed in philology. Since 1995, he has held management positions in various companies such as ANA Group, EUROM, Exclusiv Comp, Baneasa Developments, Wellkept Group, Tatika Investments, Parc Hotels.

Affiliated companies: TDL Consult SRL, Parc Hotels SA, Tatika Investments Limited, Baneasa Developments SRL.

*In the last 5 years, Mr Hoanca has not been banned by a court from serving as a member of the board of directors or supervisory board of a company. In the last 5 years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of some companies, of which Mr Hoanca is a member of the board of directors or supervisor. In the last 5 years, there have been no litigations or administrative procedures in which Mr Hoanca has been involved in the context of his activity within the issuer, as well as those regarding Mr Hoanca's ability to fulfil his duties within the issuer. There is no agreement, understanding or family connection between Mr Hoanca and another person due to whom he was appointed as the administrator of the company.*

### SILVIU GABRIEL CÂRMACIU

Born in 1980, Mr Cârmaciu is a non-executive member of the Group's Board of Directors since May 2017, as well as Vice-Chairman of the Board since October 2020; he is also the Chairman of the Company's Audit Committee. He is licensed in Economics, specializing in Finance, Banking and Accounting. He postgraduate courses in International Economic Relations, Security and National Defense; also graduated professional trainings in Banking, General Management, Coaching and Leadership, Financial Management.

He carried out various management roles in Banking Industry and Private Companies like Strategic and Treasury Management, Investments, Consulting and Services.

Affiliate companies: Computerland Romania SRL.

*In the last 5 years, Mr Cârmaciu has not been banned by a court from serving as a member of the board of directors or supervisory board of a company. In the last 5 years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of some companies, of which Mr Cârmaciu is a member of the board of directors or supervisor. In the last 5 years, there have been no litigations or administrative procedures in which Mr Cârmaciu has been involved in the context of his activity within the issuer, as well as those regarding Mr Cârmaciu's ability to fulfil his duties within the issuer. There is no agreement, understanding or family connection between Mr Cârmaciu and another person due to whom he was appointed as the administrator of the company.*

### GEORGIOS VASSILIOS REPIDONIS

Born in 1961, Mr Repidonis is a non-executive member of the Group's Board of Directors since 2019. Mr Repidonis graduated from the Faculty of Planning and Economic Cybernetics within the Academy of Economic Studies in Bucharest. His professional career has been in the field of executive management, development projects, product marketing and accounting. Between 1994 - 1997 he was a shareholder, administrator and General Manager of Comtra Intl Distributor in Romania, and between 2004 - 2010 he was a shareholder and General Manager of El Greco restaurant in Bucharest. Mr Repidonis was also a shareholder and responsible for the development of the Romanian franchise of the Lacoste and Gant brands between 2001 and 2015.

Since 2008 he is a shareholder, administrator, and general manager of Cafe Nescafe cafes, and since 2015 he is general manager of Casa Doina restaurant in Bucharest. Mr. Repidonis is a member of the Board of Directors and an administrator at Băneasa Developments.

Affiliated companies: Casa Doina SRL, Dyonissos Group SRL, Debt Advisory and Management SRL, Baneasa Investments SA, Midi Development SRL.

*In the last 5 years, Mr Repidonis has not been banned by a court from serving as a member of the board of directors or supervisory board of a company. In the last 5 years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of some companies, of which Mr Repidonis is a member of the board of directors or supervisor. In the last 5 years, there have been no litigations or administrative procedures in which Mr Repidonis has been involved in the context of his activity within the issuer, as well as those regarding Mr Repidonis's ability to fulfil his duties within the issuer. There is no agreement, understanding or family connection between Mr Repidonis and another person due to whom he was appointed as the administrator of the company.*

SPHERA

## VALENTIN ARNAOUTOU

Born in 1956, Mr Arnaoutou is a non-executive independent member in the Board of Directors of Sphera Franchise Group since 2019. He has dual citizenship, Romanian and Greek and is a graduate of the Bucharest Construction Institute, Faculty of Technological Equipment. He was General Manager of the Hellenic-Romanian Chamber of Commerce and Industry from 2000 to 2011 and is currently the founder and General Manager of Hellenic - Romanian Business Counselors.

Affiliated companies: Hellenic - Romanian Business Counselors (non-profit).

*In the last 5 years, Mr Arnaoutou has not been banned by a court from serving as a member of the board of directors or supervisory board of a company. In the last 5 years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of some companies, of which Mr Arnaoutou is a member of the board of directors or supervisor. In the last 5 years, there have been no litigations or administrative procedures in which Mr Arnaoutou has been involved in the context of his activity within the issuer, as well as those regarding Mr Arnaoutou's ability to fulfil his duties within the issuer. There is no agreement, understanding or family connection between Mr Arnaoutou and another person due to whom he was appointed as the administrator of the company.*

## RAZVAN STEFAN LEFTER

Born in 1980, Mr Lefter is an independent, non-executive member of the Board of Directors of the Sphera Group since November 2018. He graduated from the Faculty of Finance, Insurance, Banking and Stock Exchanges at the Academy of Economic Studies in Bucharest and holds the title of CFA (Chartered Financial Analyst) awarded by CFA Institute since 2008. He is currently Managing Partner at RSL Capital Advisors, an investment consulting firm, but also a member of the boards of directors of companies such as Mundus Services AD Bulgaria or Eurohold AD Bulgaria. He was also a member of the Boards of Directors or Supervisory Board of important companies such as SIF Muntenia, Cemacon Zalău, CONPET Ploiești, TeraPlast Bistrița. At the beginning of his career, Mr. Lefter held several positions at ING Bank, being among others an analyst at the bank's headquarters in the Netherlands, after which he was Senior Equity Sales Trader at EFG Eurobank Securities and Swiss Capital Romania.

Affiliated companies: RSL CAPITAL ADVISORS SRL, Eurohold AD Bulgaria, Mundus Services AD Bulgaria, Teraplast SA.

*In the last 5 years, Mr Lefter has not been banned by a court from serving as a member of the board of directors or supervisory board of a company. In the last 5 years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of some companies, of which Mr Lefter is a member of the board of directors or supervisor. In the last 5 years, there have been no litigations or administrative procedures in which Mr Lefter has been involved in the context of his activity within the issuer, as well as those regarding Mr Lefter's ability to fulfil his duties within the issuer. There is no agreement, understanding or family connection between Mr Lefter and another person due to whom he was appointed as the administrator of the company.*

## CONSULTATIVE COMMITTEES

The BoD established an Audit Committee and a Nomination and Remuneration Committee. Both the Audit Committee and the Nomination and Remuneration Committee comprises of three members of the BoD, of which one is elected chairman.

The members of the Audit Committee as of December 31st, 2021 were:

- Silviu Gabriel Carmaciu, Chairman;
- Razvan Lefter – member;
- Valentin Arnaoutou – member.

The members of the Nomination and Remuneration Committee as of December 31st, 2021 were:

- Lucian Hoanca – Chairman;
- Georgios Repidonis – member;
- Valentin Arnaoutou – member.

## EXECUTIVE MANAGEMENT

The Board of Directors delegates the management of the Company to managers who fulfil their functions based on mandate contracts. The list of persons holding management positions as of 31 December 2021 is presented below:

| Name | Title | Date of Appointment | Number of SFG shares held on 31.12.2021 |
|---|---|---|---|
| Călin Viorel Ionescu | Chief Executive Officer (CEO) | October 8th, 2020 (effective October 8th, 2020) | - |
| Valentin-Ionut Budes | Chief Financial Officer (CFO) | March 7th, 2019 (effective May 9th, 2019) | 34,906 shares |
| Cristian Osiac | Chief Development Officer (CDO) | July 8th, 2019 (effective September 1st, 2019 – new mandate) | - |
| Oana Monica Eftimie | Chief Marketing Officer (CMO) | July 8th, 2019 (effective September 1st, 2019 – new mandate) | - |

There were no changes to the Executive Management team in the course of 2021.

## CĂLIN IONESCU

Born in 1969, Mr Ionescu has been the Chief Executive Officer (CEO) since October 2020 and the Chief Operating Officer of the Sphera Franchise Group (COO) since August 2017. Mr Ionescu studied Marketing and Management at the Romanian-American University of Bucharest. His activity in the field of restaurants started in 1994, with the opening of the first Pizza Hut restaurant managed by ARS (Romania). He held various positions in operations, from Restaurant Manager to General Manager, and in 2012 he was promoted to the position of Group Chief Operating Officer. Throughout this period, he actively participated in the process of expanding KFC and Pizza Hut in Romania and the Republic of Moldova, and in 2016, he laid the foundations for the development of KFC in northeastern and northwestern Italy. Under his supervision, the performance of the KFC and Pizza Hut brands in Romania was consistently in the top three countries according to the operational performance standards of Yum!. In addition, Mr Ionescu coordinates and holds executive and operational positions in other companies operating restaurant brands in Romania, such as Hard Rock Café and Cinnabon Bakery.

## VALENTIN BUDEȘ

Born in 1983, Mr Budeș is the Chief Financial Officer (CFO) of Sphera Franchise Group since May 2019. Valentin Budeș attended the Faculty of Economic Studies in Foreign Languages, French section, at the Academy of Economic Studies in Bucharest and holds a master's degree in "International Accounting" from same university. Mr Budeș is a senior member of the Association of Chartered and Certified Accountants (ACCA) and holds a certification in risk management issued by the Institute of Internal Auditors of the United States of America. In Romania, Valentin Budes is a CECCAR member, an accounting expert, and an insolvency practitioner, being a UNPIR member.

Before working in the field of restaurants, Valentin Budeș worked in the field of financial consulting at KPMG Romania; the financial division within the telecommunications companies of the Telekom Romania group (Cosmote, Telemobil, Germanos and Nextgen); and before joining the Sphera Franchise Group he was responsible for approximately 3 years for the financial activities of the Medicover Romania Group.

### CRISTIAN OSIAC

Born in 1968, Mr Osiac has been the Group's Development Director since June 2017 and was a member of Sphera's Board of Directors between May 2017 and April 2019. He studied at the Faculty of Electronics and Telecommunications at the Polytechnic University of Bucharest. Cristian Osiac joined the Group in 1994, as Technical Director, and was responsible for opening the first Pizza Hut unit in Romania. In 1997, as Development Director, he was responsible for the opening of the first KFC restaurant in Bucharest and, in this capacity, Mr Osiac coordinated the main development activities and operations for all the Group's brands. After 2007, Mr Osiac has also held executive positions in other companies that manage restaurant brands or other food services in Romania, such as Paul bakeries and Cinnabon pastries, being responsible for development activities. He also actively participated in the development process of the Hard Rock Café restaurant in Bucharest. Moreover, in 2008, he was appointed Chairman of the Board of Directors of ARS (Romania) and USFN (Romania). Throughout this period, Mr Osiac coordinated and supervised the expansion of the KFC and Pizza Hut brands in Romania, the Republic of Moldova and, most recently, in northern Italy.

### MONICA EFTIMIE

Born in 1979, Mrs Eftimie has been the Group's Director of Marketing (CMO) since August 2017. She is a graduate of Northwestern University and has a master's degree in business administration from Georgetown University. Since 2013, she has been the Marketing Director of ARS (Romania) and USFN (Romania), and in this capacity she coordinated the marketing activities for the brands KFC, Pizza Hut, Pizza Hut Delivery and developed and implemented local marketing campaigns for these brands. Mrs Eftimie also held the position of Marketing Director in the company that operates the Paul brand in Romania. With over 10 years of experience in the food industry, Mrs Eftimie started her marketing career with internships at Accor Group (France) and Saatchi & Saatchi Advertising. She later developed complex marketing campaigns for some of the most well-known names in the food industry, such as McDonald's.

