SPHERA FRANCHISE GROUP SA

SEPARATE FINANCIAL STATEMENTS

Prepared in accordance with Order of the Ministry of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards

31 December 2021

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sphera Franchise Group S.A.

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Sphera Franchise Group S.A. (the Company) with official head office in Bucharest, 239 Calea Dorobanti Street, identified by sole fiscal registration number 37586457, which comprise the statement of financial position as at December 31, 2021, and the statement of comprehensive income, statement of changes in equity and 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 separate financial statements give a true and fair view of the financial position of the Company as at December 31, 2021, and of its financial performance and its 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 Separate 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 Standard 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 separate financial statements of the current period. These matters were addressed in the context of our audit of 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 separate 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 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 separate financial statements.

Key audit matter:

Recoverability of the carrying value of investments in subsidiaries and loans granted to those subsidiaries

The carrying value of the investments in subsidiaries and of loans granted to subsidiaries amounted to RON 747,820 thousand as at 31 December 2021.
Under the International Financial Reporting Standards, an entity is required to assess, at least at each reporting date, whether triggers for potential impairment of its assets exist and, if they exist, an impairment test is required.
The assessment of whether there is an indication that an asset may be impaired and the determination of recoverable amounts of the Company investments in subsidiaries and of the loans granted to them relies on management's estimates of future cash flows and their judgment with respect to the subsidiaries' performance including 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.
An impairment test was performed for its subsidiaries where triggers for impairment were identified which, in case of American Restaurant System SA, resulted in an additional impairment adjustment of RON 5,400 thousand recorded as at 31 December 2021.

Due to the uncertainty of forecasting and discounting future cash flows, the level of management's judgement involved and the significance of the Company's investment in subsidiaries and loans granted as at 31 December 2021, this audit area is considered a key audit matter.

The Company disclosures about investments in subsidiaries and loans granted, the related impairment triggering events analysis as well as impairment test performed is presented in Notes 10 and 19 to the separate financial statements.

How our audit addressed the key audit matter

Our work was focused on, but was not limited to, the following procedures:

We assessed the methodology used by management to identify impairment indicators and to estimate the recoverable value of the investments in subsidiaries and of loans granted to them.

- We included our evaluation specialists in our team to assist us in evaluating the Company'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;
- 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 economic circumstances of the Group to which the Company belongs, including the impact of the COVID 19 pandemic related governmental measures; ii) existing market information; iii) the business plans of the Group to which the Company belongs, 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 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 notes presented in the separate financial statements about the Company investments in subsidiaries, loans granted to subsidiaries and impairment test performed.

Other information

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

Our audit opinion on the separate 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 separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, on the other information obtained prior to the date of the auditor's report, 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.

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

Management is responsible for the preparation and fair presentation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 Company'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 Company'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 separate 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 separate 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 Separate 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 Administrators' Report and Remuneration Report, we have read these reports and report that:

a) in the Administrators' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying separate financial statements as at December 31, 2021;
b) the Administrators' 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;

c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the separate financial statements as at December 31, 2021, we have not identified information included in the Administrators' 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 Company by the General Meeting of Shareholders on 28th April 2021 to audit the separate 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 separate financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 22 March 2022.

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 Company and we remain independent from the Company in conducting the audit.
In addition to statutory audit services and services disclosed in the separate 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 separate financial statements, included in the annual separate report with the requirements of the ESEF Regulation

We have performed a reasonable assurance engagement on the compliance of the separate financial statements presented in XHTML format of Sphera Franchise Group S.A (the Company) for the year ended 31 December 2021, 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).

These procedures refer to testing the format and whether the electronic format of the separate financial statements (XHTML) corresponds to the audited separate financial statements and expressing an opinion on the compliance of the electronic format of the separate financial statements of the Company for the year ended 31 December 2021 with the requirements of the ESEF Regulation. In accordance with these requirements, the electronic format of the separate financial statements, included in the annual report should be presented in XHTML format.

Responsibilities of the Management and Those Charged with Governance

The Management of the Company is responsible for the compliance with the requirements of the ESEF Regulation in the preparation of the electronic format of the separate financial statements in XHTML format and for ensuring consistency between the electronic format of the separate financial statements (XHTML) and the audited separate financial statements.

The responsibility of the Management also includes the design, implementation and maintenance of such internal control as determined is necessary to enable the preparation of the separate financial statements in ESEF format that are free from any material non-compliance with the ESEF Regulation.

Those charged with governance are responsible for overseeing the financial reporting process for the preparation of separate financial statements, 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 separate 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 separate financial statements of the Company is prepared, in all material respects, in accordance ESEF regulation. 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 separate the 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 reporting format (XHTML) of the separate financial statements of the Company, 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 financial statements of the Company, including the preparation of the separate financial statements of the Company in XHTML format;
- tested the validity of the applied XHTML format;
- checked whether the electronic format of the separate financial statements (XHTML) corresponds to the audited separate financial statements.

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 separate financial statements with the requirements of the ESEF Regulation

Based on the procedures performed, our opinion is that the electronic format of the separate financial statements is prepared, in all material respects, in accordance with the requirements of ESEF Regulation.

