SPHERA FRANCHISE GROUP SA

CONSOLIDATED FINANCIAL STATEMENTS

Prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

31 December 2021

Ernst & Young Assurance Services SRL
Bucharest Tower Center Building, 21st Floor
15-17 Ion Mihalache Blvd., District 1
011171 Bucharest, Romania

Tel: +40 21 402 4000
Fax: +40 21 310 7193
office@ro.ey.com
ey.com

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sphera Franchise Group S.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sphera Franchise Group S.A. (the Company) and its subsidiaries (together referred to as "the Group")) with official head office in Bucharest, 239 Calea Dorobanti Street, identified by sole fiscal registration number 37586457, which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 ("Regulation (EU) No. 537/2014") and Law 162/2017 („Law 162/2017"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) as issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, including Regulation (EU) No. 537/2014 and Law 162/2017 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of consolidated the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter

Goodwill impairment testing

On 30 May 2017, Sphera Franchise Group SA acquired 99.9997% of the shares in US Food Network SA (referred hereinafter as USFN) and American Restaurant System SA (referred hereinafter as ARS), in exchange for the Company's shares. Following the purchase price allocation (in which identifiable assets and liabilities of ARS were recognized at fair value), RON 50,585 thousand resulted as goodwill recorded in the consolidated financial position of the Group.
The Group is required to test the goodwill for impairment at least annually. The impairment assessment made by the Group is considered to be a key audit matter as it incorporates significant judgements made by management in respect of certain factors such as future cash flows, future restaurants opening, growth rates, gross and net operating margins, working capital needs, capital expenditure and discount rates, as well as economic assumptions such as the evolution of salaries in the economy and inflation.
The impairment assessment performed on the goodwill did not result in additional impairment adjustment to be recorded as at 31 December 2021, the net carrying value of goodwill as at 31 December 2021 is RON 35,447 thousand.

The Group disclosures about the impairment test are included in Note 2.4.10 Impairment of non-financial assets, including goodwill and Note 12. Intangible assets.

How our audit addressed the key audit matter

Our audit procedures with respect to the impairment analysis performed as of 31 December 2020 included, but were not limited to, the following procedures:

- Analysed the methodology used by management in performing the impairment test for American Restaurant System SA cash generating unit ("CGU"), to determine its compliance with IAS 36.
- Evaluated the Group's key assumptions and estimates used to determine the discount rate, the future operating cash flows, the growth rates, operating margins, working capital needs and the capital expenditure.

- Involved our valuation specialists to assist us in the evaluation of key assumptions and estimates used by the Group, including the determination of the discount rates. In this context, we evaluated whether or not certain assumptions on which the valuation was based, individually and taken as a whole, considered: i) the economic environment of the industry impacted by the pandemic, and the Group's economic circumstances, including the impact of the COVID 19 pandemic related governmental measures; ii) existing market information; iii) the business plans of the Group including management's expectations (including, without being limited to: comparing the restaurant openings considered with commitments to franchisor, assessing the investment per restaurant) ; iv) the risks associated with the cash flows, included the potential variability in the amount and timing of cash flows and the related effect on the discount rate; v) specific requirements of IFRS; vi) benchmarking against general performance of peer companies and against the Group's historical financial performance and trends.
- Tested the mathematical accuracy of the discounted cash flow computation.
- Assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year.
- Evaluated the management's prepared sensitivity analysis over key assumptions in the future cash flow model in order to assess the potential impact of a range of possible outcomes.
- We further assessed the adequacy of the disclosures about the impairment test in the notes to the consolidated financial statements.

Other information

The other information comprises the Annual Report (that includes the Directors' Report and the Non-Financial declaration) and the Remuneration Report, but does not include the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information.

Our audit opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

EY Building a better working world

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Order of the Minister of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements

Reporting on Information Other than the Consolidated Financial Statements and Our Auditors' Report Thereon

In addition to our reporting responsibilities according to ISAs described in section "Other information", with respect to the Directors' Report and Remuneration Report, we have read these reports and report that:

a) in the Directors' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying consolidated financial statements as at December 31, 2021;
b) the Directors' Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 – 19 and 26-27;
c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the consolidated financial statements as at December 31, 2021, we have not identified information included in the Directors' Report that contains a material misstatement of fact;
d) the Remuneration Report identified above includes, in all material respects, the required information according to the provisions of article 107 (1) and (2) from Law 24/2017 on issuers of financial instruments and market operations.

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as auditors of the Group by the General Meeting of Shareholders on 28th April 2021 to audit the consolidated financial statements for the financial year end December 31, 2021. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 5 years, covering the financial periods end December 31, 2017 till December 31, 2021.

Consistency with Additional Report to the Audit Committee

Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 22 March 2022.

Building a better working world

Provision of Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Group and we remain independent from the Group in conducting the audit.
In addition to statutory audit services and services disclosed in the consolidated financial statements, no other services were provided by us to the Company, and its controlled undertakings.

Report on the compliance of the electronic format of the consolidated financial statements, included in the annual consolidated report with the requirements of the ESEF Regulation

We have performed a reasonable assurance engagement on the compliance of the electronic format of the consolidated financial statements of Sphera Franchise Group S.A. (the Company) and its subsidiaries (together referred to as "the Group") for the year ended 31 December 2021, included in the attached electronic file „ 315700GSVZ0HSS7J1457-2021-12-31-en.zip"(identified with the key 786c4b353ee25c33ed591526832368e9ac2c1dbf459843ccdd4e8d5e8b459a7e) with the requirements of the Commission Delegated Regulation (EU) 2019 /815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation). Our opinion is expressed only in relation to the electronic format of the consolidated financial statements and does not extend to the other information included in the annual consolidated report.

Description of the subject matter and the applicable criteria

The Management has prepared electronic format of consolidated financial statements of the Group for the year ended 31 December 2021 in accordance and to comply with ESEF Regulation requirements. The requirements for the preparation of the consolidated financial statements in ESEF format are specified in the ESEF Regulation and represent, in our opinion, applicable criteria for us to express an opinion providing reasonable assurance.

Responsibilities of the Management and Those Charged with Governance

The Management of the Group is responsible for the compliance with the requirements of the ESEF Regulation in the preparation of the electronic format of the consolidated financial statements in XHTML format. Such responsibility includes the selection and application of appropriate iXBRL tags using the taxonomy specified in the ESEF Regulation, ensuring consistency between the human-readable layer of electronic format of the consolidated financial statements and the audited consolidated financial statements. The responsibility of Group's Management also includes the design, implementation and maintenance of such internal control as determined is necessary to enable the preparation of the consolidated financial statements in ESEF format that are free from any material non-compliance with the ESEF Regulation.

Building a better working world

Those charged with governance are responsible for overseeing the financial reporting process for the preparation of consolidated financial statements of the Group, including the application of the ESEF Regulation.

Auditor's Responsibility

Our responsibility is to express an opinion providing reasonable assurance on the compliance of the electronic format of the consolidated financial statements with the requirements of the ESEF Regulation.

We have performed a reasonable assurance engagement in accordance with ISAE 3000 (revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (ISAE 3000 (revised)). This standard requires that we comply with ethical requirements, plan and perform our engagement to obtain reasonable assurance about whether the electronic format of the consolidated financial statements of the Group is prepared, in all material respects, in accordance with the applicable criteria, specified above. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material non-compliance with the requirements of the ESEF Regulation, whether due to fraud or error.

Reasonable assurance is a high level of assurance, but it is not guaranteed that the assurance engagement conducted in accordance with ISAE 3000 (revised) will always detect material non-compliance with the requirements when it exists.

Our Independence and Quality Control

We apply International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly, maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements to the registered auditors in Romania.

We have maintained our independence and confirm that we have met the ethical and independence requirements of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code).

Summary of procedures performed

The objective of the procedures that we have planned and performed was to obtain reasonable assurance that the electronic format of the consolidated financial statements is prepared, in all material respects, in accordance with the requirements of ESEF Regulation. When conducting our assessment of the compliance with the requirements of the ESEF Regulation of the electronic (XHTML) reporting format of the consolidated financial statements of the Group, we have maintained professional skepticism and applied professional judgement. We have also:

- obtained an understanding of the internal control and the processes related to the application of the ESEF Regulation in respect of the consolidated financial statements of the Group, including the preparation of the consolidated financial statements of the Group in XHTML format and its tagging in machine readable language (iXBR);
- tested the validity of the applied XHTML format;
- checked whether the human-readable layer of electronic format of the consolidated financial statements (XHTML) corresponds to the audited consolidated financial statements;
- assessed the completeness of the tagging of information in the consolidated financial statements while using the machine-readable language (iXBRL) under the requirements of the ESEF Regulation;
- assessed the appropriateness of the applied iXBRL tags selected from the core taxonomy and the creation of extensions to the elements in the extended taxonomy specified in the ESEF Regulation when there were no suitable elements in the core taxonomy;
- evaluated the anchoring of the taxonomy extensions to the elements in the extended taxonomy specified by the ESEF Regulation.

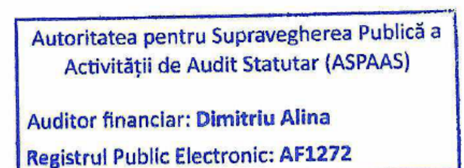
We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion on the compliance of the electronic format of the consolidated financial statements with the requirements of the ESEF Regulation

Based on the procedures performed, in our opinion, the electronic format of the consolidated financial statements of the Group for the year ended 31 December 2021 is prepared, in all material respects, in accordance with the requirements of ESEF Regulation.

On behalf of,

Ernst & Young Assurance Services SRL
15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania
Registered in the electronic Public Register under No. FA77



Name of the Auditor/ Partner: Alina Dimitriu
Registered in the electronic Public Register under No. AF1272

Bucharest, Romania
25 March 2022

The English version of the audit report represents a translation of the original audit report issued in Romanian language.