*None of the members of executive team were in the past 5 years forbidden by the court to fulfil the position of a Member of a Board of Directors or Supervisory Board. In past 5 years, there were no cases of insolvency, liquidation, bankruptcy, or special administration of companies where the executive members sat on the Board of Directors or Supervisory Board. None of the executive managers carries professional activity which would compete with that of the issuer.*

# CONSOLIDATED FINANCIAL RESULTS

***Note:*** *Starting 1 January 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 consolidated financial statements of Sphera, please refer to the Consolidated Financial Statements.*

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 Consolidated Financial Statements for FY (results excluding IFRS 16 impact):**

| Data in RON'000 | 2021 | 2020 | Y/Y % 2021/2020 | % of Sales 2021 | % of Sales 2020 | Δ% |
|---|---|---|---|---|---|---|
| **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 the Consolidated Financial Statements for FY – results and evolution presented with and without IFRS 16 impact**

| Data in RON'000 | 2021<br>1 | 2021<br>2 | 2020<br>1 | 2020<br>2 | Change (%)<br>2021/<br>2020 (1) | <br>2021/<br>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) | (3,702) | (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 (-14%, down to RON 2.2 million).

| | Data in RON '000<br>2021<br>(1) | <br>2021<br>(2) | <br>2020<br>(1) | <br>2020<br>(2) | Change (%)<br>2021/<br>2020 (1) | <br>2021/<br>2020 (2) | Percentage of sales<br>2021<br>(1) | <br>2021<br>(2) | <br>2020<br>(1) | <br>2020<br>(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 results by Group companies – 12M-2021 (excluding IFRS 16 Impact):**

| | 12M-21 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Data in RON'000** | **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 (5,400).*

In 2021 all the brands continued to register sales increases, both like-for-like and all stores performance, compared to 2020. 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. 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.

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| 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 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% |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In terms of consolidated statement of financial position, out of total assets, 74% represent non-current assets, an increase of 5.3% Y/Y, mainly as a result of opening new restaurants. Current assets have increased significantly, reaching RON 193.4 million, a 26.1% Y/Y increase mainly determined by a consolidation of the cash position, a 20% increase Y/Y up to RON 146.1 million and a 67% Y/Y increase in trade and other receivables (the VAT to be recovered from the state budget) up to RON 30.6 million.

Consolidated total equity decreased by 11.4% Y/Y, down to RON 132 million, as a result of the dividends paid to shareholders in the course of 2021 (RON 35 million) offset by the profit registered by the Group (RON 18.6 million).

Consolidated total liabilities increased by 16.2% Y/Y to RON 602.2 million, out of which 35% were accounted for interest bearing loans that increased to RON 212.5 million as an effect of new loans activated and postponement of loan principal repayments.

A summary of consolidated financial position as of ended 31 December 2021 and 31 December 2020, respectively is presented below:

| *Data in RON'000* | **31-Dec-21** | **31-Dec-20** | **Δ '21/'20** |
|---|---|---|---|
| **Non-current assets Total** | **540,873** | **513,794** | ***5.27%*** |
| Non-current assets | 308,480 | **283,340** | *8.87%* |
| Right-of-use assets | 232,393 | **230,454** | *0.84%* |
| **Current assets Total** | **193,441** | **153,481** | ***26.04%*** |
| **Total assets** | **734,314** | **667,275** | ***10.05%*** |
| **Total equity** | **132,052** | **149,121** | ***-11.45%*** |
| **Non-current liabilities Total** | **353,165** | **285,450** | ***23.72%*** |
| Non-current liabilities | 150,345 | **88,567** | *69.75%* |
| Lease liabilities (IFRS 16) | 202,820 | **196,883** | *3.02%* |
| **Current liabilities Total** | **249,097** | **232,704** | ***7.04%*** |
| Current liabilities | 194,916 | **184,854** | *5.44%* |
| Lease liabilities (IFRS 16) | 54,181 | **47,850** | *13.23%* |
| **Total liabilities** | **602,262** | **518,154** | ***16.23%*** |
| **Total equity and liabilities** | **734,314** | **667,275** | ***10.05%*** |

# STANDALONE FINANCIAL RESULTS

Sphera Franchise Group's individual revenues include dividend income from subsidiaries (US Food Network SA) and revenues from services rendered. Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established which is generally when shareholders approve the dividend.

Revenues from services refer to management and support services provided to its subsidiaries, such as: marketing, development and project management, services for restaurants network expansion, sales support, human resources, and other services. For calculating the price of services rendered, the Company applies a mark-up of 10% to cost of service, determined based on benchmark analysis as requested by transfer pricing legislation.

Net profit for the year was 29,799 (2020: 66,375), the decrease being determined by the 56% decrease in revenue from dividends.

Details of the investments in subsidiaries as at 31 December 2021 and 31 December 2020, respectively, are as follows:

*Data in RON'000*

| Company | Share interest percent | 31 December 2021 | | | 31 December 2020 | | |
|---|---|---|---|---|---|---|---|
| | | Investment at cost | Accumulated impairment loss | Carrying value | Investment at cost | Accumulated impairment loss | Carrying value |
| US Food Network SA (Romania) | 99.9997% | 519,704 | - | **519,704** | 519,704 | - | **519,704** |
| American Restaurant System SA (Romania) | 99.9997% | 88,786 | 56,288 | **32,498** | 88,786 | 50,888 | **37,898** |
| California Fresh Flavors SRL (Romania) | 99.9900% | 100 | - | **100** | 100 | - | **100** |
| US Food Network SRL (Moldova) | 80.0000% | 1,735 | - | **1,735** | 1,735 | - | **1,735** |
| US Food Network SRL (Italy) | 100.0000% | 70,026 | - | **70,026** | 56,417 | - | **56,417** |
| **Total** | | **680,351** | **56,288** | **624,064** | **666,742** | **50,888** | **615,854** |

In 2021, the Company increased the value of the investment in US Food Network SRL Italy with the amount of 13,609 by converting a part of the existing shareholder's loan to equity.

As of 31 December 2021, the Company assessed whether there are indicators of impairment for its cost of investment in subsidiaries, as follows:

- Despite of the prolongation of the COVID-19 pandemic, USFN and USFN Moldova's activities in 2021 have registered a good performance, in line with the cash flow projections; both subsidiaries are in a profit position, therefore no impairment indicator was identified;
- USFN Italy, that started activity during 2017, was affected by the COVID-19 outbreak due to the severe impact of the pandemic. The result of the year 2021 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. Management has performed an impairment analysis as at 31 December 2021 and estimated the recoverable amount of the investment based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2022-2026). The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor. (This fair value measurement is on level 3 of the fair value hierarchy). Consequently, the FVLCD versus carrying amount analysis shows that there is enough headroom and no impairment need to be recorded.
- Taco Bell has registered a good operating performance in 2021 and, at the same time, it has continued the network expansion and opened 2 new restaurants (in addition to the 11 already opened as at 31.12.2020). Following the impairment analysis performed as at 31 December 2021 it was considered that there are no impairment indicators.
- Pizza Hut's performance in 2021 was below the cash flow projections, the subsidiary continuing to be affected by the pandemic due to the restrictions on indoor dining. Management estimated the recoverable amount of the investment at 51,276 (2020: 47,815) based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2022-2026). The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor. (This fair value measurement is on level 3 of the fair value hierarchy).

As a result of the analysis, as compared to the investment carrying value of 88,786 and also considering the loan granted to ARS of 18,774 and the accumulated impairment loss already recognized in the financial statements as at and for the year ended 31 December 2020 of 50,888, there was a decrease of the investment's recoverable amount of additional 5,400 for which the Company recognized an impairment loss in the financial statements as at and for the year ended 31 December 2021. This impairment loss may be reversed in the future financial years, subject to improving performance of the subsidiary.

In what regards the financial position, the main elements of the balance sheet as of 31 December 2021 are detailed below.

## FY Standalone Financial Statements

| *Data in RON'000* | 2021 | 2020 | Δ '21/'20 |
|---|---|---|---|
| Dividend revenues | 37,525 | 85,223 | -56.0% |
| Revenue from service contracts with related parties | 28,968 | 23,823 | -21.6% |
| Payroll and employee benefits | 24,417 | 20,804 | -17.4% |
| Impairment loss of investments in subsidiaries | 5,400 | 15,626 | -65.4% |
| Other expenses | 6,154 | 6,389 | -3.7% |
| Operating profit | 30,522 | 66,277 | -53.9% |
| Financial result | (584) | 65 | -998.5% |
| Profit before tax | 29,938 | 66,292 | -54.8% |
| Income tax expense | 139 | (83) | -267.9% |
| **Profit for the period** | **29,799** | **66,375** | **-55.1%** |

On the balance sheet, besides cash, current assets refer to loans and related interest granted to the subsidiaries of RON 67,468 (31 December 2020: 26,121), dividends to be received RON 41,188 (31 December 2020: 79,233) amounts invoiced to related parties for management and support services of RON 7,364 (31 December 2020: 7,235) and tax receivables of RON 546 (31 December 2020: 2,333).

Non-current assets comprise mainly net investments in subsidiaries of RON 624,064 (31 December 2020: 615,854). Current and non-current liabilities are mainly in relation to the lease liabilities from lease of office premises and administrative vehicles, the bank loan and loan from one of its subsidiaries, US Food Network SA.

Other non-current assets refer to trade and other receivables RON 35,248 (31 December 2020 7,025), property, plant and equipment and intangible assets RON 2,368 (31 December 2020: 2,512), right-of-use assets resulting from adoption of IFRS 16 of RON 4,324 (31 December 2020: 4,959) and deferred tax asset recognized for the fiscal loss carried forward RON 943 (31 December 2020: 1,082).

| *Data in RON'000* | 31-Dec 2021 | % | 31-Dec 2020 | % |
|---|---|---|---|---|
| **Assets** | | | | |
| Non-current assets | 666,947 | 88% | 631,432 | 85% |
| Current assets | 94,270 | 12% | 113,470 | 15% |
| **Total assets** | **761,217** | **100%** | **744,902** | **100%** |
| **Total equity** | **677,152** | **89%** | **682,354** | **92%** |
| Non-current liabilities | 38,963 | 5% | 46,870 | 6% |
| Current liabilities | 45,102 | 6% | 15,678 | 2% |
| **Total liabilities** | **84,065** | **11%** | **62,548** | **8%** |
| **Total equity and liabilities** | **761,217** | **100%** | **744,902** | **100%** |

# MAIN FINANCIAL RATIOS

The main financial ratios of Sphera Franchise Group (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).

| ***Financial data in RON '000*** | **FY 2021(1)** | | **FY 2021(2)** | | **FY 2020(1)** | |
|---|---|---|---|---|---|---|
| **Current ratio** | | | | | | |
| Current assets | 193,441 | | 196,569 | | 153,481 | |
| Current liabilities | 249,097 | **= 0.78** | 201,874 | **= 0.97** | 232,704 | **= 0.66** |
| **Debt to Equity ratio** | | | | | | |
| Interest-bearing debt (long term) | 348,930 | **= 263%** | 146,148 | **= 95%** | 280,741 | **= 188%** |
| Equity | 132,052 | | 153,562 | | 149,121 | |
| Interest-bearing debt (long term) | 348,930 | **= 72.5%** | 146,148 | **= 48.8%** | 280,741 | **= 65.3%** |
| Capital employed | 480,982 | | 299,710 | | 429,862 | |
| **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** |

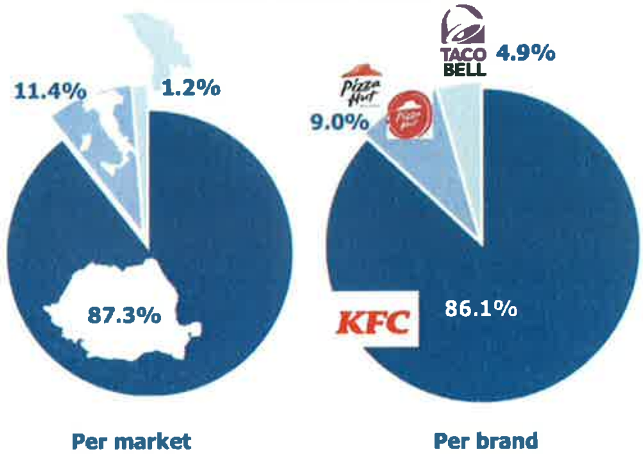
Notes: (1) Including the impact of IFRS 16; (2) Excluding the impact of IFRS 16 Leases.