Autoritatea pentru Supravegherea Publică a Activității de Audit Statutar (ASPAAS)
Firma de audit: ERNST & YOUNG ASSURANCE SERVICES S.R.L.
Registrul Public Electronic: FA77

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

Alina Dimitriu

Autoritatea pentru Supravegherea Publică a Activității de Audit Statutar (ASPAAS)
Auditor financiar: Dimitriu Alina
Registrul Public Electronic: AF1272

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

Bucharest, Romania
25 March 2022

CONTENTS

All amounts in RON thousand, unless specified otherwise

	Note	2021	2020
Revenues			
Dividend revenues	19	37,525	85,223
Revenue from contracts with related parties	19	28,968	23,823
Total revenues		**66,493**	**109,046**
Expenses			
Payroll and employee benefits		24,417	20,804
Impairment loss of investments in subsidiaries	10	5,400	15,626
Other expenses	5	6,154	6,389
Total expenses		**35,971**	**42,819**
Profit from operating activities		**30,522**	**66,227**
Finance costs	6.1	2,259	1,903
Finance income	6.2	1,675	1,968
Profit before tax		**29,938**	**66,292**
Income tax expense/(credit)	7	139	(83)
Profit		**29,799**	**66,375**
Comprehensive income		**29,799**	**66,375**

These separate financial statements from page 2 to page 42 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

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

All amounts in RON thousand, unless specified otherwise

	Note	31 December 2021	31 December 2020
Assets			
Non-current assets		**666,947**	**631,432**
Property, plant and equipment	8	2,252	2,342
Right-of-use assets	12	4,324	4,959
Intangible assets	9	116	170
Investments in subsidiaries	10	624,064	615,854
Loan receivables	14	35,248	7,025
Net deferred tax asset	7	943	1,082
Current assets		**94,270**	**113,470**
Trade and other current receivables (including short-term loans)	14	81,605	108,373
Current prepayments		320	214
Cash and cash equivalents	15	12,345	4,883
Total assets		**761,217**	**744,902**
Equity and liabilities			
Equity			
Issued capital	16	581,990	581,990
Legal reserve		8,419	6,922
Retained earnings	16	86,743	93,442
Total equity		**677,152**	**682,354**
Non-current liabilities		**38,963**	**46,870**
Long-term borrowings	11	35,147	42,570
Non-current lease liabilities	12	3,816	4,300
Current liabilities		**45,102**	**15,678**
Short-term borrowings	11	37,621	3,849
Current lease liabilities	12	946	1,027
Trade and other current payables	18	6,535	10,802
Total liabilities		**84,065**	**62,548**
Total equity and liabilities		**761,217**	**744,902**

These separate financial statements from page 2 to page 42 were approved by the Board of Directors and were authorised for issue on 22 March 2022.

All amounts in RON thousand, unless specified otherwise

	Issued capital	Legal reserves	Retained earnings	Total equity
As of 1 January 2021	**581,990**	**6,922**	**93,442**	**682,354**
Profit	-	-	29,799	29,799
Total comprehensive income	**-**	**-**	**29,799**	**29,799**
Legal reserves	-	1,497	(1,497)	-
Dividends paid			(35,001)	(35,001)
As of 31 December 2021	**581,990**	**8,419**	**86,743**	**677,152**

	Issued capital	Legal reserves	Retained earnings	Total equity
As of 1 January 2020	**581,990**	**3,607**	**44,061**	**629,658**
Profit	-	-	66,375	66,375
Total comprehensive income	**-**	**-**	**66,375**	**66,375**
Legal reserves	-	3,315	(3,315)	-
Dividends paid			(13,679)	(13,679)
As of 31 December 2020	**581,990**	**6,922**	**93,442**	**682,354**

The share capital has not suffered any changes during 2021 and 2020.

These separate financial statements from page 2 to page 42 were approved by the Board of Directors and were authorised for issue on 22 March 2022.

All amounts in RON thousand, unless specified otherwise

	Note	2021	2020
Operating activities			
Profit before tax		29,938	66,292
Adjustments to reconcile profit before tax to net cash flows:			
Dividend revenue	19	(37,525)	(85,223)
Depreciation, amortization and impairment	8, 9,12	1,703	1,780
Impairment loss of investments in subsidiaries	10	5,400	15,626
Rent concessions		-	(71)
Adjustments for unrealized foreign exchange losses/(gains)		57	30
Adjustments for finance income	6.2	(1,675)	(1,968)
Adjustments for finance costs (interest)	6.1	2,176	1,815
Working capital adjustments:			
Adjustments for decrease/(increase) in trade and other receivables and prepayments		1,773	3,345
Adjustments for (decrease)/increase in trade and other payables		(4,608)	(757)
Dividends received		75,607	6,000
Interest received classified as operating activities		80	-
Interest paid classified as operating activities		(980)	(955)
Cash flows from/used in operating activities		**71,946**	**5,914**
Investing activities			
Purchase of property, plant and equipment and intangible assets classified as investing activities		(448)	(334)
Loans to related parties		(53,023)	(13,007)
Cash flows from/used in investing activities		**(53,471)**	**(13,342)**
Financing activities			
Proceeds from borrowings	11	24,745	15,255
Repayment of borrowings	11	-	(7,267)
Payment of lease liabilities	2	(1,095)	(1,226)
Net dividends paid		(34,663)	(13,684)
Cash flows from/used in financing activities		**(11,013)**	**(6,922)**
Net increase/(decrease) in cash and cash equivalents		**7,462**	**(14,350)**
Cash and cash equivalents at 01 January		**4,883**	**19,233**
Cash and cash equivalents at 31 December		**12,345**	**4,883**

These separate financial statements from page 2 to page 42 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

All amounts in RON thousand, unless specified otherwise

1. REPORTING ENTITY

Sphera Franchise Group SA (''Sphera'' or "the Company") was incorporated on 16 May 2017 as a joint stock company and is registered at No. 239 Calea Dorobanti, Bucharest, Romania. The Company renders management and support services such as marketing, development, sales support, human resources and other services to its subsidiaries. Sphera Franchise Group SA is listed on Bucharest Stock Exchange under the symbol "SFG".