CONTENTS

Consolidated statement of comprehensive income	2
Consolidated statement of financial position	3
Consolidated statement of changes in equity	4
Consolidated statement of cash flows	5
Notes to the consolidated financial statements	6 - 54

	Note	2021	2020
Restaurant sales	26	1,000,312	710,797
Other restaurant income	26	2,627	726
Restaurant expenses			
Food and material expenses		327,645	232,338
Payroll and employee benefits	8.1	225,869	150,124
Rental expenses	14	17,058	5,293
Royalties expenses		59,987	41,274
Advertising expenses		52,919	33,033
Other operating expenses	6	141,735	109,479
Depreciation, amortization and impairment, net	8.2	90,046	85,884
Restaurant operating profit		**87,680**	**54,098**
General and administrative expense	7	49,947	51,140
Profit/(Loss) from operating activities		**37,733**	**2,958**
Finance costs	9.1	20,497	17,314
Finance income	9.2	150	237
Profit/(Loss) before tax		**17,386**	**(14,118)**
Income tax expense/(credit) from continuing operations	10	(3,702)	(6,380)
Specific tax expense	10	2,424	1,872
Profit/(Loss)		**18,664**	**(9,610)**
Attributable to:			
Owners of the parent		18,425	(9,689)
Non-controlling interests		239	79
Other comprehensive income			
Gains/(Losses) on remeasurements of defined benefit plans	8.1	(397)	262
Net of tax exchange differences on translation		12	(103)
Comprehensive income		**18,279**	**(9,451)**
Attributable to:			
Owners of the parent		18,010	(9,502)
Non-controlling interests		269	51
Earnings per share, basic and diluted (RON/share)	23	0.4749	(0.2497)

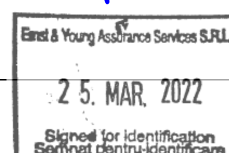
These consolidated financial statements from page 2 to page 54 were approved by the Board of Directors and were authorised for issue on 22 March 2022.

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes



	Note	31 December 2021	31 December 2020
Assets			
Non-current assets		**540,873**	**513,794**
Property, plant and eqipment	11	222,069	201,118
Right-of-use assets	14	232,393	230,454
Intangible assets and goodwill	12	59,771	61,173
Non-current receivables		-	402
Financial assets (cash collateral)		7,554	7,017
Net deferred tax assets	10	19,086	13,629
Current assets		**193,441**	**153,481**
Inventories	16	13,391	11,099
Trade and other current receivables	17	30,621	18,361
Current prepayments		3,313	2,112
Cash and cash equivalents	18	146,116	121,909
Total assets		**734,314**	**667,275**
Equity and liabilities			
Equity			
Issued capital	19	581,990	581,990
Share premium	19	(519,998)	(519,998)
Other reserves		(1,314)	(917)
Retained earnings		71,457	88,033
Reserve of exchange differences on translation		(258)	(240)
Equity attributable to owners of the parent		**131,877**	**148,868**
Non-controlling interests		175	253
Total equity		**132,052**	**149,121**
Non-current liabilities		**353,165**	**285,450**
Long-term borrowings	13	146,110	83,859
Non-current lease liabilities	14	202,820	196,883
Recognised liabilities defined benefit plan	8.1	4,235	3,141
Non-current payables	21	-	1,567
Current liabilities		**249,097**	**232,704**
Trade and other current payables	21	128,437	118,505
Short-term borrowings	13	66,479	66,350
Current lease liabilities	14	54,181	47,850
Total liabilities		**602,262**	**518,154**
Total equity and liabilities		**734,314**	**667,275**

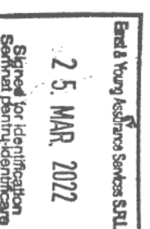
These consolidated financial statements from page 2 to page 54 were approved by the Board of Directors and were authorised for issue on 22 March 2022.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021
All amounts in RON thousand, unless specified otherwise

	Issued capital	Share premium	Other reserves	Retained earnings	Reserve of exchange differences on translation	Equity attributable to owners of the parent	Non-controlling interest	Total equity
As of 1 January 2021	**581,990**	**(519,998)**	**(917)**	**88,033**	**(240)**	**148,868**	**253**	**149,121**
Profit/(Loss)	-	-	-	18,425	-	18,425	239	18,664
Comprehensive income								
Gains/(Losses) on remeasurements of defined benefit plans	-	-	(397)	-	-	(397)	-	(397)
Net of tax exchange differences on translation	-	-	-	-	(18)	(18)	30	12
Total comprehensive income	**-**	**-**	**(397)**	**18,425**	**(18)**	**18,010**	**269**	**18,279**
Dividends paid	-	-	-	(35,001)	-	(35,001)	(347)	(35,348)
As of 31 December 2021	**581,990**	**(519,998)**	**(1,314)**	**71,457**	**(258)**	**131,877**	**175**	**132,052**
As of 1 January 2020	**581,990**	**(519,998)**	**(1,178)**	**111,402**	**(166)**	**172,050**	**201**	**172,251**
Profit/(Loss)	**-**	**-**	**-**	**(9,689)**	**-**	**(9,689)**	**79**	**(9,610)**
Comprehensive income								
Gains/(Losses) on remeasurements of defined benefit plans	-	-	262	-	-	262	-	262
Net of tax exchange differences on translation	-	-	-	-	(75)	(75)	(28)	(103)
Total comprehensive income	**-**	**-**	**262**	**(9,689)**	**(75)**	**(9,502)**	**51**	**(9,451)**
Dividends paid	-	-		(13,679)	-	(13,679)	-	(13,679)
As of 31 December 2020	**581,990**	**(519,998)**	**(917)**	**88,033**	**(240)**	**148,868**	**253**	**149,121**

These consolidated financial statements from page 2 to page 54 were approved by the Board of Directors and were authorised for issue on 22 March 2022



	Note	2021	2020
Operating activities			
Profit/(Loss) before tax		17,386	(14,118)
Adjustments to reconcile profit/(loss) before tax to net cash flows:			
Depreciation of right-of-use assets	14	56,733	52,564
Depreciation and impairment of property, plant and equipment	11	34,858	35,050
Amortisation and impairment of intangible assets and goodwill	12	4,597	7,659
Movement in current assets allowance		170	-
Rent concessions		(3,846)	(11,607)
Adjustments for unrealized foreign exchange losses/(gains)		3,659	4,339
Adjustments for gain/(loss) on disposals of property, plant and equipment and right-of-use assets		8	(480)
Adjustments for finance income	9.2	(150)	(237)
Adjustments for finance costs (interest)	9.1	14,846	14,092
Working capital adjustments:			
Adjustments for decrease/(increase) in trade and other receivables and prepayments		(13,765)	30,148
Adjustments for decrease/(increase) in inventories		(2,292)	532
Adjustments for (decrease)/increase in trade and other payables		11,724	9,007
Interest received classified as operating activities		150	237
Interest paid classified as operating activities		(14,475)	(13,961)
Income tax paid		(2,731)	(2,624)
Cash flows from/used in operating activities		**106,872**	**110,600**
Investing activities			
Proceeds from sales of property, plant, and equipment classified as investing activities		-	125
Purchase of intangible classified as investing activities		(4,630)	(2,979)
Purchase of property, plant and equipment classified as investing activities		(55,817)	(33,378)
Cash flows from/used in investing activities		**(60,447)**	**(36,231)**
Financing activities			
Proceeds from borrowings		65,222	58,313
Repayment of borrowings		(4,747)	(17,601)
Payment of lease liabilities		(47,550)	(36,694)
Dividends paid to owners of the parent		(34,663)	(13,674)
Dividends paid to non-controlling interests		(347)	-
Cash flows from/used in financing activities		**(22,085)**	**(9,655)**
Net increase in cash and cash equivalents		24,340	64,714
Net foreign exchange differences		(133)	(78)
Net increase of cash and cash equivalents, including net foreign exchange differences		**24,207**	**64,636**
Cash and cash equivalents at 1 January		**121,909**	**57,272**
Cash and cash equivalents at 31 December		**146,116**	**121,909**

These consolidated financial statements from page 2 to page 54 were approved by the Board of Directors and were authorised for issue on 22 March 2022.

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

1. CORPORATE INFORMATION

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

The consolidated financial statements for the year ended 31 December 2021 were authorized for issue in accordance with the resolution of the Board of Directors dated 22 March 2022.

The Group operates quick service and takeaway restaurant concepts (a chain of 114 restaurants as at 31 December 2021, a chain of 108 restaurants as at 31 December 2020) under the Kentucky Fried Chicken (''KFC''), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (22 restaurants as at 31 December 2021; 21 restaurants as at 31 December 2020) as well as pizza delivery points (20 locations as at 31 December 2021; 18 locations as at 31 December 2020) 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 at 31 December 2021; 11 restaurants as at 31 December 2020) and one restaurant under Paul brand, in Romania. The Group's number of employees at 31 December 2021 was 4,757 (31 December 2020: 4,802).

Sphera Franchise Group SA (''the legal Parent'', or ''Sphera'') was incorporated on 16 May 2017 as a joint stock company and is registered at No. 239 Calea Dorobanti, Bucharest, Romania. Sphera renders to the benefit of the Group entities services such as management services, marketing support, development, sales support, human resources and other services.

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

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

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

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

California Fresh Flavors SRL ("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 Calea Dorobanti, Bucharest, Romania.

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

2. SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Group in preparing its financial statements.

2.1 Basis of preparation

Statement of Compliance

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards applicable to financial reporting as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) (IFRS).

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

During the current year the Group made a profit of 18,664 (2020: a loss of 9,610) and had a net current liability position of 55,658 (31 December 2020: 79,223). The Group holds a cash and cash equivalent balance of 146,116 and has undrawn cash facilities of 36,039 as at 31 December 2021.

The management, based their assessment on the Group's detailed cash flow projections for the period up to 31 December 2022, prepared using assumptions which include the estimated impact of Covid 19 pandemic developments. These projections take into account the current available cash resources of the Group as of 31 December 2021, the contracts in place in relation to rental expenses, anticipated additional expenses from new lease agreements to be concluded during the period covered by the projections, as well as contracted debt financing and the current classification of loans at the reporting date, CAPEX and other commitments.