SPHERA

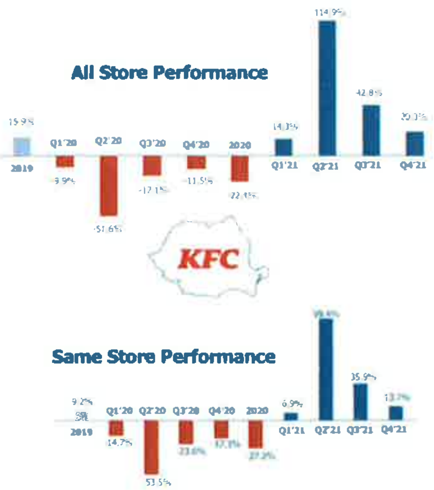
# BRAND & SALES PERFORMANCE

In 2021, sales generated in Romania contributed with RON 873.7 million, Italy with RON 114.1 million while Republic of Moldova with RON 12.4 million. All the brands on all three markets of activity improved their performance in 2021 compared to 2020 – Taco Bell sales grew by 65%, KFC Moldova by 43%, KFC Romania by 39%, KFC Italy by 49% and Pizza Hut by 32%.

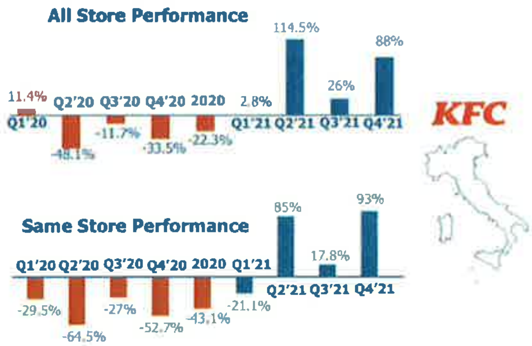
**Contribution to 2021 turnover**




**KFC ROMANIA –** 2021 was the year of return for the Group as well as its brands, particularly KFC Romania. KFC Romania registered increases for both same store and all store performance in all quarters of 2021, with the biggest increase being registered in Q2 2021, due to reopening of the local economy paired with the low base value, and the smallest increase in Q1 2021 due to the almost unimpacted by the pandemic performance in Q1 2020. In Q4 2021, the increases have slowed down due to the introduction of the Green Certificate in Romania, which lowered the foot traffic in the malls and restaurants.



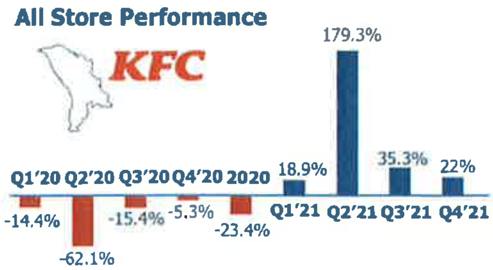

Compared to 2020, in 2021, USFN Romania (KFC Romania) turnover grew by 39%. USFN Romania generated restaurant operating profit of RON 87.4 million, operating profit of RON 51.9 million, EBITDA normalized of RON 79.8 million and a net profit of RON 47.6 million.

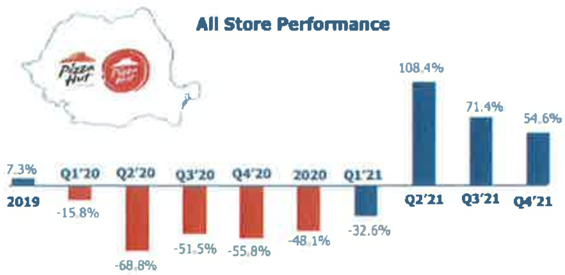



**KFC ITALY –** 2021 was mixed for KFC Italy (USFN Italy), with a very strong Q2 as well as Q4 2021, and weaker Q1 and Q3, which still registered increases compared to 2020, but lower compared to the other two quarters. This was directly related to the more severe impact of the COVID-19 and related to it lockdowns across Italy. Overall, in 2021, USFN Italy (KFC Italy) turnover grew by 49% compared to 2020.

Nonetheless, USFN Italy was the only company that did not reach restaurant operating profit and registered a net loss of 13.7 million in 2021. The result was impacted by the effect of the COVID-19 restrictions from the Q1 and Q3 2021, paired with a still relatively smaller scale of activity and the fact that significant part of the stores has not yet reached maturity.

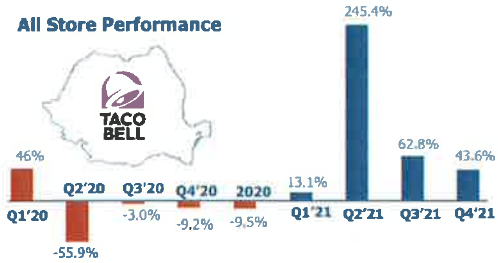
KFC MOLDOVA – The performance in the Republic of Moldova grew throughout 2020, with the best performance recorded, in line with the sister brands, in Q2 2021. The turnover of USFN Moldova (KFC Moldova) grew by 43% in 2021 compared to 2020. USFN Moldova closed 2021 with a restaurant operating profit of RON 2 million, a positive EBITDA of RON 2 million and a net result of RON 1.4 million.




**PIZZA HUT –** Because of the dine-in concept of Pizza Hut, the performance of the brand was the one most affected of all the Group's brands in 2020. In 2021, the sales have recovered as of Q2 2021, due to the reopening of the Romanian economy and continued to be at heightened levels until the end of the year. Consequently, in 2021, the turnover of Pizza Hut increased by 32% compared to 2020, the lowest increase of all of the Group's brands – due to the face that there was still limitation on the seating capacity as well as, as of Q4 2021, the non-vaccinated clients could not enter the restaurants or malls and could have only ordered Pizza Hut for delivery. All in all, ARS (Pizza Hut) 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.

**TACO BELL –** Taco Bell sales grew by 65% in 2021 compared to 2020, the largest increase out of all the companies from the Group due to the increase in the number of restaurants which are still to reach full maturity. CFF (Taco Bell) 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




**Collaboration with food aggregators –** Collaboration with local food aggregators, FoodPanda, Glovo, Tazz (EuCeManac) and TakeAway in Romania; Glovo, Deliveroo, Just Eat and UberEats in Italy; Straus and iFood in the Republic of Moldova continued in 2021 as it became an essential pillar of the revised business and marketing strategy. In March 2020, the Group focused on renegotiating the contracts and enhancing the cooperation with local food aggregators as well as jointly running dedicated marketing campaigns for promoting delivery.

The companies of Sphera Group concluded partnerships with aggregators under one of the following two models:

- the restaurants use the aggregator platform as a ***marketplace***, where they sell the products and handle the delivery of the order to the client using own delivery services. The fee paid to the aggregator varies around the level of a single-digit percentage of the total value of the order. The exact percentage value is confidential and cannot be disclosed publicly due to contractual requirements; and
- the restaurants work ***end-to-end*** with the aggregator platform, meaning that the orders are placed with the platform and delivered by its collaborators. For this service, the restaurant pays a two-digit percentage of the value of the order to the platform.

Depending on the brand, the terms of cooperation between the restaurants and food aggregators differ. For KFC, sales for delivery are partly made through the aggregators, partly through the call center or KFC e-commerce platform available for 17 restaurants in Bucharest and delivered through its own service. The partnership with aggregators for KFC is hybrid, and it entails using the platforms both as a marketplace and end-to-end. The decision to work with the platforms under the marketplace or end-to-end model depends on the restaurant's location and the capability to handle an increased number of deliveries. In some parts of Bucharest as well as outside of the capital city, KFC orders can only be delivered through the food aggregators.

For Pizza Hut, sales for delivery are made partly through the aggregators for restaurant locations, and partly through its own delivery services, Pizza Hut Delivery. Pizza Hut Delivery uses a Sphera developed e-commerce platform for direct, non-commissioned, deliveries. The partnership with aggregators for Pizza Hut is hybrid, and it entails using the platforms both end-to-end as well as a marketplace.

For Taco Bell, all the deliveries are managed end-to-end through food aggregators as Taco Bell does not have its own order placement and delivery capability.

In 2021, both Pizza Hut and Taco Bell, have launched the Click & Collect web platform that allows customers to place orders and direct pick-up from the restaurant.

The results registered in 2021 through the partnership with the aggregators had a role in recovering part of revenues lost due lockdowns as well due to foot traffic restrictions in the closed spaces, especially in Romania following the introduction of the Green Certificate in Romania as of 25 October 2021. In 2021, as opposed to 2020, the Group decided to offset part of the third-party 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. In parallel, the Group continued to develop dedicated menus, products and bundles specifically for the aggregators to offer the Group higher margins than the traditional products sold in the store.

As communicated already in the 2020 Annual Report, the collaboration with the food aggregators helped the Group access a considerable pool of new clients. Thus, the management considers the progress made in the digital area between 2020 and 2021 as crucial for the future and for gaining new clients as well as retaining the loyal customers, translating into higher revenues due to widespread availability of the Group's products.

With the switch to digital services, it is now easier than ever to better track customers' preferences and better understand their behavior and critical decision drivers. With OOH and traditional advertising, the capability of brands to understand customer behaviors are limited and less precise. Digital services help track the full customer journey – from the moment they click on the ad, open the website, place the order and whether they come back in the future, making the conversion much easier to track. This approach was especially helpful in the past months as it helped assess the effectiveness of the campaigns in real-time and when necessary, adjustments were made daily to bring better results.

Considering the evolution of the COVID-19 pandemic in the first 3 months of 2022, the pandemic is no longer expected to continue to take a significant toll on the business in 2022. In Romania, where sales were particularly impacted in Q4 2021 due to the introduction of the Green Certificate which limited the access of people into malls and restaurants, the authorities decided to not continue with the State of Alert as of 9 March 2022. Therefore, it is expected that in 2022, the sales in Q1 still to be impacted by these restrictions, but as of Q2, shall no other measures, lockdowns or limitations be introduced, the sales shall take off and the performance should slowly return. Nonetheless, the rising inflation, growing costs of energy paired with geopolitical conflicts in Europe and the rising tension within the population (which is easy to be influenced through a spread of so called 'fake news') can cause a decline in the purchasing power of the population or the willingness to eat out (be it in-store or for delivery).

For 2022, the Group expects KFC Romania to continue to be the main contributor to the Group's performance.

# KEY EVENTS IN 2021

## COVID-19 RELATED EVENTS

### 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 lead 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 2021, the Group continued to renegotiate the lease agreements whenever possible. Consequently, 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.

SPHERA

# BUSINESS EVENTS

## UPDATE TO THE PIZZA HUT RESTAURANT DEVELOPMENT PLAN

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

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

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

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

## 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.

# CAPITAL MARKET AND GOVERNANCE EVENTS

## DIVIDEND

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

## 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.

## 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.

**Other than the dynamically developing situation related to local lockdowns and orders at city or region level related to closing of indoor dining facilities, there were no significant events registered after closing of the year and between the publishing of this report that can have a major impact on the business.**

# DIVIDENDS

Data in RON'000

| | 2021 | 2020 |
|---|---|---|
| Dividends declared and paid during the period: | | |
| To shareholders of Sphera Franchise Group SA | 35,001 | 13,679 |
| To non-controlling interests | 347 | - |
| **Total dividends for the period** | **35,348** | **13,679** |
| Dividends per share (RON/share) – Sphera's shares | 0.9021 | 0.3525 |

On 19 August 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 was RON 0.9021. The ex-date for dividend was 16 September 2021 with payment date being set up for 30 September 2021.