As at 31 December 2021 and 31 December 2020, the Company has the following investments in subsidiaries:

Company name	Country of incorporation	Field of activity	Share interest %
US Food Network SA	Romania	Restaurants	99.9997%
American Restaurant System SA	Romania	Restaurants	99.9997%
California Fresh Flavors SRL	Romania	Restaurants	99.9900%
US Food Network SRL	Moldova	Restaurants	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%

Sphera Franchise Group SA together with its subsidiaries are referred hereinafter as ''SFG'' or ''the Group''.

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

As at 31 December 2021, the Company has 150 employees (2020: 152).

The separate 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.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of Compliance

The separate financial statements ("financial statements") of the Company have been prepared in accordance with the provisions of the Ministry of Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

The Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, is in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union (EU), except for IAS 21 The effects of changes in foreign exchange rates regarding functional currency, except for the provisions of IAS 20 Accounting for Government Grants regarding the recognition of revenue from green certificates, except for the provisions of IFRS 15 Revenue from contracts with customers regarding the revenue from taxes of connection to the distribution grid.

The Company also prepares consolidated financial statements in accordance 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).

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

During the current year the Company has a net profit of 29,799 and had a net current assets position of 49,168. The Company holds a cash and cash equivalent balance of 12,345 and has available 70,402 of undrawn borrowing facility from US Food Network SA and 10,000 from the bank credit facility with Vista Bank, thus being able to respond to any unforeseen higher cash outflow needs.

The Company's main revenues refer to management services and other support function services provided to its operating subsidiaries (i.e. its customers) and receives dividends from investments in these subsidiaries.

During the current year, the Group from which the Company is part of, made a profit of 18,664 and had a net current liability position of 55,658. The Group holds a cash and cash equivalent balance of 146,116 and has undrawn 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 projections 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 at 31 December 2021, the Group, from which the Company is part of, 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 Company 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 preparation

The separate financial statements have been prepared on a historical cost basis, using going concern principle. The separate 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.

2.3 Summary of significant accounting policies

2.3.1 Current versus non-current classification

The Company 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.3.2 Fair value measurement

Fair value related disclosures for financial instruments 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 Company.

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.

The Company 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 Company 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.

2.3.3 Revenue

Rendering of services

The Company is engaged in providing management and other support function services to its operating subsidiaries (i.e. its customers).
Revenue from these contracts is recognised when control of services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company recognises revenue from these services over time, as it progresses towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Company.

If the contracts include fees for various activities performed, revenue is recognised in the amount to which the Company has a right to invoice.

Revenues related to services rendered are recognised in the period in which the services were rendered based on statements of work performed, regardless of when paid or received, in accordance with the accrual basis.

Dividend income

Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established which is when shareholders approve the dividend.

Interest income

Interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in ''Finance income'' in profit or loss.

2.3.4 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.

IAS 20 "Accounting for government grants and disclosure of government assistance" permits two alternative ways of presenting a government grant relating to income, as other operating income in the statement of profit or loss or deducted from the related expense.

The Company has chosen to present grants related to expenses items to be deducted in reporting the related expense.

2.3.5 Foreign currencies

The Company's separate financial statements are presented in Romanian New Lei (''RON''), which is the Company's functional currency.

Transactions and balances

Foreign currency transactions are recorded at the exchange rate ruling on transaction date. Monetary assets and liabilities expressed in foreign currency are translated into RON at the exchange rate on the reporting date, communicated by the National Bank of Romania:

All amounts in RON thousand, unless specified otherwise

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Differences arising on settlement or translation of monetary items are recognised in profit or loss.

2.3.6 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, using tax rates enacted or substantively enacted at the reporting date. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.3.7 Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. 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 Company 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 cost of improvements to leasehold assets is recognised as leasehold improvements and then depreciated as outlined below.

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

Leasehold improvements	over the lease contract duration (usually 10 years)
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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2.3.8 Leases

The Company 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.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low value assets. The Company 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 Company 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 buildings and leasehold improvements	3 to 10 years
Right-of-use assets of plant and machinery (motor vehicles and other equipment)	3 to 5 years

If ownership of the leased asset transfers to the Company 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 Company 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 Company and payments of penalties for terminating the lease, if the lease term reflects the Company 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 Company 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

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 Company 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 Company 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 Company 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.

2.3.9 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.

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.

2.3.10 Impairment of non-financial assets

At each reporting date, management assesses whether there is any indication of impairment for property, plant and equipment or intangible assets. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.11 Investments in subsidiaries

In the Company's financial statements, the investment in subsidiaries are accounted for at cost in accordance to IAS 27 "Separate financial statements".
At each reporting date, management assesses whether there is any indication of impairment over investments in subsidiaries. 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 profit or loss. An impairment loss recognised in prior years is reversed if there has been a change in the estimates used to determine the investment's recoverable amount. An impairment loss is reversed only to the extent that the investment's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

2.3.12 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 that are debt instruments, 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 at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company 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 Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

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 Company'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 Company 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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company 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 Company's financial assets are represented by loans, trade and other receivables and cash and cash equivalents. For more information on receivables, refer to Note 14. Receivables due in less than 12 months are not discounted.