As outlined in note 15 of the consolidated financial statements at 31 December 2021, the Group had available 36,039 of undrawn uncommitted borrowing facilities (31 December 2020: 55,381), thus being able to respond to any unforeseen higher cash outflow needs.

In making the assessment about whether the going concern basis of preparation is appropriate, management considered the following factors:

- The Group's current and expected profitability
- The timing of repayment of existing financing facilities
- The potential sources of replacement financing

The projections show that the Group has sufficient resources to continue to fund ongoing operations and asset development, therefore concluded that the going concern basis of preparation is appropriate and no material uncertainties exists.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2021.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

2.3 Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in profit or loss.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Where a business combination is effected primarily by exchanging equity interests, the acquirer is usually the entity that issues the equity. However, when a new entity is set up to issue equity shares to effect a business combination, the new entity has no economic substance and cannot be the acquirer. A combination between two or more entities that is structured so that a new entity issues equity instruments to the owners of the other entity(ies) is no different from a transaction in which one of the combining entities

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

directly acquires the other(s). In such circumstances, the Group takes into consideration the following indicators in order to determine the acquirer:
- the relative size of the combining entities;
- relative voting rights after the combination;
- existence of a large minority voting interest in the combined entity if no other owner or organised group of owners has a significant voting interest;
- the composition of the governing bodies;
- the composition of the senior management of the combined entity;
- the terms of the exchange of equity interests - the acquirer is usually the combining entity that pays a premium over the pre-combination fair value of the equity interests of the other combining entity or entities.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

2.4 Summary of significant accounting polices

2.4.1 Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:
- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:
- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period
- The Group classifies all other liabilities as non-current.
- Deferred tax assets and liabilities are classified as non-current assets and liabilities.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.2 Fair value measurement

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the relevant notes.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
  Or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

2.4.3 Revenue

Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The Group operates in the quick service and take away restaurants business. Restaurant revenues are recognised at the moment of the transaction, in the amount of consideration received for the meals and services delivered, net of value added tax charged to customers; the goods are sold to customers on a cash basis.

Disaggregation of revenue from contracts with customers by primary geographical market and type of revenues is presented in the Segment information note. Other sources of revenues (revenues from management and administration services rendered by Sphera Franchise Group SA to related parties, interest income) are not significant to the Group.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.4 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

The Group has chosen to present grants related to expenses items to be deducted in reporting the related expense, while the government grants related to compensation of the loss in the turnover incurred during the pandemic have been presented as other income.

2.4.5 Foreign currencies

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

The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.
The exchange rate RON – EUR as at 31 December 20121 and 31 December 2020 were:

	31 December 2021	31 December 2020
RON - EUR	4.9481	4.8694
RON - USD	4.3707	3.9660
RON - MDL	0.2463	0.2305

Transactions and balances

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

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

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

Group companies

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.6 Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and it establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for: all deductible temporary differences and the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and any unused tax losses that can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, no deferred tax is recognized, and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax (VAT and similar taxes)

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- Receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.4.7 Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses, if any. Where appropriate, the cost of property, plant and equipment includes site preparation costs, installation costs and the cost of obtaining permits required to bring the asset ready for use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The cost of property, plant and equipment also includes the cost of replacing parts of the property, plant and equipment.

All repair and maintenance costs are recognised in the profit or loss as incurred. The Group leases its restaurant locations by way of lease contracts, which were recognised in the Group's statement of financial position in accordance with the IFRS 16 provisions starting 1 January 2019. The cost of improvements to leasehold assets is recognised as leasehold improvements and then depreciated as outlined below.

Costs directly related to construction or purchasing of assets connected with opening restaurants in leased locations, including the costs of architecture design, wages and salaries, and benefits of employees directly involved in launching a given location are included in "property, plant and equipment". These assets are depreciated over the expected useful life of the restaurant.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Freehold buildings	40 years
Leasehold improvements	over the lease contract duration (usually 10 years, including first renewal period)
Computers and IT equipment	3 to 5 years
Vehicles	5 years
Other property, plant and equipment	2 to 10 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

The useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Start-up expenses for new restaurants

Start-up expenses for new restaurants represent costs related to the opening of new restaurant premises. Such expenses include some new personnel training costs and other overhead expenses that arise before the opening of new restaurants. Start-up expenses for new restaurants are recognised as operating expense in the accounting period in which the related work was performed.

2.4.8 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Right of use of restaurant properties (land)	20 years
Right of use of restaurant properties (freehold buildings)	3 to 10 years
Right-of-use assets of motor vehicles and other equipment	3 to 5 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.
The right-of-use assets are also subject to impairment. Refer to the accounting policies in section Impairment of non-financial assets.

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.
Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group performs a remeasurement of the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The amount of the remeasurement of the lease liability is recognized as an adjustment to the right-of-use asset i.e. with no impact on income statement.

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.4.9 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortised on a straight-line basis over the useful economic lives from 3 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Franchise rights

Franchise costs are incurred in obtaining franchise rights or licences to operate quick service and take-away restaurant concepts. They include the initial fee paid to the system franchisor when a new restaurant is opened or when the rights and licences are renewed. These are measured at cost less accumulated amortisation and accumulated impairment. Amortisation is on a straight line basis over the life of the applicable franchise or licence agreement, of 10 years.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.10 Impairment of non-financial assets, including goodwill

At each reporting date, management assesses whether there is any indication of impairment for property, plant and equipment or intangible assets, excluding goodwill. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in the statement of comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

The Group is organised into business units based on the restaurants' brands, each being considered as a single CGU (cash generating unit), as follows:

- KFC restaurants
- Pizza Hut restaurants
- Taco Bell restaurants

Goodwill acquired through business combinations is allocated to the Pizza Hut restaurant chain CGU, which is also an operating and reportable segment.

Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit (CGU) (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

2.4.11 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets, which are debt instruments, at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

• Financial assets at amortised cost (debt instruments)
• Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
• Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
• Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)
This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:
• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets are represented by loans, trade and other receivables and cash and cash equivalents.

De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:
• The rights to receive cash flows from the asset have expired, or
• The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision methodology that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Disclosures relating to impairment of financial assets are summarised in the following notes:

- Financial instruments risk management — Note 15
- Trade receivables — Note 17

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, financial liabilities measured at amortized cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of financial liabilities measured at amortised cost, net of directly attributable transaction costs.

The Group's financial liabilities include only financial liabilities measured at amortised cost (trade and other payables, loans and borrowings and lease liabilities).

Subsequent measurement

After initial recognition, interest bearing loans and borrowings and any other long-term payables are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in profit or loss.

De-recognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and an intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4.12 Inventories

Inventories, which include food, beverages and other supplies, are stated at the lower of cost or net realisable value. Cost of inventory is determined on the weighted-average basis and includes expenditures incurred in acquiring inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense and reported as a component of cost of sales in the statement of comprehensive income in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories is recognised as an expense in the same component of the statement of comprehensive income as the consumption of the respective inventory, in the period the write-down or loss occurs.

2.4.13 Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

For the purpose of the statement cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

2.4.14 Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year. Prepayments to acquire current assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Prepayments to acquire property, plant and equipment are classified as construction in progress. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognized in profit or loss.

2.4.15 Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds. Any excess or deficit of the fair value of consideration received over the par value of shares issued is recognised as share premium.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

The Group recognises a liability to make cash or non-cash distributions to owners of equity when the distribution is authorized and the distribution is no longer at the discretion of the Group. As per the corporate laws of Romania, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

2.4.16 Royalties

Royalties in connection to franchise rights are recognised as an expense as restaurants revenue is earned.

2.4.17 Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

2.4.18 Employee benefits

The Group, in the normal course of business, makes payments on behalf of its employees for pensions (defined contribution plans), health care, employment and personnel tax which are calculated according to the statutory rates in force during the year, based on gross salaries and wages. Food allowances, travel expenses and holiday allowances are also calculated according to the local legislation.

The cost of these payments is charged to the statement of comprehensive income in the same period as the related salary cost. Accruals are created for holiday allowances if there are non-used holidays according to the local legislation.

The Group does not operate any other pension scheme or post-retirement benefits plan and consequently, has no obligation in respect of pensions.

Defined benefit plans (Italian subsidiary)

In accordance with the Italian labour regulations, the Group operates a leaving-service indemnity plan in Italy only, which requires contributions to be made to a separately administered fund. These benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:
• The date of the plan amendment or curtailment, and
• The date that the Group recognizes related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'restaurant expenses', 'general and administration expenses' and 'finance costs' in the consolidated statement of profit or loss (by function):
• Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.
• Net interest expense or income.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of asset or liability affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The majority lease contracts of the Group include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group's lease contracts terms vary between 5 and 20 years, depending on the location of the restaurants; Drive-Thru and in-line restaurants have an initial lease term greater than mall restaurants which are more exposed to renegotiations for repositioning within the food-court area or other architectural changes initiated by the lessors. Assessment of lease term is performed on a lease-by-lease basis; the lease term includes the non-cancellable period of the lease and does not include the renewal option because, at the commencement date of the lease it is not reasonably certain the renewal option will be exercised.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

There are no significant economic factors (incentives or penalties) that might enforce the extension of the lease beyond the contractual duration if the restaurant does not reach the expected operating performance.

Moreover, the COVID-19 pandemic reduced predictability regarding the renewal conditions; the current economic context requests a reconsideration of the standard lease conditions: there is an increased concern to optimise the leases (expenses) by switching from a fixed (minimum guaranteed) consideration to a more variable one, directly dependent on the transactions volume.

The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Useful lives of property and equipment and right-of-use assets

The Group assesses the remaining useful lives of items of property and equipment and right-of-use assets at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 ''Accounting Policies, Changes in Accounting Estimates and Errors''. These estimates may have a material impact on the amount of the carrying values of property and equipment and right of use and on depreciation recognised in profit or loss.

In particular, regarding the useful lives of property plant and equipment, the Group assesses for its operating leases that generally have an initial term of 5 years with renewal option for another 5 years, that the leasehold improvements' useful life is of 10 years due to the fact that historically most of such leases have been renewed after the initial term of 5 years, that the refurbishment needed after the first 5 years is of significantly less value compared to the initial set-up, and that 10 years is also the duration of the related franchise.