On 4 February 2022, the Ordinary General Shareholder Meeting of the Group 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.

For the year ended 31 December 2021, the Board of Directors has proposed to the shareholders' approval, the following allocation of the net profit of Sphera Franchise Group SA as presented in its separate financial statements as at and for the year ended 31 December 2021:

- Setting up the legal reserves in accordance with the statutory regulations in amount of RON 1,497;
- Allocation of undistributed profit of RON 28,302 to retained earnings.

As of 31 December 2021, the value of the retained earnings of Sphera Franchise Group SA has reached the value of RON 86,743, as presented in the separate financial statements.

The shareholders can access the Group's dividend policy at the following link.

Ernst & Young Assurance Services S.R.L.
25. MAR. 2022
Signed for identification
Semnat pentru identificare

SPHERA

# KEY FACTORS AFFECTING GROUP'S RESULTS

The Group's results of operations have been and are expected to continue to be affected by a number of key factors.

**General economic environment in the markets** – The results of the Group can be directly affected by economic conditions, especially employment levels, inflation, real disposable income, consumption, access to consumer credit, consumer confidence, applicable taxes, and consumer's willingness to spend money in the markets and geographic areas in which it operates. In an unfavorable economic environment with a decrease in disposable income, the Group's customers may reduce the frequency with which they dine out or order-in or may choose more inexpensive dining options. This risk continues to be significant for 2022 due to the estimated high inflation as well as growing energy costs, both particularly heightened because of the geopolitical conflict caused by the war in Ukraine. A decrease in disposable income may affect the customer traffic, frequency, average ticket size as well as the Group's ability to pass the cost increases onto its customers. Nonetheless, this trend is offset by the overall affordability of the Groups products, which may also lead to the Group attracting new clients, amongst the customers who may substitute more expensive dining options with Group's products.

**Competitive environment** – The Group operates in a highly competitive market, particularly with respect to food quality, price, service, convenience, and concept, which in turn may be affected by considerations such as changes in consumer preferences. The Group competes against international chains, as well as many national, regional, and local businesses in the quick-service, casual dine-in and delivery/takeaway restaurant sectors not only for customers, but also for management and store employees, suitable real estate sites and qualified sub-franchisees. This competition can put downward pressure on product prices and demand for the Group's products as well as upward pressure on wages and rents, resulting in reduced profitability.

The presence of food-aggregators contributes also to the increase of the competition on a segment where the Group had a relatively safe position. As of 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 or due to restrictions imposed by the authorities.

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

**Lockdowns** – The risk of the lockdown, in the context of COVID-19 pandemic but also other pandemics, continues to be heightened even though there is a general consensus that the impact of the COVID-19 pandemic in 2022 will be lower than to that of 2020 or even 2021. Nonetheless, there exists a chance that lockdowns, including the temporary closure of restaurants, hotels, cafes, clubs, shopping malls, gradual closure of borders, limiting or prohibiting the movement of vehicles or people in/to certain areas can be implemented throughout Europe, including in the countries of activity of the Group. The lockdowns can be applied at the national level, impacting all the restaurants of the Group in one country of operation, as well as at a local level, impacting restaurants located in certain municipalities or regions that are subject to restrictions. The rapid change in the strategy of the Group starting 2020 and the reliance on the delivery and take-out services to generate revenues have prepared the Group for another potential lockdown, thus lowering the extent of the negative impact of this risk.

**Limited access to foodstuffs and the variability of their cost** – The Group needs to ensure frequent deliveries of fresh agricultural products and foodstuffs. The Group cannot rule out the risk related to delivery deficits or interruptions caused by factors such as geopolitical conflicts, unfavorable weather conditions, lockdowns, changes in legal regulations or withdrawing some foodstuffs from trading. The demand for certain products paired with a limited supply may lead to difficulties in obtaining them as well as price increases, thus having an adverse effect on the Groups results. As it was following the Brexit, where there was a risk that the prices of supplies might increase due to the UK living the EU, the Group's procurement division is constantly analysing alternative suppliers and is prepared to switch to alternative providers if there might be such need.

**Price risk –** Cost of sales represents the most significant expense of the Group. Gross margin is affected by a number of factors, like movements in the cost of sales (including with respect to the prices of raw materials, or energy prices), the extent to which the Group can negotiate favorable prices and rebates from suppliers as well as the mix of products that it sells from time to time.

The Group seeks to procure its principal inputs from multiple suppliers, in the event that the Group's primary suppliers cannot deliver the components in the contracted amounts and specifications, the Group's requirements exceed the Group's minimum contracted amounts, or the Group is subjected to unanticipated price increases. Prices of the Group's raw materials are generally set by market conditions and the Group is not always able to pass these changes along to the Group's customers, particularly in the short term. The Group seeks to manage factors which put pressure on the Group's gross margin. For example, the Group maintains relationships with additional suppliers. In 2021 there were no significant disruptions on supply chain procurement however a possible risk these could occur still exists.

**Payroll –** Cost of labor represents the second most important expense for the Group and was the fastest growing expense item at restaurant level over the past years. It is expected for the personnel costs to grow proportionally with the growth of the number of the restaurants and the restaurant revenue. Factors that influence fluctuations in the labor costs include minimum wage and payroll tax legislation, the frequency and severity of labor-related claims, health care costs, the performance of restaurants, new openings and whether new employees are fixed overhead costs or are restaurant hires. Moreover, COVID-19 pandemic put additional pressure on the HoReCa industry as many employees decided to requalify to other sectors. Consequently, in 2021 the Group continued the project of hiring employees from abroad. In 2021, 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.

**Marketing and advertising activities –** The Group's marketing and advertising activities are an essential part of attracting new customers as well as retaining existing customers. Marketing is particularly important for the Group to communicate its product innovation and price promotion programs to customers and to reinforce the Group's brand awareness, build the Group's image and drive customer volumes. According to the franchise agreements signed so far, the Group is obliged to spend at least 5% of its restaurant sales on marketing and advertising activities.

The effectiveness of the marketing and advertising activities can vary from one year to another and from one campaign to another, depending on the products under promotion, the quality of our communication as well as on the ability of our employees to communicate to customers the ongoing campaigns and promote trade-up products. The Group monitors closely the expenditure and frequency of marketing and advertising campaigns by the Group's competition and seeks to maintain a relatively constant presence in the market.

**Consumer preferences –** Consumer preferences in the quick-service, casual dine-in and delivery/takeaway foodservice segments are affected by a range of factors, including consumer tastes, national, regional, and local economic conditions, and demographic trends. For instance, prevailing health or dietary preferences may cause consumers to avoid fast-food products or pizza products offered by the Group in favor of foods that are perceived to be healthier. Changes in consumer preferences can significantly impact demand for the Group's products, but this impact may be somehow limited by our exposure to multiple segments of the foodservice sector.

The Group seeks to maintain the appeal of its products to customers through product innovation, characterized by frequent introduction of new product offerings, and the consumer reaction to new product launches can affect the Group's sales.

Accordingly, the Group's results of operations are affected by the Group's success against the Group's competitors in the quick-service, casual dine-in and delivery/takeaway foodservice segments, which is dependent on a variety of factors, including the comparative attractiveness and taste of the Group's products, perceived product and service quality and the availability of comparable products from its competitors. The pricing of the Group's products, and in particular, the timing and terms of specially-priced offers to customers, can have a significant impact on both the volume of the Group's sales and the Group's margins, as well as the Group's market share against competitors.

**Product liability claims and health pandemics –** Product liability claims and health pandemics, especially poultry-related, could harm consumers' confidence in the safety and quality of our products The Group may be involved in product liability claims typical for the food industry, such as product alteration or injury following consumption.

Also, incidents of health pandemics, food-borne illnesses or food tampering could force the Group to close several restaurants for an undetermined period. Widespread diseases such as avian influenza, the H1N1 influenza virus, e-coli, or hepatitis A generally affecting the population may cause customers to avoid certain products, resulting in lack of confidence from customers in the products offered by the Group, especially in poultry food. What is more, even if such poultry-related health pandemics would not affect the products provided by the Group, but by other restaurants, still a direct impact can be produced over consumers, who might avoid poultry products irrespective of who is offering them. This would result in a decrease in the number of clients for the Group's restaurants.

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

As the core business is the operation of restaurants, the Group depends on consumer confidence in the quality and safety of food products offered in our restaurants. While the Group maintains high standards for the quality of food products and dedicates substantial resources to ensure that these standards are met, the spread of these illnesses is often beyond its control and the Group cannot assure that food-borne diseases will not occur, as a result of consumption of its products. Product liability risks are currently not covered by product liability insurance.

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

**Fake news –** The nature of the Group's business, the industry in which it operates as well as the international presence of all the restaurants that the Group operates, can expose the Sphera to claims related to defamation, dissemination of misinformation or news hoaxes (also referred to as 'fake news'), or other types of content that can harm, temporarily or on a long-term, the reputation of the business on one or more of the markets where Sphera operates. Our Group's or our brands may also be negatively affected by the actions or statements of different individuals, acting under false of inauthentic identities, that can disseminate information that is deemed to be misleading or intending to manipulate opinions about our Group, the brands or the products that we serve in the restaurants. Any such situation can potentially lead to a decline in the willingness of the customers to buy products from one or all the brands operated by the Group, thus leading to the decline in sales, as well as a decline in the price of the financial instruments issued by the Group.

**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 provided that it meets the conditions specified in the franchising agreements and other requirements, including the payment of the related continuing and marketing fees, and further the renewal fees. Despite meeting the above-mentioned terms, there is no guarantee that after the expiry of these periods a given franchising agreement will be prolonged to the next period. In the case of KFC restaurants, the first period commenced in 1997, the first Pizza Hut restaurant opened on the Romanian market in 1994, while for Taco Bell, the first period commenced in 2017 with the opening of the first restaurant of this brand. Sphera and Yum! are constantly in touch with respect to current and further cooperation.

*Investors should consider that the factors presented above are the most significant risks that Sphera Franchise Group is aware of at the time of redacting this report. However, the risks presented in this section do not include all the risks associated with the issuer's activity, and the Group cannot guarantee that it includes all the relevant risks for 2022. There may be other risk factors and uncertainties of which the Group or the companies within the Group is not aware at the time of preparing this report and which may in future modify the actual results, financial conditions, performances, and achievements of the issuer and may lead to a decrease in the price of the Group's shares. Investors should undertake pre-requisite checks to prepare their investment opportunity assessment. The management recommends investors to read a more elaborated list of risks that Sphera Franchise Group is subject to, that was included in the Listing Prospectus, available here, which nonetheless cannot be treated as exhaustive.*

# FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Group's principal financial liabilities comprise loans and borrowings, finance leases and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's financial assets are represented by loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations, as well as long-term deposits to guarantee rent payables.

The Group is exposed to interest rate risk, foreign exchange rate risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management ensures the Group's financial risk activities are performed under appropriate procedures and that financial risks are identified, measured, and managed in accordance with Group's risk appetite.

**Interest rate risk –** The Group's income and operating cash flows are substantially independent of changes in market interest rates. Trade and other receivables and payables are non-interest-bearing financial assets and liabilities. The borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term and short-term credit facilities. Interest rates on the Group's debt finance are variable. Changes in interest rates impact primarily loans and borrowings by changing their future cash flows (variable rate debt). Management policy is to resort mainly to variable rate financing. However, at the time of rising new loans or borrowings management uses its judgment to decide whether it believes that fixed or variable rate would be more favorable to the Group over the expected period until maturity. The Group does not hedge its interest rate risk.