Derecognition

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 Company's statement of financial position) when:
• The rights to receive cash flows from the asset have expired, or
• The Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company 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 Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company 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 Company has retained.

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 Company could be required to repay.

Impairment of financial assets

The Company 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 Company 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, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- Financial instruments risk management — Note 13
- Trade receivables — Note 14

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

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.

Trade and other payables with a maturity of 12 months or less are not discounted.

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.

2.3.13 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.14 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 Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. 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.

2.3.15 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.

Dividends

The Company recognises a liability to make cash or non-cash distributions to owners of equity when the distribution is authorised and the distribution is no longer at the discretion of the Company. 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.

2.3.16 Provisions

General

Provisions are recognised when the Company 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 Company 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 Company 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 Company recognises any impairment loss on the assets associated with that contract.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.17 Employee benefits

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the 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 Company's accounting policies, management has made no judgement with significant effect on the amounts recognised in the financial statements during 2021.

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 Company 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 Company. Such changes are reflected in the assumptions when they occur.

Recoverability of investments in subsidiaries and loans to subsidiaries

The Company assesses the recoverability of investments in subsidiaries and loans to subsidiaries at least at each financial year-end. The determination of recoverable amounts of the Company's investments in subsidiaries relies on management's estimates of future cash flows, for which some of the main assumptions were 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 key assumptions used to determine the recoverable amount for the investment in subsidiaries and loans to subsidiaries, including a sensitivity analysis, are disclosed and further explained in Note 10.

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.

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

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 Company 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 Company.

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 Company 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).

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 Company's financial statements are disclosed below. The Company 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 Company's separate 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.
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 Company.

4. CHANGES IN ACCOUNTING POLICIES (continued)

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 company is preparing the asset for its intended use. Instead, a company will recognise 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 Company.

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 financial statements of the Company.

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 financial statements of the Company.

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 financial statements of the Company.

All amounts in RON thousand, unless specified otherwise

5. OTHER EXPENSES

	2021	2020
Third-party services	2,590	2,330
Advertising	243	969
Other taxes	250	198
Rental expenses	106	-
Banking charges	65	54
Travel expenses	337	321
Office supplies	235	226
Depreciation and amortization	1,703	1,780
Insurance	298	252
Maintenance and repairs	175	135
Utilities	47	42
Miscellaneous expenses	105	82
Total	**6,154**	**6,389**

6. FINANCE COSTS AND INCOME

6.1 Finance costs

	2021	2020
Interest on debts and borrowings	805	757
Interest on lease liabilities	175	199
Interest on loans from related parties (Note 19)	1,196	859
Foreign exchange loss	83	88
Total finance costs	**2,259**	**1,903**

6.2 Finance income

	2021	2020
Interest income from loans to related parties (Note 19)	1,595	1,968
Interest income from banks	80	-
Total finance income	**1,675**	**1,968**

7. INCOME TAX

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

	2021	2020
Deferred tax:		
Relating to fiscal losses carried forward	139	(83)
Income tax expense reported in the statement of comprehensive income	**139**	**(83)**

All amounts in RON thousand, unless specified otherwise

7. INCOME TAX (continued)

Deferred tax

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

	Statement of financial position 31 December 2021	Statement of comprehensive income 2021
Fiscal losses carried forward		139
Deferred tax expense	943	**139**
Net deferred tax assets	**943**	

	Statement of financial position 31 December 2020	Statement of comprehensive income 2020
Fiscal losses carried forward		(83)
Deferred tax expense	1,082	**(83)**
Net deferred tax assets	**1,082**	

The deferred tax asset of 943 (31 December 2020: 1,082) arose from the tax losses carried forward of the Company which are available for offsetting against the Company's future tax profits within the next years (i.e. seven years from the recognition, according to the Romanian tax law).

At December 31, 2021 the Company, registered a tax loss in the amount of 5,892 (31 December 2020: 6,242) with a recoverable term in 2024 and the amount of 520 with a recoverable term in 2027.

8. PROPERTY, PLANT AND EQUIPMENT

	Freehold buildings and leasehold improvements	Plant and machinery	Other equipment	Construction in progress	Total
Cost					
At 1 January 2020	**2,161**	**154**	**970**	**22**	**3,307**
Additions	11	6	159	320	**496**
Transfers	-	-	-	-	-
Disposals	-	17	-	173	**190**
At 31 December 2020	**2,172**	**143**	**1,129**	**169**	**3,613**
Additions	9	12	234	164	419
Transfers	-	168	-	-	168
Disposals	-	-	-	9	**9**
At 31 December 2021	**2,181**	**323**	**1,363**	**324**	**4,191**
Depreciation					
At 1 January 2020	**271**	**18**	**497**	**-**	**786**
Depreciation charge	222	53	227	-	502
Disposals	-	17	-	-	17
At 31 December 2020	**493**	**54**	**724**	**-**	**1,271**

All amounts in RON thousand, unless specified otherwise

Depreciation charge	225	29	**246**	**-**	**500**
Depreciation of assets transferred from ROUA	-	168	**-**	**-**	**168**
Disposals	-	-	-	-	**-**
At 31 December 2021	**718**	**251**	**970**	**-**	**1,939**
Net Book Value					
At 1 January 2020	**1,890**	**136**	**473**	**22**	**2,521**
At 31 December 2020	**1,679**	**89**	**405**	**169**	**2,342**
At 31 December 2021	**1,463**	**72**	**393**	**324**	**2,252**

The additions during the year ended 31 December 2021 consisted mainly in office leasehold improvements, as well as office computers and other office equipment.