Leasehold improvements are depreciated over a ten years period, this estimation of expected useful life taking in consideration the length of time the assets can reasonably be used to generate income and be of benefit to the Group, the economic period of use until major refurbishment (in line with franchise agreements too), the franchise licence period (franchise renewal cycle) - as well as the historical experience regarding the period in which similar assets generated significant economic benefits to the Group. In case the Group decides to relocate a restaurant, the ongoing franchise right (unamortised franchise fee) is transferred to the new location, as well as part of the movable leasehold improvements that might be reused by the new or other locations (20-40% of existing assets). Generally, the residual value of the leasehold improvements that might be impaired is not considered a critical factor for exercising or not the renewal option of a lease (in case of disposal or relocation, the undepreciated value of assets that cannot be re-used/sold).The costs of dismantling non-removable assets are not significant.

Regarding the estimation of the useful lives of right-of-use assets, after considering the potential economic penalty associated with the loss of the leasehold improvements, the lease term, thus the useful life of right-of-use assets, as determined in accordance with IFRS 16, does not include the extension period because, at the commencement date of the lease, the Group determined it is not reasonably certain it will exercise the renewal option. However, a different threshold (i.e., the expected usage of the asset) is used for the determination of the useful life of the leasehold improvement, an asset in the scope of IAS 16, as described previous paragraph.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment of goodwill

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

The fair value less costs of disposal calculation is based on future cash flows, for which some of the main assumptions were future restaurants opening, growth rates, gross and net operating margins, working capital needs and discount rates, as well as economic assumptions such as the evolution of salaries in the economy and inflation.

The key assumptions used to determine the recoverable amount for the CGU, including a sensitivity analysis, are disclosed and further explained in Note 12.

Deferred for tax losses carried forward

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

4. CHANGES IN ACCOUNTING POLICIES

4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2021

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2021:

Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)
In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy. While application is retrospective, an entity is not required to restate prior periods. The amendments had no impact on the financial statements of the Group.

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

4. CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 16 Leases-Covid 19 Related Rent Concessions (Amendment)
The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application was permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.

There is no substantive change to other terms and conditions of the lease.

The Group has applied the amendment to IFRS 16 already in 2020 for the first time, the effect of the accounting being presented as “rent concessions” (discounts) in the financial statements. In April 2021 IASB has extended the amendment to IFRS 16 and the entities were allowed to apply the amendment to a reduction in lease payments originally due on or before 30 June 2022 (the 2021 Amendment).

For the financial year ended 31 December 2021, the Group has used the practical expedient allowed by the amendment to the IFRS 16 and recognized in profit or loss the benefit of the rent concession (discounts) received in total amount of 3,846 (2020: 11,607) as if it was a variable lease payment.

4.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2021 AND NOT EARLY ADOPTED

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. These amendments do not have any impact on the Group’s consolidated financial statements.

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)
The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments.

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

4. CHANGES IN ACCOUNTING POLICIES (continued)

In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the Board proposes narrow scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current, liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period, if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect. These Amendments, including ED proposal, have not yet been endorsed by the EU. Management has assessed that application of these amendments will have no significant impact on the financial position of the Group.

IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)
The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the

4. CHANGES IN ACCOUNTING POLICIES (continued)

company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

The amendments have not yet been endorsed by the EU. Management has assessed that application of these amendments will have no significant impact on the financial position of the Group.

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)
The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose ‘significant’ accounting policies with a requirement to disclose ‘material’ accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Amendments have not yet been endorsed by the EU. Management has assessed that application of these amendments will have no significant impact on the consolidated financial statements of the Group.

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

4. CHANGES IN ACCOUNTING POLICIES (continued)

IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)
The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The Amendments have not yet been endorsed by the EU. Management has assessed that application of this amendment will have no significant impact on the consolidated financial statements of the Group.

IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)
The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Amendments have not yet been endorsed by the EU. Management has assessed that application of this amendment will have no significant impact on the consolidated financial statements of the Group.

5. GROUP INFORMATION

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

Company name	Country of incorporation	Field of activity	Control 31 December 2021	Control 31 December 2020
US Food Network SA	Romania	Restaurants	99.9997%	99.9997%
American Restaurant System SA	Romania	Restaurants	99.9997%	99.9997%
California Fresh Flavors SRL	Romania	Restaurants	99.9900%	99.9900%
US Food Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%	100.0000%

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

6. OTHER OPERATING EXPENSES

	2021	2020
Third-party services	81,234	57,187
YUM penalties (Note 22)	(1,527)	2,762
Utilities	29,027	21,757
Maintenance and repairs	14,710	10,383
Cleaning supplies	4,989	6,891
Small-wares	2,409	2,262
Transport	6,185	4,328
Telephone and postage	1,304	839
Insurance	806	768
Net (gain)/loss on disposal of property and equipment and right-of-use assets	8	(480)
Miscellaneous expenses and income, net	2,420	2,782
Provision for receivables, net	170	-
Total	**141,735**	**109,479**

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

Following the signing of the new development agreement with Pizza Hut Europe (Master Franchisor - YUM!) in August 2021, the accrued penalties due to the master franchisor in amount of 1,527 were reversed (Note 22). In prior year, YUM penalties included the accrued penalties due to Pizza Hut Europe 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).

7. GENERAL AND ADMINISTRATIVE EXPENSES

	2021	2020
Payroll and employee benefits (Note 8)	30,374	28,955
Third-party services	5,925	6,041
Depreciation, amortization and impairment of non-current assets	6,142	4,968
Impairment of goodwill (Note 12)	-	4,420
Rent	357	394
Banking charges	4,122	2,810
Transport	781	929
Maintenance and repairs	388	300
Small-wares	153	79
Insurance	572	536
Advertising	345	491
Telephone and postage	331	300
Miscellaneous expenses and income, net	457	917
Total	**49,947**	**51,140**

For the year ended 31 December 2020, the Group recognised in the consolidated financial statements an impairment loss 4,420 in relation with the goodwill recorded on acquisition of ARS.

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

8. DISCLOSURE OF TOTAL PAYROLL AND EMPLOYEE BENEFITS EXPENSE AND TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT, NET

8.1 Payroll and employee benefits

	2021	2020
Payroll and employee benefits recognized in restaurant expenses	225,869	150,124
Payroll and employee benefits recognized in "General and administrative expenses "	30,374	28,955
Total Payroll and employee benefits	**256,243**	**179,079**
Of which, defined contribution to State pension plan*	7,551	4,029

Total payroll and employee benefits include government grants in total amount of 2,800 related only to the restaurant expenses (2020: 28,332, out of which 27,555 included in Restaurant expenses and 779 in General and administration expenses) representing the state support programs deployed by the governments in the countries where the Group operates, as part of the supportive measures for the employee-related costs incurred by the companies affected by a temporary reduction and/or interruption of activity due to COVID-19 pandemic (i.e. technical unemployment indemnity and 41.5% Tax Romanian State Aid).

Payroll costs of 1,661 representing the value of project management and other technical activities performed by the Group's employees for the year ended 31 December 2021 (1,128 for the year ended 31 December 2020) for the construction or refurbishment of restaurants were capitalized in the cost of construction of the non-current assets.

Net employee defined benefit liabilities (Italian subsidiary)

In accordance with the local labour regulations, Italian companies have to pay to their employees a leaving-service indemnity ("TFR"). The accrual for termination benefits in amount of 4,235 (3,141 as at 31 December 2020) was calculated as a career-average lump sum, in accordance with the Italian statutory regulations. The Group performs an actuarial computation of these termination benefits in line with the IAS 19 "Employee benefits".

The amount of 4,235 representing defined benefit liabilities recorded at balance sheet date was determined based on the actuarial valuation performed by an authorised actuary.

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

8. DISCLOSURE OF TOTAL PAYROLL AND EMPLOYEE BENEFITS EXPENSE AND TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT, NET (continued)

	2021	2020
Net benefit expense (recognized in profit or loss)		
Current service cost - Payroll and employee benefits	1,419	1,983
Current service cost - G&A expenses	130	123
Interest cost on benefit obligation	9	13
Net benefit expense	**1,558**	**2,119**
Reconciliation of benefit obligation		
Defined benefit obligation as at 1 January	**3,141**	**1,906**
Interest cost	9	13
Current service cost - Payroll and employee benefits	1,419	1,983
Current service cost - G&A expenses	130	123
Benefits paid	(820)	(585)
Gross remeasurement gain/(loss) on defined benefit plan	397	(344)
Exchange difference	(41)	45
Defined benefit obligation as at 31 December	**4,235**	**3,141**
Remeasurement loss on defined benefit plan (recognized in other comprehensive income)		
Gross remeasurement loss on defined benefit plan	1,756	1,210
Deferred tax credit	(442)	(293)
Net remeasurement loss on defined benefit plan	**1,314**	**917**

The tax impact on the remeasurement loss on defined benefit plan of 442 (31 December 2020: 293) is presented in Note 10.

8.2 Depreciation and amortization

	2021	2020
Depreciation of right-of-use assets recognized in "Restaurant expenses" (Note 14)	53,781	49,155
Depreciation, amortization and impairment of other non-current assets recognized in "Restaurant expenses"	36,265	36,729
Depreciation, amortization and impairment recognized in "Restaurant expenses"	**90,046**	**85,884**
Depreciation of non-operating right-of-use assets recognized in "General and administrative expenses" (Note 14)	2,952	3,409
Depreciation, amortization and impairment of non-current assets recognized in "General and administrative expenses"	3,190	1,559
Impairment of goodwill	-	4,420
Depreciation, amortization and impairment recognized in "General and administrative expenses"	**6,142**	**9,388**
Total depreciation, amortization and impairment, net	**96,188**	**95,272**

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

9. FINANCE COSTS AND INCOME

9.1 Finance costs

	2021	2020
Interest on loans and borrowings	6,016	5,120
Interest on lease liabilities (Note 14)	8,830	8,972
Interest cost on benefit obligation (Note 8.1)	9	13
Foreign exchange loss, net	5,642	3,209
Total finance costs	**20,497**	**17,314**

9.2. Finance income

	2021	2020
Interest income	150	237
Total finance income	**150**	**237**

10. INCOME TAX

The major components of income tax expense for the years ended 31 December 2021 and 31 December 2020 are:

	2021	2020
Current income tax:		
Current income tax charge	1,375	823
Deferred tax:		
Relating to origination and reversal of temporary differences	(5,077)	(7,203)
Income tax expense	**(3,702)**	**(6,380)**
Specific tax expense	2,424	1,872
Total income tax expense reported in the statement of comprehensive income	**(1,278)**	**(4,508)**

The specific tax is presented in accordance with the provisions of the Order no. 2844/2016.