On a standalone basis, interest rate on the Company's debt finance from bank is variable. Interest rates on the Company's debt finance from Group companies are fixed. Thus, changes in interest rate do not impact loans and borrowings to third parties either since future cash flows are not affected by such changes in interest rates. In connection to loans granted or obtained from related parties, management policy is to resort mainly to fixed rate financing. However, at the time of rising or granting new loans or borrowings management shall use its judgment to decide whether it believes that fixed or variable rate would be more favorable to the Company over the expected period until maturity.

**Foreign currency risk –** Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's financing activities, as the financing contracted by the Group is Euro based. Most revenues and expenses, trade and other receivables and payables is in RON.

The Group monitors the currency risk by following changes in exchange rates in currencies in which its intercompany balances and external debts are denominated. The Group does not have formal arrangements to mitigate its currency risk.

On the individual basis, the Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's financing activities, as the financing contracted by the Company is Euro based. The vast majority of revenues and expenses, trade and other receivables and payables is in RON. Part of the loans granted to related parties are denominated in EUR. Natural hedging occurs from the Company's financing activities, as the Company grants loans to its subsidiaries in the same currencies in which the funds are obtained from the bank.

**Credit risk –** The Group is not significantly exposed to credit risk as the majority of its sales are on a cash basis. The Group's credit risk is primarily attributed to trade and other receivables and balances with banks. The carrying amount of trade and other receivables, net of allowance for impairment and deposits for rent guarantee as per statement of financial position plus balances with banks, represent the maximum amount exposed to credit risk. Management believes that there is no significant risk of loss to the Group beyond the allowances already recorded.

The Group invests cash and cash equivalents with highly reliable financial institutions. The Group has only plain vanilla deposits with reputable banks, none of which has experienced any difficulties in 2021 or up to the date of these consolidated financial statements. The majority of cash is transacted through and placed with Alpha Bank Romania, member of Alpha Bank Group from Greece and Banca Romana de Dezvoltare (BRD), a member of Societe Generale Group from France, Banca Transilvania, Unicredit Bank Italy, Intesa Sanpaolo Romania S.A., a member of Intesa Sanpaolo Group from Italy. The long-term credit rating of Alpha Bank Greece is B2 as provided by Moody's rating agency, no credit rating being available for its Romanian subsidiary. The long-term credit rating of BRD is Baa3, while the one for Unicredit is Baa1, both provided by Moody's. According to Fitch Ratings, the long-term credit rating of Banca Transilvania is BB+ and for Intesa Sanpaolo S.p.A. is BBB, no credit rating being available for its Romanian subsidiary.

There is no significant concentration of credit risk in respect of trade and other receivables due to the fact that sales are based mainly on cash and credit card payments. Therefore, there are no formal policies in the Group to manage credit risk for trade receivables. The Group's credit risk is primarily attributed to loans and receivables from related parties, for which the probability of losses is considered remote.

In what regards the Company, the carrying amount of trade and other receivables, plus balances with banks, plus the loans and receivables from related parties represent the maximum amount exposed to credit risk.

**Liquidity risk –** The Group has adopted a prudent financial liquidity management approach, assuming that sufficient cash and cash equivalents are maintained, and that further financing is available from guaranteed funds from credit lines. As of 31 December 2021, the Group had available RON 36,039 of undrawn uncommitted borrowing facilities (31 December 2020: RON 55,381), thus being able to respond to any unforeseen higher cash outflow needs.

On a standalone basis, on 31 December 2021, the Company had available RON 70,402 of undrawn borrowing facility from US Food Network SA (2020: RON 67,813) and RON 10,000 from the bank credit facility with Vista Bank, thus being able to respond to any unforeseen higher cash outflow needs.

**Capital management –** Capital of the Group includes the equity attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximize shareholder value.

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The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Capital of the Company's includes the equity attributable to the Company's shareholders.

The Group may monitor capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group does not have a target gearing ratio, as the overall gearing is low. The Group includes within net debt, interest bearing loans and borrowings, lease liabilities, financial trade and other payables, less cash and cash deposits.

Calculation of consolidated gearing ratio is presented below:

| *Data in RON'000* | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Interest-bearing loans and borrowings | 212,589 | 150,209 |
| Leases in relation to IFRS 16 | 257,001 | 242,826 |
| Financial trade and other payables | 84,209 | 58,780 |
| Less: cash and short-term deposits | 146,116 | 121,913 |
| **Net debt** | **407,683** | **329,902** |
| Equity | 132,052 | 149,144 |
| **Capital and net debt** | **539,735** | **479,046** |
| Gearing ratio: | 76% | 69% |

The Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 31 December 2020.

**Fair values –** The Group has no financial instruments carried at fair value in the statement of financial position. The carrying amount of the interest-bearing loans and borrowings approximate their fair value. Management estimates that the margin applicable over Euribor at the balance sheet date would be similar to the ones at the dates of each previous withdrawal, due to the fact that the Group maintained over the past years a low gearing ratio and a stable financial condition, and also based on statistics published by the National Bank of Romania.

Financial instruments which are not carried at fair value on the statement of financial position also include deposits to guarantee rent, trade and other receivables, cash and cash equivalents, and trade and other payables.

The carrying amounts of these financial instruments are considered to approximate their fair values, due to their short-term nature (in majority) and low transaction costs of these instruments.

At a standalone level, the carrying amount of the interest-bearing loans and borrowings and receivables from loans granted to related parties approximates their fair value (level 3 measurement).

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# INTERNAL CONTROL

Sphera Group has implemented an internal control system, which includes activities implemented in order to prevent or detect undesirable events and risks such as fraud, errors, damages, noncompliance, unauthorized transactions, and misstatements in financial reporting.

The existence of a control environment forms the basis for an effective internal control system. It consists of the definition and adherence to group-wide values and principles (e.g., business ethics) and of organizational measures (e.g., clear assignment of responsibility and authority, commitment to competence, signature rules and segregation of duties).

Sphera's internal control system covers all areas of the Group's operations with the following main goals:

- Compliance with the applicable laws and internal regulations;
- Reliability of financial reporting (accuracy, completeness and correctness of the information);
- Prevention and detection of fraud and error;
- Protection of the Group's resources against losses due to waste;
- Effective and efficient business operations.

In order to achieve these goals, the management of the Group follows, inter alia, the below principles and approaches:

- Ensures a commitment to integrity and ethical values by demonstrating through the Board of Directors' and management's directives, actions and behavior the importance of integrity and ethical values to support the functioning of the system of internal control;
- The Board of Directors demonstrates independence from management and exercises oversight for the development and performance of internal control;
- Establishes, with Board of Directors oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of the objectives by maintaining job descriptions, defining roles and reporting lines, defining the role of internal audit;
- Ensures and demonstrates a commitment to attract, develop and retain competent individuals in alignment with the objectives of the Group by establishing required knowledge, skills and expertise, selecting appropriate outsourced service providers when needed, evaluating competence and behavior, evaluating the capacity of finance personnel;
- Holds individuals accountable for their responsibilities in the pursuit of the objectives of the Group by developing balanced performance measures, incentives and rewards and linking compensation and other rewards to performance;
- Specifies objectives with clarity to enable the identification and assessment of risks related to objectives by identifying financial statement accounts, disclosures and assertions, reviewing and updating understanding of applicable standards, considering the range of Group's activities;
- Identifies risks to the achievement of the Group's objectives and analyzes risks as a basis for determining how the risks should be managed;
- Considers the potential for fraud in assessing risks to the achievement of objectives by considering fraud risk in the internal audit plan;
- Identifies and assesses changes that could significantly impact the system of internal control by assessing change in the external environment, CEO and senior executive changes;
- Selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives at acceptable levels by considering processes, risks and controls in the internal audit plan, identifying incompatible functions, considering alternative control activities to the segregation of duties;
- Selects and develops general control activities over technology to support the achievement of objectives by the means of recently implemented ERP, administering security and access, configuring IT to support the complete, accurate and valid processing of transactions and data;
- Develops control activities through policies and procedures that establish what is expected by developing and documenting policies and procedures;

- Obtains or generates and uses relevant, quality information to support the functioning of internal control.

Policies and practices that represent the Group's competence standards for financial reporting positions are used as a basis for human resources and employee compliance activities, which include:

- Selecting and interviewing candidates;
- Performing background/reference checks;
- Setting certification expectations.

Senior management evaluates the capacity of personnel who are involved in recording and reporting financial information, and in designing and developing financial reporting systems including underlying IT systems. Senior management assesses the department's ability to identify issues and stay abreast of technical financial reporting developments. Considerations when assessing the adequacy of staffing levels and competence of financial reporting personnel include the extent of technical skills and nature required and the number of personnel dedicated to financial reporting.

The Board of Directors including the Audit Committee (the "Board") oversees management's performance of internal control and retain objectivity in relation to management. The board monitors the functioning of internal controls by performing periodical analysis on the profit and loss accounts, execution of the budget, internal and external audit reports. The board demonstrates an appropriate level of skepticism of management's assertions and judgments that affect financial reporting. In particular, the Audit Committee seeks clarification and justification of the Group's process for:

- Selecting and implementing accounting policies;
- Determining critical accounting estimates;
- Making key assumptions used in the application of technical accounting and reporting matters;
- Evaluating other risks facing the Group, with the potential impact on financial reporting.

Deficiencies in the implementation or functioning of internal controls are noted in the internal audit reports and are presented to the management, with the purpose of issuing the corrective actions. The internal audit assessments include the evaluation of the internal control systems, and evaluation whether:

- Risks relating to the achievement of the Group's strategic objectives and also the risks related to day-to-day operations are appropriately identified and managed;
- The actions of the Group's directors, employees, and contractors are in compliance with the Group's policies, procedures, and applicable laws, regulations, and governance standards;
- The results of operations are consistent with established goals;
- Operations are being carried out efficiently;
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Group;
- Resources and assets are acquired economically, used efficiently, and protected adequately.

Internal control process is carried out by personnel at all levels.

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# NON-FINANCIAL TOPICS & DIVERSITY POLICY

**The Group will issue a 2020 & 2021 Sustainability Report, which will provide a thorough assessment of the Group's approach towards ESG aspects, by July 2022. Therefore, this annual report only provides a brief overview the Group's approach towards non-financial topics in 2021. The Group will inform the market about the availability of the 2020 & 2021 Sustainability Report through a current report.**

**Corporate Social Responsibility –** Sphera Group has been actively involved in social-related activities for the last ten years and, on the back of the sustained growth and profitability there is a firm commitment to further consolidate as a socially responsible Company. One of our CSR strategic pillars is children's education, which is complemented through several different initiatives as presented on the Company's website www.spheragroup.com.

**Environmental protection –** The Company's philosophy is to minimize the impact on the environment and leave the smallest footprint possible. There is a strong commitment to create a sustainable business, starting from the way of source the food products to the design, packaging of the final products and how the restaurants are built.

The Company is committed to safety and quality and, in the meantime, to the preservation and protection of the nature and its resources by using only what is necessary, reduce waste and focus each day to enhance the livelihoods of the Company's employees and surrounding communities.

**Training and career development for own employees –** There is a firm commitment to offer employees the chance for a continuous learning opportunity and personal development that will allow them to continue their career development.

All our new employees go through a thorough training process for familiarizing with overall standards, understand the business and operations as well as the job-specific procedures.

The company is committed to create training programs that address not only the job skill set necessary to perform day-to-day tasks within restaurants, but also extended skills such as active responsibility, accountability, time keeping, customer service, communication skills and teamwork. The training programs across the various brands and geographies that the Group operates come to ensure an effective and decentralized control structure and create an organizational culture that drives workforce engagement.

**Diversity policy –** the company has developed an internal culture which promotes equal opportunities and diversity in all its processes and functions. Management is guided by the following principles:

- Equal opportunities and fair treatment, meaning no unjust discrimination must exist in recruitment, retention and development of all employees;
- Diversity strategy, built upon inclusion and diversity in what regards open communication, multiple languages spoken, multicultural experience, adherence to equal opportunities principles etc.
- Equal opportunities, meaning that employees seek and are provided with adequate support for their development, employees with disabilities are provided with necessary accommodation.