9. INTANGIBLE ASSETS

	Software licenses	**Total**
Cost		
At 1 January 2020	**255**	**255**
Additions	160	160
At 31 December 2020	**415**	**415**
Additions	69	**69**
At 31 December 2021	**484**	**484**
Amortisation		
At 1 January 2020	**117**	**117**
Amortisation	128	128
At 31 December 2020	**245**	**245**
Amortisation	123	**123**
At 31 December 2021	**368**	**368**
Net book value		
At 1 January 2020	**138**	**138**
At 31 December 2020	**170**	**170**
At 31 December 2021	**116**	**116**

All amounts in RON thousand, unless specified otherwise

10. INVESTMENTS IN SUBSIDIARIES

Details of the investments in subsidiaries at 31 December 2021 are as follows:

Company name	Country of incorporation	Field of activity	Share interest percent	Investment at cost	Impairment	Carrying value
US Food Network SA	Romania	Restaurants	99.9997%	519,704	-	519,704
American Restaurant System SA	Romania	Restaurants	99.9997%	88,786	56,288	32,498
California Fresh Flavors SRL	Romania	Restaurants	99.9900%	100	-	100
US Food Network SRL	Moldova	Restaurants	80.0000%	1,735	-	1,735
US Food Network SRL	Italy	Restaurants	100.0000%	70,027	-	70,027
Total				**680,352**	**56,288**	**624,064**

Details of the investments in subsidiaries at 31 December 2020 are as follows:

Company name	Country of incorporation	Field of activity	Share interest percent	Investment at cost	Impairment	Carrying value
US Food Network SA	Romania	Restaurants	99.9997%	519,704	-	519,704
American Restaurant System SA	Romania	Restaurants	99.9997%	88,786	50,888	37,898
California Fresh Flavors SRL	Romania	Restaurants	99.9900%	100	-	100
US Food Network SRL	Moldova	Restaurants	80.0000%	1,735	-	1,735
US Food Network SRL	Italy	Restaurants	100.0000%	56,417	-	56,417
Total				**666,742**	**50,888**	**615,854**

In 2021, the Company increased the value of the investment in US Food Network SRL Italy with the amount of 13,610 by converting a part of the existing shareholder's loan to equity.

In January 2022, the General Shareholders Meetings of American Restaurant System SA and California Fresh Flavors SRL have approved the increase of the subsidiaries' equity (share capital and share premium) by conversion of the existing shareholder loans to equity and by cash contribution of the minority shareholder. SFG's contribution to the increase of the equity of American Restaurant System SA will be of 16,333 and to the increase of the equity of California Fresh Flavors SRL of 12,328. The shareholding structure of the subsidiaries will remain unchanged (Note 22).

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

- Despite of the prolongation of the COVID-19 pandemic, USFN and USFN Moldova's activities in 2021 have registered a good performance, in line with the cash flow projections; both subsidiaries are in a profit position, therefore no impairment indicator was identified;
- USFN Italy, that started activity during 2017, was affected by the COVID-19 outbreak due to the severe impact of the pandemic. The result of the year 2021 was impacted by the effect of the COVID-19 restrictions from the first half of 2021, paired with a still relatively smaller scale of activity and the fact that significant part of the stores has not yet reached maturity. Management has performed an impairment analysis as at 31 December 2021 and estimated the recoverable amount of the investment based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2022-2026).

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

10. INVESTMENTS IN SUBSIDIARIES (continued)

The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor. (This fair value measurement is on level 3 of the fair value hierarchy). Consequently, the FVLCD versus carrying amount analysis shows that there is enough headroom and no impairment need to be recorded.

- Taco Bell has registered a good operating performance in 2021 and, at the same time, it has continued the network expansion and opened 2 new restaurants (in addition to the 11 already opened as at 31.12.2020). Following the impairment analysis performed as at 31 December 2021 no impairment resulted.
- Pizza Hut's performance in 2021 was below the cash flow projections, the subsidiary continuing to be affected by the pandemic due to the restrictions on indoor dining. Management estimated the recoverable amount of the investment at 51,276 (2020: 47,815) based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2022-2026). The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor. (This fair value measurement is on level 3 of the fair value hierarchy).

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

Impairment test for Pizza Hut

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 already 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.

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

All amounts in RON thousand, unless specified otherwise

10. INVESTMENTS IN SUBSIDIARIES (continued)

With regard to the assessment of impairment, management believes that the model is most sensitive to:
- cost of capital (WACC)
- terminal growth assumptions
- EBITDA margin
- Net working capital (NWC)

EBITDA margin reflects management's estimates regarding the operational profitability of ARS, in line with historical levels and market evolution (and is not disclosed due to the strategic nature of this information). If EBITDA margin would decrease by 5% the recoverable amount of the investment would be 46,388 and the impairment loss as at and for the year ended 31 December 2021 would be 10,288, while if the EBITDA margin would increase by 5% the recoverable amount of the investment would be 56,163 and the impairment loss as at and for the year ended 31 December 2021 would be 513.