A reconciliation between tax expense and the product of accounting profit multiplied by Romania's domestic tax rate for the years ended 31 December 2021 and 31 December 2020 is as follows:

	2021	2020
Accounting profit/(loss) before income tax	**17,386**	**(14,118)**
At statutory income tax rate of 16%	2,782	(2,259)
Effect of higher tax rates in Italy on tax loss	(2,091)	(3,217)
Effect of lower tax rates in the Republic of Moldova	(63)	(8)
Other income and legal reserves exempted from tax	(628)	(893)
Effect of using specific tax for the restaurant activity	(1,537)	924
Non-deductible expenses for tax purposes, including impairment loss for goodwill	259	945
At the effective income tax rate	**(1,278)**	**(4,508)**

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

10. INCOME TAX (continued)

Starting 2017, the income tax for the restaurant activity in Romania has been replaced by a specific tax, computed based on a minimum fixed amount multiplied by the impact of three criteria: restaurant area, restaurant location and seasonality.

In the context created by the COVID-19 epidemic, the Group benefitted by the tax incentives granted by the authorities as supportive measures for the restaurant industry, as the waiver of the specific tax for a limited period of time (180 days of exemption when calculating 2021 annual tax amount). For the financial year ended 31 December 2020, the tax incentives granted consisted of tax waivers for limited time intervals (March 2020-Dec 2020), temporary postponement of the tax obligations and exemption from the late payment interest and penalties for the postponed amounts.

Deferred tax

Deferred tax reconciliation with corresponding items in the consolidated statement of financial position and consolidated statement of comprehensive income is as follows:

	Statement of financial position		**Statement of comprehensive income**	
	31 December 2021	**31 December 2020**	**2021**	**2020**
Right-of-use assets	(15,054)	(14,394)	660	1,067
Property, plant and equipment	(494)	(442)	52	176
Intangible assets	54	24	(30)	(43)
Lease liabilities	16,194	15,033	(1,161)	(1,411)
Fiscal losses	17,788	13,063	(4,725)	(6,963)
Trade and other payables	156	52	(105)	(212)
Translation difference	-	-	381	183
Deferred tax benefit	**-**	**-**	**(4,928)**	**(7,203)**
Remeasurement benefit/(loss) on defined benefit plan (Note 8.1) – OCI	442	293	(149)	83
Net deferred tax assets	**19,086**	**13,629**	**(5,077)**	**(7,120)**

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Deferred tax asset arising from carried forward unused fiscal losses include:

- 16,845 (31 December 2020: 11,981) arising from the tax losses of the Italian subsidiary that are available indefinitely for offsetting against its own future taxable profits;
- 943 (31 December 2020: 1,082) arising from the unused carried-forward tax losses of Sphera Franchise Group SA that are available for offsetting against the Company's tax profits within the next five years according to the budget (i.e. seven years from the recognition, according to the Romanian tax law). As of December 31, 2021 the Company, registered a tax loss in the amount of 5,892 with a recoverable term in 2024 and the amount of 520 with a recoverable term in 2027.

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

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold buildings and leasehold improvements	Plant and machinery	Other equipment	Construction in progress	Total
Cost					
At 1 January 2020	**155,025**	**103,114**	**44,148**	**9,100**	**311,387**
Additions	21,453	9,990	7,041	9,311	**47,795**
Disposals	4,407	1,503	638	58	**6,606**
Transfers	(1,937)	962	975	12,894	**12,894**
Exchange differences	674	261	222	-	**1,157**
At 31 December 2020	**174,682**	**110,900**	**49,798**	**5,459**	**340,839**
Additions	21,297	10,749	6,674	48,480	**87,200**
Disposals	615	229	76	-	**920**
Transfers	-	-	-	32,085	**32,085**
Exchange differences	892	485	264	-	**1,641**
At 31 December 2021	**196,256**	**121,905**	**56,660**	**21,854**	**396,675**
Depreciation and impairment					
At 1 January 2020	**50,227**	**44,407**	**17,338**	**-**	**111,972**
Depreciation charge for the year	14,115	11,208	6,556	-	**31,879**
Impairment charge	2,453	(41)	-	-	**2,412**
Disposals	4,722	1,357	582	-	**6,661**
Transfers	(1,001)	499	502	-	**-**
Exchange differences	41	40	37	-	**118**
At 31 December 2020	**63,115**	**53,758**	**22,847**	**-**	**139,720**
Depreciation charge for the year	15,823	12,093	7,245	-	**35,161**
Impairment charge	-	-	-	-	**-**
Depreciation of assets transferred from ROUA	-	168	-	-	**168**
Disposals	615	229	67	-	**911**
Transfers	-	(42)	42	-	**-**
Exchange differences	209	172	87	-	**468**
At 31 December 2021	**78,532**	**66,004**	**30,070**	**-**	**174,606**
Net Book Value					
At 1 January 2020	**104,798**	**58,707**	**26,810**	**9,100**	**199,415**
At 31 December 2020	**111,567**	**57,142**	**26,951**	**5,459**	**201,118**
At 31 December 2021	**117,724**	**55,901**	**26,590**	**21,854**	**222,069**

As at 31 December 2021 and 31 December 2020, the gross book value of fully depreciated property, plant and equipment that were still in use amounted to 80,502 and 66,392 respectively.

The Group has pledged non-current assets (mostly equipment) in favour of Alpha Bank for the financing received. The net carrying amount of pledged assets as at 31 December 2021 is of 38,705 (31 December 2020: 37,589).

The additions during the years ended 31 December 2021 and 31 December 2020 consist mainly in new restaurants' leasehold improvements, as well as restaurants' kitchen equipment and furniture. The increase of the additions during 2021 is related to the network expansion by new 11 restaurants in Romania (6 KFC restaurants, 3 PH and PHD and 2 Taco Bell) and 2 new KFC restaurants in Italy.

Disposals of property, plant and equipment refer mainly to leasehold improvements of the PHD restaurant closed during the year (2020: 1 KFC restaurant, 2 PH restaurants and 3 PHD restaurants) and other obsolete equipment and furniture fully depreciated.

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

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Analysis regarding the impairment of property, plant and equipment

The management has assessed property, plant and equipment for impairment indicators as at 31 December 2021. Based on impairment analysis performed at the level of each CGU no additional impairment need to be recognised. Please see more details in note 12.
Additionally, the Group has analysed the performance of each of the restaurants at individual level and concluded that there is no need of any additional specific impairment for the property, plant and equipment.

12. INTANGIBLE ASSETS AND GOODWILL

	Goodwill	Franchise rights	Other intangible assets	Intangibles in progress	Total
Cost					
At 1 January 2020	**50,585**	**29,800**	**2,702**	**4,025**	**87,112**
Additions	-	1,689	1,692	1,479	**4,860**
Disposals	-	906	30	-	**936**
Exchange differences	-	44	25	-	**69**
At 31 December 2020	**50,585**	**30,627**	**4,389**	**5,504**	**91,105**
Additions	-	880	5,269	4,171	**10,320**
Transfers	-	-	-	5,907	**5,907**
Disposals	-	4,774	2	1,284	**6,060**
Exchange differences	-	82	32	-	**114**
At 31 December 2021	**50,585**	**26,815**	**9,688**	**2,484**	**89,572**
Amortisation					
At 1 January 2020	**10,718**	**10,651**	**908**	**-**	**22,277**
Amortisation	-	2,600	943	-	**3,543**
Impairment loss of goodwill	4,420	-	-	-	**4,420**
Impairment change	-	458	-	-	458
Accumulated amortisation and impairment of disposals	-	746	30	-	**776**
Exchange differences	-	-	9	-	**9**
At 31 December 2020	**15,138**	**12,963**	**1,831**	**-**	**29,932**
Amortisation	-	2,671	1,926	-	**4,597**
Impairment loss of goodwill	-	-	-	-	**-**
Accumulated amortisation and impairment of disposals	-	4,774	2	-	**4,776**
Exchange differences	-	25	23	-	**48**
At 31 December 2021	**15,138**	**10,885**	**3,778**	**-**	**29,801**
Net book value					
At 1 January 2020	**39,867**	**19,149**	**1,794**	**4,025**	**64,835**
At 31 December 2020	**35,447**	**17,664**	**2,558**	**5,504**	**61,173**
At 31 December 2021	**35,447**	**15,930**	**5,910**	**2,484**	**59,771**

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

12. INTANGIBLE ASSETS (continued)

For the year ended 31 December 2021, the additions consisted mainly in franchise operating licenses acquired for newly opened restaurants and renewal franchise licenses for restaurants achieving ten years of operations and the new ERP platform put in function by two of the Group's subsidiaries at the beginning of the year (ARS and USFN). Additions to intangible in progress refer mainly to the continuation of the implementation process of the ERP platform within the Group by the companies SFG and CFF. The companies put in function the ERP at the beginning of the year 2022.

Additions during the year ended 31 December 2020 consisted mainly in franchise operating licenses acquired for newly opened restaurants and renewal franchise licenses for restaurants achieving ten years of operations. Additions to intangible in progress refer mainly to the implementation of the ERP platform.

For impairment testing, goodwill acquired through business combinations is allocated to the Pizza Hut restaurant chain CGU, which is also an operating and reportable segment. The Group performed its annual impairment test as of 31 December 2021.