In 2019 Sphera Franchise Group signed the Romanian Diversity Charter, which is a proof of commitment to promote diversity and equal opportunities for its staff. In 2022, Sphera Franchise Group joined UN Global Compact, world's largest sustainability initiative.

**Performance evaluation –** Compensation of employees is linked with performance. The performance of each employee is evaluated based on measurables indicators. In addition, managers are appraised based on some indicators measuring their abilities to observe principles concerning equal opportunities and adequate management of employees' particular needs and behaviors. Allocation of tasks and projects are done objectively without any bias. Human resources processes support these goals.

# COMMITMENTS AND CONTINGENCIES

## Group as lessee - lease commitments

The Group has entered into operating lease agreements for the premises of most of its restaurants and several vehicles and equipment. The lease terms are between five and ten years, with very few agreements exceeding ten years period. The contract period of the operating lease agreements for vehicles and office equipment does not exceed five years term.

## Other commitments

Per the Romania new network development plan signed in October 2017 and renegotiated in 2020 in the context of the pandemic situation, the Group has agreed with KFC Europe to resize the restaurant development plan for the period 2020-2021, from 17 net new stores to 10 net new stores. The target for 2022 includes opening of 9 new restaurants. During the negotiations, the Group also managed to obtain financial incentives that will help in the process of expansion the KFC network in Romania.
Should the Group fail to achieve these targets, the Group might pay KFC Europe a penalty for each such location; the Group has not paid such penalties to date, as it has fulfilled the restaurant development plan as agreed with the Master Franchisor.

In August 2021, the Group signed a revised development agreement with Pizza Hut Europe (Master Franchisor). The parties have agreed on a minimum net new unit target (base tier) for the period 2021- 2023, replacing the original restaurant rollout plan applicable for the period 2017-2021 (34 outlets). The new minimum net unit target as agreed by the parties consisted of 10 units (out of which 3 in 2021, 3 in 2022 and 4 in 2023).

The Group will benefit of progressive financial incentives, depending on the number of net new restaurants being opened that will exceed the base tier. 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 for development of Pizza Hut and Pizza Hut Delivery network in Romania.

According to the network development plan concluded with TB International Holdings II SARL (the Franchisor) in April 2017, the Group has agreed to open a minimum of 10 Taco Bell restaurants during the years 2017-2019 (2 restaurants in 2017, 3 restaurants in 2018 and 5 restaurants in 2019). According to the initial restaurant rollout plan, CFF had no more obligation to open new restaurants in 2020. Nonetheless, CFF continued the development of the Taco Bell network in Romania in the course of 2020 and has opened one new restaurant. Further to the negotiations with Taco Bell Europe, the parties have agreed that for the period 2020 - 2021, CFF will benefit of progressive financial incentives, depending on the number of net new restaurants being opened. For each new net restaurant that exceeds the number of 5 net new restaurants, CFF will benefit of additional financial incentives. The Group opened two new restaurants in 2021 and plans to continue the network development.

At the beginning of 2020, the Group agreed with Yum Italy to terminate existing development agreements for the two regions signed (Tri Veneto and Piemonte) and entered into negotiations for new development agreements. In 2020, the Group has signed a development incentive agreement with the franchisor for the period 1 July 2020-31 March 2021 to open a minimum one new store during the term. The Group will benefit of financial incentives for any new openings exceeding the agreed target. The Group has inaugurated four new stores in 2020, one of them being counted under the new development agreement. Another two were opened in 2021.

## Bank letter of guarantees

The Group has issued bank letters of guarantee in favor of suppliers as at 31 December 2021 in amount of 15,652 (31 December 2020: 12,908).

Ernst & Young Assurance Services S.R.L.
25. MAR. 2022
Signed for identification
Semnat pentru identificare

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## Other contingencies

*Taxation*

The interpretation of the text and practical implementation procedures of the tax regulations could vary, and there is a risk that certain transactions could be viewed differently by the tax authorities as compared to the Group's treatment.

The tax legislation, especially in Romania, was subject to significant changes and contradictory interpretations, which may apply retroactively. Moreover, in practice, the tax authorities can take a strong approach and assess additional tax liabilities and related late payment penalties based on their individual interpretations of the tax legislation. As a result, penalties and delayed payment interest could result in a significant amount payable to the state.

Contingent liabilities may arise in relation to additional tax assessments that may be imposed by the tax authorities as a result of reviews performed. Corporate tax returns can be subject to review by tax authorities within a 5-year period in Romania and Italy and a 4-years period in Republic of Moldova.

Recently, there has been an increase in audits carried out by the tax authorities.

*Transfer pricing*

According to the applicable relevant tax legislation in the countries in which the Group operates, the tax assessment of related party transactions is based on the concept of market value for the respective transfers. Following this concept, the transfer prices should be adjusted so that they reflect the market prices that would have been set between unrelated companies acting independently (i.e. based on the "arm's length principle"). It is likely that transfer pricing reviews will be undertaken in the future in order to assess whether the transfer pricing policy observes the "arm's length principle" and therefore no distortion exists that may affect the taxable base of the taxpayers.

The Group has prepared transfer pricing files.

*Legal proceedings*

During the period, the Group was involved in a small number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of Management, based on legal advice, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group, and which have not been accrued or disclosed in these consolidated financial statements.

In 2019, USFN, alongside the owner of the building where one of the KFC drive-through restaurant is operating, has been sued by a third party acting as plaintiff in connection with utilities pipes (electrical, gas and water) [sub]crossing plaintiff's plot in absence of a pre-agreement. Plaintiff requests from USFN and the landlord, inter alia, payment of liquidated damages in amount of approx. 705. To date, the court file is in the stage of evidence taking. However, US Food Network SA submitted a call for guarantee against the Landlord and, therefore, in case USFN will be held primarily accountable by the Court with regards to the liquidated damages, then the USFN will be able to claim the payments from the Landlord. The call for guarantee has been admitted in principle. Further, given not all the evidence has been submitted and analyzed by the Court, the Group cannot anticipate on the manner the Court may rule. Based on lawyer confirmation it is more probably than not to have a favorable decision.

Ernst & Young Assurance Services S.R.L.
25. MAR. 2022
Signed for identification
Semnat pentru identificare

SPHERA

# ENVIRONMENTAL MATTERS

As of 31 December 2021, the Company incurs no debts relating to anticipated costs relating to environmental aspects. The Company does not consider that costs relating to environmental aspects are significant.

Chairman of the Board of Directors
Lucian Hoanca

L.S.

Ernst & Young Assurance Services S.R.L.
25. MAR. 2022
Signed for identification
Semnat pentru identificare

# CORPORATE GOVERNANCE

SPHERA

# BVB CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

| PROVISION OF THE BUCHAREST STOCK EXCHANGE CORPORATE GOVERNANCE CODE[1] | COMPLIANT | NON-COMPLIANT | COMMENT |
|---|---|---|---|
| **Section A - Responsibilities** | | | |
| **A.1.** All companies shall have Internal Rules for the Board of Directors (the "Board"), which shall include the terms of reference/responsibilities of the Board and the key management functions of the Company and which shall apply, inter alia, the General Principles of this Section. | X | | As of May of 2017 (since its establishment), SPHERA has been managed as a unitary system by a Board of Directors, which has delegated the management of the day-to-day activity of the Company to the Chief Executive Officer and the Executives.<br><br>The structure and principles of corporate governance of the Company, as well as the powers and responsibilities of the General Shareholders' Meeting, of the Board of Directors, of the Chief Executive Officer, and of the Executives, are described in the Articles of Association of the Company, the Rules and Procedures of the General Shareholders' Meeting (GSM), the Internal Rules of operation of the Board of Directors, as well as other relevant documents. |
| **A.2.** Provisions for the management of conflicts of interest shall be included in the Rules of the Board. In any event, Board members shall notify the Board of any conflicts of interest that have arisen or may arise and shall refrain from taking part in the discussions (including by non-attendance, unless the failure to attend prevents the establishment of the quorum) and from voting for passing a resolution on the issue giving rise to the relevant conflict of interest. | X | | Board members have, under the law, duties of care and loyalty to the Company, stipulated not only in the Articles of Association of the Company, but also in other internal regulations of the Company.<br><br>The Company has also implemented internal regulations on the ways to address situations of conflicts of interest. |
| **A.3.** The Board shall consist of at least 5 (five) members. | X | | The Board consists of 5 (five) members elected by the Ordinary General Shareholders' Meeting (OGSM), in accordance with the provisions of the Companies Act and the Articles of Association of the Company. |
| **A.4.** Most Board members shall not have an executive function. In the case of companies in the Premium Category, no less than two non-executive members of the Board shall be independent. Each independent Board member shall issue a statement at the time of nomination thereof for election or re-election, and whenever any change arises in the status thereof, indicating the elements on the basis of which the | X | | The governance of SPHERA is achieved through a unitary system in which the Board ensures the Company management, and the day-to-day management is delegated to the Chief Executive Officer and the Executives. The Board consists of 5 (five) members, out of which all of them are non-executive members.<br><br>On the occasion of each (re)appointment of a Board member, the Company performs an assessment of the independence of its members on the basis of the independence |

[1] The Statement summarizes the principles of the Corporate Governance Code; the full version of the Code may be read on the website of the Bucharest Stock Exchange: www.bvb.ro.

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| same is to be deemed independent in terms of character and judgment. | | | criteria set out in the Corporate Governance Code (which are essentially similar to those laid down in the Companies Act), consisting of an individual assessment conducted by the relevant Board member, followed by an external assessment.<br>Moreover, in view of the preparation of the Corporate Governance Report of the Annual Report, the Company reconfirmed with all Board members their independence or non-independence on 31 December 2021.<br>This assessment showed that, in 2021, at least two Board members met all the criteria of independency set out in the Corporate Governance Code and are thus independent.<br>Information on the independence of the Board members is available at the Company headquarters. |
| **A.5.** Any other relatively permanent professional commitments and obligations of a member of the Board, including executive and non-executive positions in the Board of companies and non-profit institutions, shall be disclosed to the shareholders and prospective investors prior to nomination and during the term of office thereof. | x | | Information on the permanent professional commitments and obligations of the Board members, including executive and non-executive positions within companies and non-profit institutions, can be found in the CVs of the Board members, available at the Company headquarters. |
| **A.6.** Any member of the Board shall present the Board with information on any relation with a shareholder holding, either directly or indirectly, shares representing more than 5% of all voting rights. | x | | The Board members and the Executives have, under the law, duties of care and loyalty to the Company, stipulated in the Articles of Association of the Company and in other internal regulations of the Company. The Company has also implemented internal regulations on the ways to address situations of conflicts of interest. |
| **A.7.** The Company shall appoint a Secretary of the Board to be in charge of supporting the activity of the Board. | x | | The Company has a General Secretary who supports the Board activities. |
| **A.8.** The Corporate Governance Statement shall stipulate whether a Board assessment has taken place under the direction of either the Chairperson or the Nomination Committee and, if so, shall summarize the key measures and the resulting changes. The Company shall have a policy/guide regarding Board assessment, including the purpose, criteria and frequency of the assessment process. | | x | The Company has a Board Self-assessment Guide that stipulates the purpose, criteria and frequency of such an assessment. Based on this guide, the Board conducted a self-assessment process for the financial year of 2021 under the direction of the Chairperson of the Board. |
| **A.9.** The Corporate Governance Statement shall contain information on the number of Board and Committee meetings over the past year, the participation of the directors (in person and in default) and a Report by the Board and Committees on their activities. | x | | The Company executives shall meet at least once a week and the Board shall meet whenever necessary, but at least once every three months. During 2021, 17 Board meetings took place (16 meetings held with full attendance and 1 meeting held with 4 out of 5 members), 3 meetings for Audit Committee (full attendance) and 1 meeting for Nomination and Remuneration Committee (full attendance). |
| **A.10.** The Corporate Governance Statement shall include information on the exact number of independent members of the Board. | x | | The assessment of the Board members' independence on the basis of the independence criteria set out in the Corporate Governance Code (which are essentially similar to those provided for by the Companies Act) showed that, in 2021, two (2) Board members met |