Key drivers	Key drivers (%)	Fair value less cost to sell	Impairment/Headroom
	11.00%	**51,276**	**(5,400)**
Cost of capital	11.6%	46,530	(10,147)
	10.3%	57,827	1,151
	3.00%	**51,276**	**(5,400)**
Perpetuity growth factor	2.50%	47,294	(9,382)
	3.50%	55,789	(887)
Net working capital (%/sales)	1%	48,929	(7,747)
	-1%	53,623	(3,053)

All amounts in RON thousand, unless specified otherwise

11. BORROWINGS

	Interest rate, %	Maturity	31 December 2021	31 December 2020
Short-term borrowings				
Current portion of the long-term bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	5,149	3,849
Short-term working capital facility	ROBOR 3M + relevant spread	1 year from contract date	-	-
Loan from related parties (including accrued interest) (Note 19)	4% fixed interest rate	Within 5 years from contract signing date	32,472	-
Total current borrowings			**37,621**	**3,849**
Long-term borrowings				
Long-term portion of the bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	35,147	11,459
Loan from related parties (including accrued interest) (Note 19)	4% fixed interest rate	Within 5 years from contract signing date	-	31,111
Total long-term borrowings			**35,147**	**42,570**
Total borrowings			**72,768**	**46,419**

In 2017, the Company has received a multicurrency credit facility from its subsidiary US Food Network SA for a 5 year-period, with term extension option, the maximum limit being 20 million EUR. The loan agreement contains no covenants or other special terms.

The Company is part of a credit facility from Alpha Bank Romania signed jointly by the Company and its Romanian subsidiaries. As at 31 December 2021, the Company may, jointly with other companies from Sphera Group, draw from one sub-limit dedicated to financing of Italian subsidiary. The loan is secured with pledge on current accounts opened with the bank, promissory notes issued, pledge on receivables from and shares owned by the Group in its Moldova and Italia subsidiary as well as on future dividends from these subsidiaries.

In January 2021, the parties agreed by an addendum to loan contract to suspend temporarily all loan principal payments due by the Borrowers (Sphera and its Romanian subsidiaries) until 31 December 2021. All principal amounts initially due during suspension period will be paid beginning 1 January 2022 and loan maturities had been postponed in accordance. The split between current and non-current loans and borrowings took into account existing loan repayment schedule

All amounts in RON thousand, unless specified otherwise

11. BORROWINGS (continued)

agreed by the parties by addendum to loan contract as at 31 December 2020. Interest payments were not suspended. Starting with 1 January 2022, the repayment of loan instalments were resumed according to the repayment schedule.

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.

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/EBITDA at a consolidated level, excluding the impact of IFRS 16, which should not exceed at any point in time 2.5. There are also covenants defined for each borrower, at company level, which are analysed by the Bank each time a borrower submits a request for disbursement.

Breaches in meeting the financial covenant at Group consolidated level would permit the bank to immediately call the loan. There have been no breaches of the consolidated financial covenant for the years ended 31 December 2021 and 31 December 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. There have been no breaches of the standalone financial covenant of the Company for the year ended 31 December 2021 and 31 December 2020, respectively.

Information related to cash flows from financing

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	Foreign exchange gains/losses	Drawings	Repayments	Interest paid	
Borrowings	**46,419**	**2,121**	**215**	**24,745**	**-**	**(732)**	**72,768**
Bank loans	15,308	732	243	24,745	-	(732)	40,296
Loans from related parties	31,111	1,389	(28)	-	-	-	32,472

All amounts in RON thousand, unless specified otherwise

12. LEASE LIABILITIES

The Company has lease contracts for administrative premises, motor vehicles and equipment used in its operations. Leases for administrative premises have a lease terms between 3 and 10 years, while motor vehicles and other equipment generally have lease terms between 3 and 5 years.

The Company 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:

	Freehold buildings	Motor vehicles and other equipment	Total
As at 1 January 2020	**4,749**	**1,214**	**5,963**
Additions	78	136	214
Depreciation expense	603	558	1,161
Disposals	-	60	60
As at 31 December 2020	**4,224**	**732**	**4,956**
Additions	72	512	584
Depreciation expense	614	471	1,085
Disposals	-	131	131
As at 31 December 2021	**3,682**	**642**	**4,324**

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

As at 1 January 2021	**5,327**
Additions	584
Accretion of interest	175
Payments	1,270
Disposals	131
(Unrealized) forex exchange loss	77
As at 31 December 2021	**4,762**
Current	946
Non-current	3,816
As at 1 January 2020	**6,232**
Additions	214
Accretion of interest	199
Payments	1,366
Disposals	60
(Unrealized) forex exchange loss	108
As at 31 December 2020	**5,327**
Current	1,027
Non-current	4,300

The following are the amounts recognized in profit or loss:

	2021	2020
Depreciation expense of right-of-use assets	1,085	1,161
Interest expense on lease liabilities	175	199
Forex exchange differences, net	77	108
Expense relating to leases of low value assets	90	72
Rent concessions	-	(71)
Total amount recognized in profit or loss	**1,427**	**1,469**

13. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Company's principal financial liabilities comprise a bank loan, lease liabilities, a loan from a subsidiary and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations.