The recoverable amount of the CGU as at 31 December 2021, has been determined 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.

The cashflow projections are based on financial budgets approved by senior management covering the above referred period.

The key assumptions used in the calculation of the recoverable amounts are sales growth rates, EBITDA margins, discount rates, net working capital and terminal value growth rates. Capital expenditure/restaurant is also a key assumption. The values assigned to these key assumptions reflect past experience and a number of actions that the management intends to pursue, such as opening new restaurants according to the Base Tier agreed in the new development plan, new types of selling channel which was implemented starting 2021 and a tighter control of certain expenses (restaurant payroll, marketing, rent, general and administrative expenses).

Discount rate (post tax) used is 11% (2020: 10.4%). The discount rate reflects the current market assessment of the risks specific to ARS and was estimated based on the weighted average cost of capital for the industry. This rate was further adjusted to reflect the market assessment of any risk specific to ARS for which further estimates of cash-flows have not been adjusted. The WACC was determined by taking into account the debt equity structure of the peers.

The Group considers the sales growth rates used in the impairment test to be reasonable, based on the recent evolution of Pizza Hut restaurants and the measures it has undertaken to support sales, including the level of selling prices and changes to its sales channels.

Budget EBITDA margins are based on the following assumptions:

- Improving the current profitability for the existing restaurants through price increases with improvements on cost of goods sold due to increasing capacity of negotiation of Sphera Group, in order to compensate the increasing pressure on labour costs. The rest of the main expense categories trend will be relatively constant as percentage of sales.
- Following the development plan by opening new restaurants with new concepts (Pizza Hut Express and Pizza Hut FCD – Fast Casual Delivery) with smaller costs for investment and smaller crew and smaller costs to operate. In 2021, ARS opened three new restaurants, out of which two FCD and one express concept.

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

12. INTANGIBLE ASSETS (continued)

As a result of the analysis, as compared to the CGU carrying value of 46,463 (2020: 52,235), there was no need to recognise an impairment loss in the financial statements as at and for the year ended 31 December 2021 (2020: impairment loss of 4,420).

With regard to the assessment of impairment, the model is most sensitive to:

- cost of capital (WACC)
- terminal growth assumptions
- EBITDA margin
- NWC

EBITDA margin reflects management's estimates regarding the operational profitability of the CGU, in line with historical levels and market evolution. If EBITDA margin would decrease by 5% the recoverable amount of the CGU would be 46,388 and the impairment loss would be 75, while if the EBITDA margin would increase by 5% the recoverable amount of the CGU would be 56,163 and there would be no impairment.

Key drivers	Key drivers (%)	Fair value less cost to sell	Impairment / Headroom
	11.00%	**51,276**	**4,813**
Cost of capital	11.6%	46,530	67
	10.3%%	57,827	11,364
	3.00%	**51,276**	**4,813**
Perpetuity growth factor	2.50%	47,294	831
	3.50%	55,789	9,326
Net working capital (%/sales)	+1%	48,929	2,466
	-1%	53,623	7,160

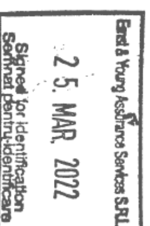
Ernst & Young Assurance Services S.R.L.
25. MAR. 2022
Signed for identification
Semnat pentru identificare

13. BORROWINGS

	Interest rate, %	Maturity	31 December 2021	31 December 2020
Current borrowings				
Current portion of bank loan	EURIBOR 3M + relevant spread	5 years from each withdrawal	41,326	36,450
Short-term working capital facility	ROBOR 3M + relevant spread	1 year from contract date	25,153	29,900
Total current borrowings			**66,479**	**66,350**
Non-current borrowings				
Non-current portion of bank loan	EURIBOR 3M + relevant spread	5 years from each withdrawal	146,110	83,859
Total non-current borrowings			**146,110**	**83,859**
Total borrowings			**212,589**	**150,209**

The Group has a credit facility from Alpha Bank Romania made up of 8 sub-limits that can be accessed by companies included in the consolidation, as follows: credit facility for the development of new locations, issuance of bank guarantee letters, credit card, financing of working capital and financing of the foreign subsidiaries. The loan is secured with property, plant and equipment of each restaurant location for which the credit limited has been utilised, pledge on business goodwill, pledge on current accounts opened with the bank, promissory notes issued, pledge on receivables from and shares owned by the Group in its Moldova and Italia subsidiary. The carrying amount of pledged property, plant and equipment and cash and cash equivalents is disclosed in Notes 11 and 18.

In January 2021, the parties agreed by an addendum to loan contract to extend the grace period for principal payments for twelve-month period, until 31 December 2021. All principal amounts initially due during suspension period will be paid beginning 1 January 2022 and loan maturities were postponed in accordance. The split between current and non-current loans and borrowings took into account existing loan repayment schedule agreed by the parties by addendum to loan contract as at 31 December 2020. Interest payments were not suspended.



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

On 19 August 2020, the Group (USFN Romania - Borrower and Sphera Franchise Group SA - Guarantor) entered in a short-term credit facility agreement with Intesa Sanpaolo Romania Bank. The uncommitted credit facility amounting to RON 9.6 million is revolving and may be used by the Borrower to finance the working capital needs. In October 2021, the term of the credit facility was extended until August 2022. As at 31 December 2021, the loan facility balance with Intesa Sanpaolo amounts to 4.7 million RON (31 December 2020: 9.6 million RON).

13. BORROWINGS (continued)

Covenants:

The Group's borrowing arrangement with the Alpha Bank contains several covenants, mainly of quantitative nature, out of which the most important relates to the ratio bank net debt, including non-cash loan utilized for letter of guarantee / EBITDA at a consolidated level, excluding the impact of IFRS 16, which should not exceed at any point in time 2.5.

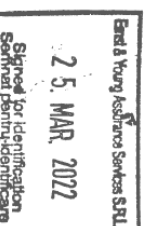
Breaches in meeting the financial covenant at Group consolidated level would permit the bank to call the loan amount needed to meet the financial covenant. There have been no breaches of the consolidated financial covenant for the years ended 31 December 2021 and 31 December 2020. Furthermore, in January 2021, the parties agreed by an addendum to loan contract that the Group is exempt from the consolidated financial covenant for the year 2020.

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

In 2021 and 2020, American Restaurant System recorded a negative net worth, thus failing to meet the general financial terms at standalone level. As a result, American Restaurant System was not allowed to perform any further drawings from the loan. The loan balance of American Restaurant System as at 31 December 2021 was of 2,752, out of which 353 long term (31 December 2020: 2,709, out of which 347 long term). The long-term outstanding balance of ARS bank loans and borrowing of 353 is recorded as a current liability as a result of not meeting the contractual conditions regarding the equity ratio at individual level.

The Group's short-term borrowing arrangement with the Intesa Sanpaolo contains several covenants at standalone level, mainly of quantitative nature, out of which the most important are: the Borrower's ratio Total debt/ EBITDA should not exceed 4.4, the ratio Net bank debt/Total equity should not exceed 3.5 and the ratio (Total equity plus Dividends payables)/ Total assets should exceed 2.0. All financial conditions are met as of 31 December 2021. Breaches in meeting the financial covenant at individual level would permit the bank to call the loan amount. The loan balance of 4,853 from Intesa Sanpaolo is presented as current liability.

The following table shows a reconciliation of the changes in liabilities arising from financing activities:



	31 December 2020	Non-cash changes			Cash changes				31 December 2021
		Interest accrual	Bank charges related to financing	Foreign exchange gains/losses	Drawings	Repayments	Interest paid	Bank charges paid	
Borrowings	**150,209**	**5,702**	**117**	**1,739**	**65,222**	**(4,747)**	**(5,645)**	**(8)**	**212,589**
Bank loans	**150,209**	**5,702**	**117**	**1,739**	**65,222**	**(4,747)**	**(5,645)**	**(8)**	**212,589**

14. LEASE LIABILITIES

The Group has lease contracts for restaurants and administrative premises, motor vehicles and equipment used in its operations. Leases for restaurants premises generally have lease terms between 3 and 10 years (building and leasehold improvements), 20 years (land and land improvements), while motor vehicles and other equipment generally have lease terms between 3 and 5 years.

The Group has leases of certain office equipment (i.e. printing and photocopying machines) that are considered of low value. The Group applies the "short-term leases" and "lease of low-value assets" recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	Restaurant properties – (Land)	Restaurant properties – (Freehold buildings)	Motor vehicles and other equipment	Total
As at 1 January 2020	**8,759**	**216,167**	**4,195**	**229,121**
Additions	6,257	54,738	349	61,343
Depreciation expense	642	50,254	1,668	52,563
Disposals	-	8,565	60	8,625
Exchange difference	-	1,175	2	1,177
As at 31 December 2020	**14,374**	**213,261**	**2,819**	**230,454**
Additions	1,435	55,117	1,540	58,092
Depreciation expense	824	54,213	1,696	56,733
Disposals	-	84	398	482
Exchange difference	-	1,060	2	1,062
As at 31 December 2021	**14,985**	**215,141**	**2,267**	**232,393**

Set out below are the carrying amounts of lease liabilities and the movements during the period:

As at 1 January 2021	**244,733**
Additions	59,730
Accretion of interest	8,830
Payments (principal and interest)	56,381
Rent concessions	3,846
Disposals	482
(Unrealized) forex exchange loss	3,330
Translation difference	1,087
As at 31 December 2021	**257,001**
Non-current	202,820
Current	54,181
As at 1 January 2020	**235,212**
Additions	62,662
Accretion of interest	8,972
Payments (principal and interest)	45,666
Rent concessions	11,607
Disposals	9,043
(Unrealized) forex exchange loss	3,019
Translation difference	1,184
As at 31 December 2020	**244,733**
Non-current	196,883
Current	47,850

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

14. LEASE LIABILITIES (continued)

The following are the amounts recognized in profit or loss:

	2021
Depreciation expense of right-of-use assets	56,733
Interest expense on lease liabilities	8,830
Forex exchange differences, net	3,330
Rent presented in restaurant expenses, including:	***17,058***
• Variable lease payments (included in restaurant expenses - rent)	19,030
• Expense relating to short-term leases (included in restaurant expenses)	1,874
• Rent concessions (included in restaurant expenses) (Note 4.1)	(3,846)
Rent presented in "General and administrative expenses"	***357***
Total amount recognized in profit or loss	**86,308**

	2020
Depreciation expense of right-of-use assets	52,564
Interest expense on lease liabilities	8,972
Forex exchange differences, net	3,019
Net (gain)/loss on disposal of right-of-use assets	(419)
Rent presented in restaurant expenses, including:	***5,293***
Variable lease payments (included in restaurant expenses - rent)	15,877
Expense relating to short-term leases (included in restaurant expenses)	920
Rent concessions (included in restaurant expenses) (Note 4.1)	(11,504)
Rent presented in "General and administrative expenses", including:	***394***
Expense relating to leases of low value assets (included in administrative expenses)	497
Rent concessions (included in administrative expenses) (Note 4.1)	(103)
Total amount recognized in profit or loss	**69,822**

Variable lease payments depend on sales, the turnover rent being accounted as operating expenses ("Rent").