SPHERA

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| | | | all the criteria of independence provided for by the Corporate Governance Code and thus 2 Board members of SPHERA are independent. |
| **A.11.** The Board of companies in the Premium Category shall set up a Nomination Committee, consisting of non-executive members, to direct the nomination of any new Board members and to submit recommendations to the Board. Most members of the Nomination Committee shall be independent. | | x | The members of the Board are appointed by the Ordinary General Shareholders' Meeting, on the basis of a transparent proposal procedure and by the majority of the shareholders' votes, as laid down in the Company Articles of Association and the applicable laws.<br><br>Before holding the Ordinary General Shareholders' Meeting, the candidates' CVs are available for consultation by the shareholders, and the shareholders can supplement the list of candidates for Board membership.<br><br>The Company has a Nomination & Remuneration Committee composed of 3 (three) members, elected by the Board from among its members, and one of the members of the Nomination Committee is elected as the Chair. The main role of the Nomination Committee is to submit recommendations concerning the nomination of candidates for appointment to the Board.<br><br>In the perspective of the Corporate Governance Code, the Nomination Committee does not fully comply with the compliance requirements, which places the company in the area of "partial compliance" as most of the nominating committee members are not independent, but all are non-executive members. |
| **Section B – The risk management and internal control system** | | | |
| **B.1.** The Board shall set up an Audit Committee, in which at least one member shall be independent and non-executive. Most members, including the Chair, shall have proven appropriate qualification relevant to the functions and responsibilities of the Committee.<br><br>At least one member of the Audit Committee shall have proven adequate experience in auditing or accounting. In the case of companies in the Premium Category, the Audit Committee shall consist of at least three members and most members of the Audit Committee shall be independent. | x | | The Board of SPHERA has set up an Audit Committee composed of part of its members. Therefore, the members of the Audit Committee are all non-executives.<br><br>In 2021, the Audit Committee was made up of three members of the Board, out of which two (2) members met all the criteria of independence set out in the Corporate Governance Code.<br><br>The Audit Committee includes members with proper certifications corresponding to the functions and responsibilities held in the Audit Committee, and only one member also has the necessary certifications in the financial, auditing and accounting area. |
| **B.2.** The Chair of the Audit Committee shall be an independent non-executive member. | | x | As members of the Board, all members, including the Chair of the Audit Committee, are non-executive. |

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| | | | From the perspective of the Corporate Governance Code, the Audit Committee does not fully comply with the conditions of compliance, placing the Company in the "partial compliance" area seeing as the Chair of the Audit Committee only meets the non-executive member condition, but not the independent member condition.<br><br>The Company is going to resume compliance with this provision in future, by taking into account and analyzing possible alternatives. |
| **B.3**. As part of its responsibilities, the Audit Committee shall carry out an annual assessment of the internal control system. | **x** | | The Terms of Reference for the Audit Committee detail the role and duties of the Audit Committee, which primarily consist of:<br><br>(i) Reviewing and revising the individual and consolidated annual financial statements and the profit sharing proposal;<br><br>(ii) Reviewing and submitting recommendationson the appointment, re-appointment or revocation of the external independent financial auditor for approval thereof by the Ordinary General Shareholders' Meeting;<br><br>(iii) Carrying out an annual assessment of the internal control system, taking into account the effectiveness and purpose of the internal audit function, the adequacy of the risk management and internal control reports submitted to the Audit Committee, the promptness and effectiveness with which the executive management addresses any deficiencies or weaknesses identified as a result of the internal control and the submission of relevant reports to the Board;<br><br>(iv) Assessing any conflicts of interest in connection with the transactions of the Company and its subsidiaries with related parties;<br><br>(v) Assessing the effectiveness of the internal control and risk management systems;<br><br>(vi) Monitoring the application of the legal standards and generally accepted internal audit standards;<br><br>(vii) Receiving, on a regular basis, a summary of the main findings of the audit reports, as well as other information on the activities of the Internal Audit Department and assessing the reports of the internal audit team;<br><br>(viii) Reviewing and revising the transactions with related parties that exceed or are expected to exceed 5% of the Company net assets from the previous financial year, prior to their submission to the Board for approval purposes, in accordance with the Policy on Related Party Transactions. |
| **B.4.** The assessment shall take into account the effectiveness and scope of the internal audit function, the adequacy of the risk<br><br>management and internal control reports submitted to the Board Audit Committee, the promptness and effectiveness with which the executive management addresses any deficiencies or weaknesses identified as a result of the internal control and the submission of relevant reports to the Board. | **x** | | |
| **B.5.** The Audit Committee shall assess any conflicts of interest in connection with the transactions of the Company and its subsidiaries with related parties. | **x** | | |
| **B6.** The Audit Committee shall assess the effectiveness of the internal control and risk management systems. | **x** | | |
| **B.7** The Audit Committee shall monitor the application of the legal standards and generally accepted internal audit standards. The Audit Committee shall receive and assess the reports of the internal audit team. | **x** | | |
| **B.8.** Whenever the Code mentions reports or analyses initiated by the Audit Committee, these shall be followed by | **x** | | The Audit Committee regularly presents the Board with reports on the specific issues that have been assigned to it. |

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| regular reports (at least annual reports) or ad hoc reports to be subsequently submitted to the Board. | | | |
| **B.9.** No shareholder may be granted preferential treatment over other shareholders in connection with transactions and agreements entered into by the Company with the shareholders and affiliates thereof. | x | | The Company grants equal treatment to all its shareholders. Related party transactions are treated objectively, in accordance with the usual industry standards, and the applicable laws and corporate regulations. |
| **B.10.** The Board shall adopt a policy to ensure that any transaction of the Company with any of the companies with which it has close ties, whose value is equal to or greater than 5% of the Company net assets (according to the latest financial report), is approved by the Board following a binding opinion of the Board Audit Committee and is properly disclosed to the shareholders and prospective investors to the extent that such transactions fall within the category of events subject to reporting requirements. | | x | The Company has adopted the key principles for reviewing, approving, and publishing transactions with related parties in accordance with the applicable regulations and Company corporate documents, including the fact that Company transactions with related parties that exceed or are expected to exceed, either individually or in aggregate, an annual value of 5% of the Company net assets from the previous financial year, shall be approved by the Board, based on the opinion of the Audit Committee, and it will formalize in the near future the aforementioned key principles in the relevant Policy on Related Party Transactions (as at the date hereof, as regards this issue, the status is "partial compliance").<br><br>SPHERA submits regular and voluntary reports on related party transactions to the Financial Supervisory Authority and the Bucharest Stock Exchange. These reports are reviewed by an independent financial auditor in accordance with the relevant legislation in force. |
| **B.11.** Internal audits shall be performed by a structurally separate division (the Internal Audit Department) within the Company or by hiring an independent third party. | | x | At the end of 2021, the Internal audit function has not been occupied. |
| **B.12.** In order to ensure the fulfilment of the primary functions of the Internal Audit Department, functionally speaking, it shall report to the Board by means of the Audit Committee. For administrative purposes and as part of the responsibilities of the management to monitor and reduce risks, it shall report directly to the Chief Executive Officer. | | x | Not applicable since the Internal audit function has not been occupied. |
| **Section C – Fair reward and motivation** | | | |
| **C.1.** The Company shall publish the Remuneration Policy on its website and shall include a statement on the implementation of the Remuneration Policy in the Annual Report during the annual period under review. Any key change in the Remuneration Policy shall be published on the Company website in a timely manner. | x | | The Company has a Remuneration Policy in place and consistently applies the remuneration principles with respect to Board members, Executives, the senior management, and other personnel categories. These basic remuneration principles are listed in the Corporate Governance Report. So far, there have been no changes to the Remuneration Policy that might lead to updates to the Policy published on the Company website. |
| **Section D – Adding value by way of the investor relations** | | | |
| **D.1.** The Company shall organize an Investor Relations Service indicating to the general public the officer(s) in charge or the | x | | All the information as specified by the D1 provision is provided on the issuer's website. |

SPHERA

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| relevant organizational unit. In addition to the information required by law, the Company shall include on its website a section dedicated to Investor Relations, in both Romanian and English, with all the relevant information of interest to investors, including:<br>• The main corporate regulations: Articles of Association, the procedures regarding the General Shareholders' Meetings (GSM);<br>• The professional CVs for the members of the Company management bodies, other professional commitments of the Board members, including executive and non-executive positions in the Boards of Directors of companies or non-profit institutions;<br>• Current and regular reports (quarterly, half-yearly and annual);<br>• Information on the General Shareholders' Meetings;<br>• Information on the corporate events;<br>• The name and contact details of a person who can provide relevant information, on request;<br>• Company presentations (e.g., investor presentations, quarterly result presentations, etc.), financial statements (quarterly, half-yearly, annual), Audit Reports, and Annual Reports. | | | |
| D.2. The Company shall have a policy on the annual distribution of dividends or other benefits to the shareholders. The principles of the policy of annual distribution to the shareholders shall be published on the Company website. | x | | The Company Dividend Policy is published on the Company website, in the Investor Relations section, the Corporate Governance Subsection. |
| D.3. The Company shall adopt a policy regarding forecasts, whether they are made public or not. Forecasts mean quantified conclusions of various studies aimed at determining the overall impact of a number of factors for a future period (the so-called assumptions): by its nature, a forecast has a high level of uncertainty, and the actual results can vary significantly from the original forecasts. The Forecast Policy shall determine the frequency, period considered and content of the forecasts. If published, the | x | | The Company has a Forecast Policy, which is published on the Company website, in the Investor Relations section, the Corporate Governance Subsection. |

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| forecasts may only be included in the annual,half- yearly or quarterly reports. The Forecast Policy shall be published on the Company website. | | | |
| D.4. The rules of the General Shareholders' Meetings shall not limit the participation of shareholders in the general meetings or the exercise of their rights. Any amendments to these rules take effect, at the earliest, starting with the next Shareholders' Meeting. | x | | Information on the organization of the General Shareholders' Meetings is mentioned in the Company Articles of Association, as well as the Corporate Governance Report, in brief. Since 2017, SPHERA has in place a Shareholders Meeting Procedure and publishes detailed convening notices for each GSM, describing in detail the procedure to be followed during each GSM. Thus, the Company ensures that the General Shareholders' Meetings are properly managed and organized, and the shareholders' rights are respected. |
| D.5. Independent financial auditors shall be present at the General Shareholders' Meeting when their reports are presented at these meetings. | x | | The independent financial auditors participate in the Ordinary General Shareholders' Meetings where the individual and consolidated annual financial statements are subject to approval. |
| **D.6.** The Board should present to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting. | | x | The information about the internal controls and significant risk management system is provided in the Annual Report. Shall the question related to the internal control and significant risk management system be asked during the annual meeting, the question will be addressed by the Board. |
| D.7. Any specialist, consultant, expert, or financial analyst may take part in Shareholders' Meetings on the basis of a prior invitation from the Chairperson of the Board. Accredited journalists may also attend General Shareholders' Meetings, unless otherwise decided by the Chairperson of the Board. | x | | The GSM Rules and Procedures provide for the possibility for any specialist, consultant, expert, financial analyst or accredited journalist to participate in the GSM on the basis of a prior invitation from the Chairperson of the Board. |
| D.8. The quarterly and half-yearly financial reports shall include information in both Romanian and English on the key factors that influence change in terms of sales levels, operating profit, net profit and other relevant financial indicators, from one quarter to the next, and from one year to the next. | x | | The quarterly and half-yearly financial reports include information in both Romanian and English on the key factors that cause changes in terms of sales levels, operating profit, net profit and other relevant financial indicators, from one quarter to the next, and from one year to the next. |
| D.9. A Company shall hold at least two meetings/teleconferences with analysts and investors each year. The information presented on these occasions shall be published in the Investor Relations section of the Company website at the time of the meetings/teleconferences. | x | | SPHERA holds individual meetings and teleconferences with financial analysts, investors, brokers, and other market specialists on a quarterly basis in order to present the financial elements which are relevant to the investment decision. Investor presentations, updated on a quarterly basis, are made available at the time of the meetings/teleconferences and on the Company website, in the Investor Relations section. |
| D.10. If a Company supports various forms of artistic and cultural expression, sporting, educational or scientific activities and deems their impact on the Company innovation and competitiveness to be part of its mission and development strategy, it will publish its policy on its activity in this field. | x | | SPHERA carries out various activities related to social and environmental responsibility. For further details, please also go to the section of the Annual Report on the Consolidated Non-financial Statement. |

# CONSOLIDATED NON-FINANCIAL STATEMENT

SPHERA

# CONSOLIDATED NON-FINANCIAL STATEMENT[2]

**The Group will issue a 2020 & 2021 Sustainability Report, which will provide a thorough assessment of the Group's approach towards ESG aspects, by July 2022. Therefore, this annual report only provides a brief overview the Group's approach towards non-financial topics in 2021. The Group will inform the market about the availability of the 2020 & 2021 Sustainability Report through a current report.**

## THE GROUP BUSINESS MODEL

Sphera Franchise Group was established in May of 2017 with the aim of consolidating under one entity several companies that held (and hold) the rights of franchise operation of the KFC® and Pizza Hut® brands in Romania, the Republic of Moldova and two other regions in Northern Italy.