The Company's financial assets are represented by investments in subsidiaries, trade and loans and other receivables, and cash and cash equivalents that derive directly from its operations.

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

Interest rate risk

Sphera'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 rate on the Company's debt finance from bank is variable. Interest rates on the Company's debt finance from Group companies are fixed, as disclosed in Note 11. Changes in interest rate do not impact loans and borrowings to third parties since future cash flows are not affected by such changes in interest rates. In connection to loans granted or obtained from related parties, management policy is to resort mainly to fixed rate financing. However, at the time of rising or granting new loans or borrowings management shall use its judgment to decide whether it believes that fixed or variable rate would be more favourable to the Company over the expected period until maturity.

Interest rate sensitivity

With all other variables held constant, the Company's profit before tax and equity are not affected through the impact on change in market interest rates, due to the fact that both loans to and from related parties have a fixed interest rate.

	Increase in basis points	Effect on profit before tax
31 December 2021		
EUR	1%	(403)
31 December 2020	1%	(153)
EUR		

The Company does not hedge its interest rate risk.

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

All amounts in RON thousand, unless specified otherwise

13. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

The Company monitors the currency risk by following changes in exchange rates in currencies in which its intercompany balances and external debts are denominated. The Company 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 exchange rate. The Company's exposure to foreign currency changes for all other currencies is not material. With all other variables held constant the Company's loss before tax and equity are affected as follows:

	Increase in EUR rate	Effect on profit before tax
31 December 2021	1%	(423)
31 December 2020	1%	(153)

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

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The carrying amount of trade and other receivables, plus balances with banks, plus the loans and receivables from related parties (Note 19), represent the maximum amount exposed to credit risk.

The Company collaborates with highly reliable financial institutions. The majority of cash is transacted through and placed with Alpha Bank Romania, member of Alpha Bank Company from Greece, Banca Romana de Dezvoltare (BRD), a member of Societe Generale Company from France and Vista Bank Romania. The long-term credit rating of Alpha Bank Greece is Caa3 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 provided by Moody's.

Liquidity risk

The Company 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 Company's financial liabilities, including principal amounts and interests according to contractual terms, at 31 December 2021 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	-	1,363	5,273	64,973	6,352	**77,960**
Lease liabilities	-	296	889	3,408	747	**5,341**
Trade and other payables	382	257	9	-	-	**648**
Total:	**382**	**1,916**	**6,171**	**68,381**	**7,099**	**83,949**

All amounts in RON thousand, unless specified otherwise

13. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

31 December 2020	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Borrowings	-	1,095	3,233	45,097	-	**49,426**
Lease liabilities	-	257	771	2,892	1,407	**5,327**
Trade and other payables	198	122	67	-	-	**387**
Total:	**198**	**1,474**	**4,071**	**47,990**	**1,407**	**55,140**

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

Capital management

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

The primary objective of the Company'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 Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

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

	31 December 2021	31 December 2020
Borrowings	72,768	46,419
Lease liabilities	4,762	5,327
Trade and other payables	6,535	10,803
Less: cash and cash equivalents	12,345	4,883
Net debt	**71,720**	**57,666**
Equity	677,152	682,354
Capital and net debt	**748,872**	**740,020**
Gearing ratio:	10%	8%

All amounts in RON thousand, unless specified otherwise

13. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Fair values

The Company has no financial instruments carried at fair value in the statement of financial position.

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

Financial instruments which are not carried at fair value on the statement of financial position also include investments in subsidiaries, trade and other receivables, cash and cash equivalents, and trade and other payables.

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

14. TRADE AND OTHER RECEIVABLES

	31 December 2021	31 December 2020
Trade receivables from related parties (Note 19)	7,361	7,235
Dividends to be received (Note 19)	41,188	79,223
Loans to related parties (Note 19)	60,763	21,097
Interest accrual from loans to related parties (Note 19)	6,706	5,024
Tax receivables (VAT)	546	2,333
Advance to suppliers	10	-
Other receivables	279	486
Total	**116,853**	**115,398**
Less non-current portion:		
Loans to related parties	32,048	6,252
Interest accrual from loans to related parties	3,156	735
Other receivables	44	38
Total	**35,248**	**7,025**
Trade and other receivables, current	**81,605**	**108,373**

Terms and conditions relating to related party transactions are described in Note 19.

Tax receivables refer to the unsettled VAT in relation with the VAT receivable taken over from American Restaurant System SA, once with the registration as a tax group for VAT purpose (effective since 1 July 2019). Upon the registration as a tax group, the Company has also recognised a liability towards ARS regarding the VAT to be settled in the future periods.

Trade receivables are non-interest bearing and are generally on terms of 15 – 30 days.

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

14. TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2021 and 31 December 2020, the ageing analysis of 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%	0%
Estimated total gross carrying amount at default	**7,365**	5,548	-	804	870	143
Expected credit loss	**-**	-	-	-	-	-

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%	0%
Estimated total gross carrying amount at default	**7,235**	4,859	-	658	632	1,085
Expected credit loss	**-**	-	-	-	-	-

The balance of 1,085 as at 31 December 2020, older than 91 days, was fully collected during 2021.

For the receivables above, as well as for the loans attributed to related parties, the Group's considers the probability of losses being remote.

15. CASH AND CASH EQUIVALENTS

	31 December 2021	**31 December 2020**
Cash at banks and on hand	12,345	4,883
Total	**12,345**	**4,883**

As part of the financing agreement with Alpha Bank the Company 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 11,842 (31 December 2020: 4,883).