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Group's principal financial liabilities comprise loans and borrowings, lease liabilities 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 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. The interest rates on credit facilities of the Group are disclosed in Note 13. 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 favourable to the Group over the expected period until maturity.

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

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings. With all other variables held constant, the Group's profit before tax and equity are affected through the impact on floating rate borrowings, as follows:

	Increase in basis points	Effect on profit before tax
31 December 2021	1%	(2,126)
EUR		
31 December 2020		
EUR	1%	(1,502)

The Group does not hedge its interest rate risk.

The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment. An equal decrease of the interest rate would have the same effect but of opposite impact.

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. The vast majority of 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.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the EUR and US dollar exchange rate. The Group's exposure to foreign currency changes for all other currencies is not material. With all other variables held constant the Group's profit before tax and equity (excluding translation of Italian subsidiary for presentation into RON) are affected as follows:

	Increase in EUR rate	Effect on profit before tax	Increase in USD rate	Effect on profit before tax
31 December 2021	1%	(2,999)	1%	(367)
31 December 2020	1%	(3,544)	1%	(34)

An equal decrease of the EUR/USD rate would have the same effect but of opposite impact.

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

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

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 (Note 17 and deposits for rent guarantee as per statement of financial position) plus balances with banks (Note 18), 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 the Romanian subsidiary of Intesa.

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.

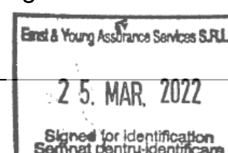
Liquidity risk

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. The tables below summarize the maturity profile of the Group's financial liabilities, including principal amounts and interests according to contractual terms, at 31 December 2021 and 31 December 2020 based on contractual undiscounted payments.

31 December 2021	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Borrowings	141	12,051	61,927	138,449	19,477	232,045
Lease liability	-	15,603	46,808	150,405	85,038	297,854
Trade and other payables	27,375	101,059	3	-	-	128,437
Total:	**27,516**	**128,713**	**108,738**	**288,854**	**104,515**	**658,336**

31 December 2020	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Borrowings	84	10,264	60,808	87,587	1,064	**159,807**
Lease liability	-	13,904	41,713	142,698	88,398	**286,713**
Trade and other payables	11,674	106,741	90	1,567	-	**120,072**
Total:	**11,758**	**130,909**	**102,611**	**231,852**	**89,462**	**566,592**

At 31 December 2021, the Group had available 36,039 of undrawn uncommitted borrowing facilities (31 December 2020: 55,381), thus being able to respond to any unforeseen higher cash outflow needs.



15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Capital management

Capital 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 in order to support its business and maximise shareholder value.

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.

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.

	31 December 2021	31 December 2020
Borrowings	212,589	150,209
Leases	257,001	242,826
Trade and other payables	84,209	58,780
Less: cash and cash equivalents	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. For the covenants in force as at 31 December 2021 and 31 December 2020 please refer to Note 13.

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. The carrying amounts of these financial instruments are considered to approximate their fair values, of these instruments (level 3 measurement).

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.

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

16. INVENTORIES

	31 December 2021	31 December 2020
Raw materials	9,956	7,866
Consumables	2,740	2,528
Goods for resale	695	705
Total	**13,391**	**11,099**

For the year ended 31 December 2021, inventories amounting to 335,197 (2020: 241,570) were recognised as an expense in profit or loss, in ‘’Food and materials’’ as well as in “Other operating expenses” and ‘’General and administrative expenses’’ (“Small-wares” and “Cleaning supplies”).

17. TRADE AND OTHER CURRENT RECEIVABLES

	31 December 2021	31 December 2020
Trade receivables, net	3,031	2,297
Trade receivables from related parties	-	229
Advances to related parties	-	110
Loans granted to related parties	600	705
Tax receivables (VAT receivables mainly)	12,888	5,997
Government grants for technical unemployment	28	1,152
Advance to suppliers	2,682	190
Meal tickets	695	1,056
Social security – medical leave to be received	8,908	6,237
Other debtors	1,789	790
Total	**30,621**	**18,763**

Terms and conditions relating to related party transactions are described in Note 25.
Trade receivables are non-interest bearing and are generally on terms of 30-90 days.

As at 31 December 2021, trade receivables with a value of 323 (31 December 2020: 323) and other debtors with a value of 170 (31 December 2020: nil) were impaired and fully provided for.

Other debtors include the amount of 1,396 representing the second instalment granted by the state for the turnover loss due to the Covid-19 business disruption, in Romania. The amount was collected in January 2022. The grant relates to expenses or losses already incurred due to COVID 19 impact in 2020 and became receivable for the purpose of giving immediate financial support to the entity with no future related costs as at 31 December 2021.

As at 31 December 2021 and 31 December 2020, the ageing analysis of trade receivables and trade receivables from related parties, net of allowances, is, as follows:

31 December 2021	**Trade receivables**						
			Days past due				
	Total	Current	< 30 days	30-60 days	61-90 days	>91 days
Expected credit loss rate		0%	0%	0%	0%	26%
Estimated total gross carrying amount at default	**3,354**	81	1,644	402	5	1,222
Expected credit loss	**323**	-	-	-	-	323
Net	**3,031**	81	1,644	402	5	899

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

17. TRADE AND OTHER CURRENT RECEIVABLES (continued)

31 December 2020	Trade receivables					
			Days past due			
	Total	Current	< 30 days	30-60 days	61-90 days	>91 days
Expected credit loss rate		0%	0%	0%	0%	60%
Estimated total gross carrying amount at default	**2,958**	803	772	471	28	885
Expected credit loss	**323**	-	-	-	-	323
Net	**2,636**	803	772	471	28	562

For the loans attributed to related parties, the Group's considers the probability of losses being remote.

18. CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Cash at banks and on hand	129,381	113,464
Cash in transit	16,735	5,055
Short-term deposits	-	3,390
Total	**146,116**	**121,909**

Deposits at banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group.

As part of the financing agreement with Alpha Bank the Group has pledged the cash available in the accounts opened with the bank. The balance of the pledged bank accounts as at 31 December 2021 is of 111,730 (31 December 2020: 103,071).

19. ISSUED CAPITAL

	31 December 2021	31 December 2020
Authorised shares		
Ordinary shares of 15 RON each	38,799,340	38,799,340
Share capital (RON thousand)	581,990	581,990

The shareholders of Sphera Franchise Group SA as at 31 December 2021 are: Tatika Investments Ltd. (28.6089%), Computerland Romania SRL (20.5327%), Wellkept Group SA (16.3400%) and free float (34.5184%).

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

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

19. ISSUED CAPITAL (continued)

The structure of the share capital and share premium, as set up in 2017, was as follows:

	Share capital	Share premium
Balance as at 1 January 2017 (including the hyperinflation adjustment)	**190**	**-**
Share capital contribution in cash upon set-up of Sphera	1,500	-
Increase of Sphera share capital upon contribution of ARS shares (at fair value of ARS business)	60,786	-
Increase of Sphera share capital upon contribution of USFN shares (at fair value of USFN business)	519,704	(519,704)
Sphera becoming legal parent of the Group	(190)	190
Reclassification of USFN legal reserves	-	19
Costs related to reorganization	-	(1,083)
Balance as at 31 December 2017	**581,990**	**(520,578)**

Costs related to reorganisation in amount of 580 were covered in 2019, therefore as of 31 December 2019 the share premium balance became 519,998.

The share capital and share premium have not suffered any changes in 2021 and 2020.

20. PROFIT DISTRIBUTION

	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 SFG (RON/share)	**0.9021**	**0.3525**

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 1,497;
- Allocation of undistributed profit of 28,302 to retained earnings.

For the year ended 31 December 2020, the shareholders of the parent Company approved the following allocation of the net profit of Sphera Franchise Group SA:

- Setting up the legal reserves in accordance with the statutory regulations in amount of 3,315;
- Allocation of undistributed profit of 63,061 to retained earnings.

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

At the Ordinary General Shareholders Meeting held on 04 February 2022, the shareholders of Sphera Franchise Group SA approved the distribution of dividends in total amount of 35,001 from the undistributed profit from 2020. The gross dividend per share is RON 0.9021. The payment date of the dividends will be 30 May 2022 (Note 28).

Proposed dividends on ordinary shares, subject to approval at the annual general meeting, are not recognised as a liability as at 31 December.

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

21. TRADE AND OTHER CURRENT PAYABLES

	31 December 2021	31 December 2020
Trade payables	80,872	56,031
Other payables to related parties	607	637
Other payables	2,730	4,624
Salary liability	27,025	21,117
Social contribution liability	10,253	27,946
Other employee related liabilities	1,952	6,582
Current income tax and specific tax	2,836	2,530
VAT payable	-	190
Other taxes	2,150	409
Dividends payable	12	6
Total	**128,437**	**120,072**
Less: non-current portion of other payables	-	1,567
Trade and other payables, current	**128,437**	**118,505**

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 30-day terms
- For terms and conditions relating to related parties, refer to Note 25.