Thus, as a top-level group in the food service area in Romania, Sphera operates a portfolio of successful international brands, i.e. KFC®, Pizza Hut®, Pizza Hut Delivery® and Taco Bell®, through its subsidiaries in Romania, the Republic of Moldova and Northern Italy; thanks to these successful world-famous brands, the success of key locations, the marketing policies and the product quality, Sphera holds top positions in both QSR and FSR.

## APPLIED DUTY OF CARE PROCEDURES

In 2021, there were no duty of care procedures specifically formalized and/or taking the form of policies at Group level, and the duty of care issues were pursued on a case-by-case basis and/or for various activities, as reflected in the usual practices of the relevant market in which the Group operates, in the spirit of art. 803 of the Civil Code. In spite of the lack of a duty of care procedure and/or policy at Group level, business (and other) decisions were based on the best strategies and principles for reducing any related risk, as well as the rules of honesty and loyalty.

## SOCIAL RESPONSIBILITY; SOCIAL, ENVIRONMENTAL AND DIVERSITY-RELATED ISSUES

The Group constantly engages in social responsibility activities; both prior to the establishment of Sphera, by means of its subsidiaries, and afterwards, every year, either directly or through specialized foundations/associations, the disadvantaged groups in the community where the Group operates have been supported. Furthermore, Sphera and/or its subsidiaries have been involved and contributed to supporting scientific, cultural, sports, medical, educational, and environmental actions, and national events.

The Sphera Group does not have an Integrated Environmental and Social Governance Policy or Procedure but covers relevant issues in this area in various corporate documents applicable to each company, for specific aspects of their activity. However, the Group takes interest in the environmental and social risks and the methods of mitigating them.

Moreover, in the day-to-day business, the fundamental social objective of Sphera and its subsidiaries is to maintain an organizational culture by ensuring suitable working conditions for the employees, competitive pay levels on the relevant market, work incentive and reward systems, means of evaluation and measurement of positions and of work norming, information and control systems and means of correction, a method of making customer relations permanent through quality, sustainability, flexibility, the price of the products and services offered, the willingness to change, and to assume responsibility, as well as to clarify any counterproductive situations, and the full and effective use of the working time.

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[2] *This non-financial statement is based on the Romanian legislation, Order no. 1.938 of August 17, 2016, on the Amendment and Completion of Accounting Regulations (adaptation of Directive 2014/95/EU on disclosure of non-financial and diversity information by large companies and groups).*

In 2021, there was no formalized diversity policy with respect to the administrative and management bodies of Sphera and/or its subsidiaries on issues such as age, gender or education and professional experience. However, in order to promote equality and diversity, the Group has set up a series of policies which it monitors and assesses using various tools, constantly monitoring their progress. We believe that the most appropriate way to manage equal opportunities and diversity is for these to be present in every process and function. Moreover, they must be considered an integral part of the decision-making in terms of policies and must be present in the Group program planning. In 2019, Sphera joined the Diversity Charter.

Therefore, the Group activities include developing relations with people from different cultural contexts, and promoting equal opportunities through the following policies and tools:

- **Policy of equal opportunities** - By means of our Policy of Equal Opportunities, we make sure that there is no undue discrimination in the recruitment, retention and training of employees based on, but not limited to gender, civil status, sexual identity, religion and belief, political options, ethnicity/race, working time, age, disabilities, social & economic context, past convictions.
- **Diversity strategy** - Our diversity strategy is based on the idea that external relationships with customers, consumers and partners should reflect the standards and behaviors on the basis of which we direct diversity internally. The strategy matches the vision of inclusion and diversity, whereby each individual is able to fulfil his/her potential and to make his/her contribution to the Company.
- **Internal human resources policies** - which support recruitment in order to enhance the diversity of the workforce. The recruitment process actively supports and promotes diversity, for example, by asking applicants to be open, to be able to speak more than one foreign language, to have multicultural experience, as well as an attachment to equal opportunities, etc.
- **The policies on equal opportunities –**
    - Actions supporting employees to set up support networks;
    - Support people for employees with disabilities;
    - Inclusion in the internal human resources audit of the indicators on: gender, education level, age,
    - employee ethnicity.
- **Training and development –**
    - Mentoring programs for the employees of under-represented groups;
    - Workshops for the managers on the management of the employees' cultural diversity and
    - differences;
    - Operationalization and development of "skills" such as: empathy, self-assessment and reflection, openness, flexibility, and emotional stability;
    - Identification of stereotypes that can be found in both employees and managers and inclusion of activities addressing them in the training ;
    - Training programs for the managers teaching them to identify different employee needs and ways to make them feel valued;
    - Training for the managers in adequately managing situations in which an employee has different opinions than the manager's with respect to a task or decision;
- **Evaluation**
    - Introducing in the managers' performance evaluation, specific indicators regarding the equal opportunities given to the employees, and the adequate management of the employees' different needs behaviors;
    - Identifying the employees' needs (of appreciation, recognition, control, development) and the extent to which managers manage the work teams taking these needs into account;
    - Analyzing the human resources processes (recruitment, performance evaluation, promotion) from the perspective of the extent to which the employees' different behaviors and attitudes are respected and integrated into decisions and actions;
    - Establishing measurable indicators for the evaluation of employees' performance, including them in the pay and reward system;
    - Assigning tasks and projects based on objectives, instead of personal preferences or divergences.

Ernst & Young Assurance Services S.R.L.
25. MAR. 2022
Signed for identification
Semnat pentru identificare

## THE COMPLIANCE POLICY AND THE ANTI- BRIBERY POLICY

As of Q4 2020, Sphera Franchise Group implemented Anti-Money Laundering (AML) Procedures and all suppliers are currently provided with such. In 2021 there was no anti-bribery policy specifically formalized and/or taking the form of policies at Group level, but the Group is going to approve and implement a Compliance Manual and an Anti-Bribery Policy. Nonetheless, Sphera Franchise Group prohibits the involvement of employees in bribery and has a zero-tolerance policy on bribery and corruption. Group prohibits bribery, offering or offering bribes, as well as soliciting, accepting or receiving bribes so that the Group values are respected and its reputation is protected.

There have been no cases of corruption within the organization, and we are very careful in preventing their occurrence.

## KEY PERFORMANCE INDICATORS RELATED TO NON-FINANCIAL STATEMENTS

### Environment

| Objectives | Targets | Progress in 2021 |
|---|---|---|
| **Energy efficiency**<br><br>Reducing the energy consumption and carbon footprint of the organization. | 100% energy efficiency lighting (LED lighting) – by 2024. | Energy efficiency lighting in all Drive Thru and street restaurants.<br><br>Energy efficiency lighting in all newly opened and renovated restaurants. |
| **Sustainable materials and packaging**<br><br>Increasing sustainable material and packaging purchases. | 100% of consumption packaging made of recoverable or reusable plastic – by 2025. | We have 100% replaced plastic straws with paper ones.<br><br>We have 100% replaced plastic bags. |
| **Food waste**<br><br>Aligning with the principles of avoidance of food waste and implementing internal programs for its prevention. | Implementation in all Group companies. | Staff training to streamline the flow of materials.<br><br>Thorough planning of the materials needed in the process.<br><br>Optimized distribution of the raw materials. Careful use of the equipment. |

### Social Responsibility

| Objectives | Targets | Progress in 2021 |
|---|---|---|
| **Human rights**<br><br>A 'sought-after' employer by ensuring a non-discriminative workplace, diversity and inclusion. | 2% of staff hired from vulnerable communities or from among persons with disabilities, as well as various nationalities, by 2023. | In our recruitment processes, we address vulnerable communities and a diverse range of nationalities so as to be able to hire 2% of our staff from these categories by 2023. |
| **Employee capability development and growth**<br><br>The ensuring of continuing learning and development opportunities. | Zero tolerance to gender, religious or political orientation-based discrimination. | We continue implementing app/digital-based operations training programs so that, by 2022, 50% of them might be digitally accessible. |
| **Employees' health and safety**<br><br>The ensuring of a safe work environment for the employees. | 50% of the operations training programs should be available on apps/in digital format or using gamification, by 2022. | We continue supporting the internal promotion process by implementing personal and professional skill development programs so that, by 2025, 80% of promotions should be |

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| | | based on the internal human potential. |
| **Employees' satisfaction and well- being**<br><br>Acknowledgment as the most sought-after employer by ensuring a pleasant, stable and safe working environment. | 80% rate of internal promotion for restaurant management positions, by 2025. | We pay particular attention to leadership trainings for management positions. |

There were no cases of discrimination or child labor in 2021.

## RISK MANAGEMENT

We responsibly manage all aspects of our activities that can generate potential risks and we identify opportunities that can help our business in the long run. We always identify these opportunities in close collaboration with both our internal and external stakeholders.


**We have a sustainable business view which has been developed by relevance and trust.**

We assess issues of legal compliance that are subject to both national and international legal requirements.

Sphera Group works consistently towards stabilizing external factors and reducing market risks.

The Company has developed an internal culture that promotes proper conduct for all employees and the Company management. We rely on an organizational culture, principles, values and operating standards.

We conduct regular audits on food safety issues and have strict criteria for compliance with them, at the level of the supply chain, as well as at operational level.

We regularly assess operational risks regarding health and safety at work and draw up plans for the prevention and protection of employees. We regularly monitor and check all risks associated with our activities. We work closely with an external consultant for support in this area.

We assess the environmental aspects that can generate a negative impact and we are proactive in generating potential mitigation solutions. The Group mitigates risks through monitoring and control conducted by our Legal Department.

# DECLARATION FROM THE MANAGEMENT

According to the best information available we confirm that the individual and consolidated financial information included here offer the real and accurate situation on the company's financial position on 31 December 2021, on the financial performance and cash-flow, according to financial and accounting standards applicable to date, and that the Annual Report for the period of 1 January 2021 to 31 December 2021 transmitted to the market operator, Bucharest Stock Exchange and to the Financial Supervisory Authority presents accurate and complete information about the company.

Chairman of the Board of Directors
Lucian Hoancă

L.S.

Ernst & Young Assurance Services S.R.L.
25. MAR. 2022
Signed for identification
Semnat pentru identificare