In December 2020, the Group decided to take advantage of the provisions of Emergency Ordinance 181/2020 and applied for the option to pay the taxes due, in the total amount of RON 27.1 million, in 12 installments that were paid in 2021. The Ordinance was applicable by the end of 31 December 2021.

22. EBITDA

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

EBITDA is one of the key performance measures monitored by senior management.

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

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

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

23. EARNINGS PER SHARE (EPS)

	31 December 2021	31 December 2020
Profit/(Loss) attributable to ordinary equity holders of the parent	18,425	(9,666)
Weighted average number of ordinary shares	38,799,340	38,799,340
Earnings per share, basic and diluted (RON/share)	**0.4749**	**(0.2491)**

There are no dilutive instruments to be considered.

24. 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.

Please see Note 14 for presentation of the maturity profile of the Group's financial lease liabilities, including principal amounts and interests according to contractual terms, at 31 December 2021 and 31 December 2020 based on contractual undiscounted payments.

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.

Per the Romania 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.

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

24. COMMITMENTS AND CONTINGENCIES (continued)

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 favour of suppliers as at 31 December 2021 in amount of 15,652 (31 December 2020: 12,908).

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 delay 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 tax payers.
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.

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

24. COMMITMENTS AND CONTINGENCIES (continued)

In 2019, USFN, alongside the owner of the building where one of the KFC drive-through restaurant is operating, has been suited 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 aprox. 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 analysed 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 favourable decision.

25. RELATED PARTY DISCLOSURES

During the years ended 31 December 2021 and 31 December 2020, the Group has carried out transactions with the following related parties:

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

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

25. RELATED PARTY DISCLOSURES (continued)

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

	2021		31 December 2021	
Related party	**Sales to related parties**	**Purchases from related parties**	**Amounts owed by related parties**	**Amounts owed to related parties**
Cinnamon Bake&Roll SRL	-	2	-	-
Moulin D'Or SRL	-	64	-	-
Lucian Vlad	-	222	-	-
Radu Dimofte	-	92	-	-
Wellkept Group SA	-	475	-	4
Midi Development SRL	-	2	-	2
Grand Plaza Hotel SA	-	886	66	22
Arggo Software Development and Consulting SRL	-	1,548	-	71
Elicom SRL	-	764	-	96
Elicom Connect SRL	-	11	-	2
Dorobanti 239 Imobiliare SRL	-	3,074	-	2
Baneasa Developments SRL	-	3,677	-	408
Baneasa Investments SA	-	489	128	-
Computerland Romania SRL	1	24	-	-
Fundatia Advance	73	-	-	-
	74	**11,330**	**194**	**607**

	2020		31 December 2020	
Related party	**Sales to related parties**	**Purchases from related parties**	**Amounts owed by related parties**	**Amounts owed to related parties**
Cinnamon Bake&Roll SRL	10	7	110	-
Moulin D'Or SRL	163	40	-	-
Lucian Vlad	-	201	-	-
Radu Dimofte	-	83	-	-
Wellkept Group SA	-	236	-	1
Midi Development SRL	10	-	-	-
Grand Plaza Hotel SA	-	595	66	19
Arggo Software Development and Consulting SRL	-	1,381	-	279
Elicom SRL	-	1,096	-	85
Elicom Connect SRL	-	11	-	2
Dorobanti 239 Imobiliare SRL	-	2,654	-	37
Baneasa Developments SRL	-	2,928	-	157
Baneasa Investments SA	-	400	128	57
Fundatia Advance	50	-	35	-
	233	**9,632**	**339**	**637**

The Group has granted a loan to Cinnamon Bake&Roll SRL. The loan balance as at 31 December 2021, included in the balances presented above, was of 529 (31 December 2020: 639) and the interest accrual as at 31 December 2021 was of 71 (31 December 2020: 61).

As at 31 December 2021 the amounts owed by related parties of 194 (31 December 2020: 194 out of 339) representing long term deposits for rent guarantees.

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

25. RELATED PARTY DISCLOSURES (continued)

In 2021, Sphera Franchise Group SA paid dividends to its shareholders of a total gross amount of 35,001, (representing RON 0.9021/ordinary share), as approved by the Annual General Shareholders Meeting held on August 2021.

Terms and conditions of transactions with related parties

Outstanding balances at the period end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables.

For the years ended 31 December 2021 and 31 December 2020, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group:

	2021	2020
Short-term employee benefits	8,852	9,286
Total compensation paid to key management personnel	**8,852**	**9,286**

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

26. SEGMENT INFORMATION

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

- KFC restaurants
- Pizza Hut restaurants
- Taco Bell restaurants

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

The Parent company's service revenues rendered to its subsidiaries are presented in the "Inter-segment revenues" line and eliminated during consolidation.

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

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

26. SEGMENT INFORMATION (continued)

2021	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	861,530	90,011	48,771	-	-	1,000,312
Inter-segment revenues	-	-	-	28,967	(28,967)	-
Other restaurant income	1,313	1,314	-	-	-	2,627
Dividend revenues	-	-	-	37,525	(37,525)	-
Operating expenses	820,670	99,263	50,801	35,962	(41,490)	965,206
Segment operating profit	**42,173**	**(7,938)**	**(2,030)**	**30,530**	**(25,002)**	**37,733**
Finance costs	17,294	2,566	2,136	2,268	(3,767)	20,497
Finance income	2,234	8	-	1,675	(3,767)	150
Income taxes	(3,872)	31	-	139	-	(3,702)
Specific tax expense	1,535	689	200	-	-	2,424
Profit/(loss)	**29,450**	**(11,216)**	**(4,366)**	**29,798**	**(25,002)**	**18,664**
Total assets	**612,503**	**66,178**	**41,957**	**137,151**	**(123,475)**	**734,314**
Total liabilities	**560,441**	**81,494**	**57,841**	**84,063**	**(181,577)**	**602,262**
Capital expenditure	**51,075**	**2,987**	**4,539**	**646**	**(172)**	**59,075**
Depreciation of right of use assets	**41,259**	**10,809**	**3,580**	**1,085**	**-**	**56,733**
Depreciation, amortization and impairment	**38,704**	**4,635**	**2,784**	**(6,645)**	**(23)**	**39,455**

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

2020	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	612,715	68,403	29,512	167	-	710,797
Inter-segment revenues	7	-	-	23,656	(23,663)	-
Other restaurant income	727	-	-	-	-	727
Dividend revenues	-	-	-	85,223	(85,223)	-
Operating expenses	595,110	83,164	31,665	42,819	(44,194)	708,564
Segment operating profit	**18,339**	**(14,761)**	**(2,153)**	**66,227**	**(64,692)**	**2,960**
Finance costs	14,690	2,225	1,940	1,903	(3,444)	17,314
Finance income	1,688	25	-	1,968	(3,444)	237
Income taxes	(6,340)	43	-	(83)		(6,380)
Specific tax expense	1,123	620	129	-	-	1,872
Profit/(loss)	**10,554**	**(17,624)**	**(4,222)**	**66,375**	**(64,692)**	**(9,610)**

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

26. SEGMENT INFORMATION (continued)

Total assets	**553,806**	**62,231**	**35,368**	**129,049**	**(113,179)**	**667,275**
Total liabilities	**506,559**	**66,331**	**46,886**	**62,549**	**(164,172)**	**518,154**
Capital expenditure	**35,494**	**2,079**	**1,681**	**484**	**22**	**39,760**
Depreciation of right of use assets	**37,964**	**10,409**	**3,035**	**1,155**	**-**	**52,563**
Depreciation, amortization and impairment	**38,139**	**6,563**	**2,396**	**(4,390)**	**-**	**42,708**

Geographic information:

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

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

Non-current assets	**31 December 2021**	**31 December 2020**
Romania	381,390	361,214
Italy	155,425	147,785
Republic of Moldova	4,058	4,795
Total	**540,873**	**513,794**

Non-current assets consist mainly of right-of-use assets, leasehold improvements and kitchen related equipment.

27. AUDITOR'S FEES

The auditor of the Group is Ernst & Young Assurance Services SRL.

The fee for the statutory audit of the consolidated and standalone financial statements as of 31 December 2021 of Sphera Franchise Group SA prepared in accordance with MOF 2844/2016 and respectively IFRS as adopted by EU and of the statutory audit of the financial statements as of 31 December 2021 of US Food Network SA, American Restaurant System SA and California Fresh Flavors in accordance cu MOF 1802/2014 and of the statutory audit of US Food Network Srl Italy was of 623 (excluding VAT).

Other non-assurance services amounted 50 (excluding VAT) in connection with the procedures performed by the audit company for the Group's year-end related parties' reports, prepared in accordance with the stock exchange regulations.

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

28. EVENTS AFTER THE REPORTING PERIOD

Distribution of dividends

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

Proposed profit allocation for the financial year 2021

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 of 29,799 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 1,497;
- Allocation of undistributed profit of 28,302 to retained earnings.

New openings

In January 2022, the Group opened two new restaurants: KFC Drive Thru Calarasi and Pizza Hut Delivery Militari Bucharest and in March 2022 a new Taco Bell restaurant in Constanta.

Current situation in Ukraine and Russia

In the context of the conflict between Russia and Ukraine, started on February 24, 2022, the EU, USA, UK and other countries imposed various sanctions against Russia, including financing restrictions on certain Russian banks and state-owned companies as well as personal sanctions against a number of individuals. Considering the geopolitical tensions, since February 2022, there has been an increase in financial markets volatility and exchange rate depreciation pressure.
It is expected that these events may affect the activities in various sectors of the economy, could result in further increases in European energy prices and increased risk of supply chain disturbances.
The Group does not have direct exposures to related parties and/or key customers or suppliers from those countries.
The Group regards these events as non-adjusting events after the reporting period, the quantitative effect of which cannot be estimated at the moment with a sufficient degree of confidence. Currently, the Group's management is analysing the possible impact of changing micro- and macroeconomic conditions on the Group's financial position and results of operations.

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes

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