16. 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%).

All amounts in RON thousand, unless specified otherwise

17. PROFIT DISTRIBUTION

	2021	2020
Dividends declared and paid during the year:	35,001	13,679
Total dividends for the year	**35,001**	**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 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 Company approved the following allocation of the net profit of the Company:

- 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 gross 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 gross 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 22).

Proposed dividends on ordinary shares, subject to approval at the annual general meeting, are not recognised as a liability as at 31 December (Note 22).

18. TRADE AND OTHER PAYABLES

	31 December 2021	31 December 2020
Trade payables	589	368
Other payables to related parties	1,004	2,651
Salary liability	4,086	3,575
Social contribution liability	702	3,552
Other employee related liabilities	136	632
Other payables	10	19
Dividends payables	8	5
Total	**6,535**	**10,802**

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 15-day terms
- For terms and conditions relating to related parties, refer to Note 19.

Starting December 2020, the Company benefited of the provisions of the new Emergency Ordinance 181/2020 to pay the taxes due in 12 instalments. The Ordinance was applicable by the end of 31 December 2021.

19. RELATED PARTY DISCLOSURES

During the year ended 31 December 2021 and 31 December 2020, respectively, the Company has carried out transactions with the following related parties:

Related party	Nature of the relationship	Country of incorporation	Nature of transactions
US Food Network SA	Subsidiary	Romania	Dividends, loan received, sale of services, acquisition of goods and services
American Restaurant System SA	Subsidiary	Romania	Sale of services, loan provided, acquisition of goods and services, VAT tax group
California Fresh Flavors SRL	Subsidiary	Romania	Loan provided, sale of services
US Food Network SRL	Subsidiary	Republic of Moldova	Dividends
US Food Network SRL	Subsidiary	Italy	Sale of services
Arggo Software Development and Consulting SRL	Entity affiliated to a shareholder of the parent	Romania	Implementation services, IT services
Wellkept Group SA	Shareholder	Romania	Rent training center Dividends
Tatika Investments Ltd.	Shareholder	Cyprus	Dividends
Radu Dimofte	Beneficial owner of Wellkept Group SA, Tatika Investments Ltd and ultimate beneficiary owner of Sphera	Romania	-
Computerland Romania SRL	Shareholder	Romania	Dividends, acquisition of IT equipment
Lunic Franchising and Consulting Ltd.	Shareholder	Cyprus	Dividends
Cinnamon Bake&Roll SRL	Entity with common members of key management personnel	Romania	Acquisition of goods
Midi Development SRL	Entity with common members of key management personnel	Romania	Services
Moulin D'Or SRL	Entity affiliated to shareholders of the parent	Romania	Sale of services, acquisition of goods
Grand Plaza Hotel SA	Entity affiliated to a shareholder of the parent	Romania	Acquisition of goods and services
Baneasa Developments SRL	Entity affiliated to a shareholder of the parent	Romania	Acquisition of goods and services

All amounts in RON thousand, unless specified otherwise

19. 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:

31 December 2021	**Dividends revenues**	**Revenues from service contracts to related parties**	**Purchases from related parties**	**Amounts owed by related parties**	**Amounts owed to related parties**
Related party					
US Food Network SA	36,300	21,769	7	46,162	-
US Food Network SRL (Moldova)	1,225	-	-	-	-
American Restaurant System SA	-	4,245	10	1,408	953
California Fresh Flavors SRL	-	1,737	-	762	-
US Food Network SRL (Italy)	-	1,216	-	217	-
Moulin D'Or SRL	-	-	2	-	-
Midi Development SRL	-	-	-	-	-
Wellkept Group SA	-	-	475	-	4
Grand Plaza Hotel SA	-	-	9	-	-
Arggo Software Development and Consulting SRL	-	-	223	-	47
Loans and interest from related parties	-	-	1,196	-	32,472
Loans and interest to related parties (please see below)	-	1,595	-	67,469	-
	37,525	**30,562**	**1,922**	**116,018**	**33,476**

31 December 2020	**Dividends revenues**	**Revenues from service contracts to related parties**	**Purchases from related parties**	**Amounts owed by related parties**	**Amounts owed to related parties**
Related party					
US Food Network SA	85,223	17,375	5	83,540	-
American Restaurant System SA	-	3,897	12	1,309	2,650
California Fresh Flavors SRL	-	1,232	-	450	-
US Food Network SRL (Italy)	-	889	-	1,159	-
Moulin D'Or SRL	-	160	3	-	-
Midi Development SRL	-	10	-	-	-
Wellkept Group SA	-	-	236	-	1
Grand Plaza Hotel SA	-	-	4	-	-
Arggo Software Development and Consulting SRL	-	-	249	-	37
Loans and interest from related parties	-	-	-	-	31,111
Loans and interest to related parties (please see below)	-	-	-	26,121	-
	85,223	**23,563**	**509**	**112,579**	**33,800**

All amounts in RON thousand, unless specified otherwise

19. RELATED PARTY DISCLOSURES (continued)

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding trade balances at the period end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables.

For the year ended 31 December 2021, the Company 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.

Starting 1 July 2019, Sphera Franchise Group SA and American Restaurant System have registered as a tax group for VAT purpose. The amounts owed to American Restaurant System SA as at 31 December 2021 and 31 December 2020, respectively are mainly in relation with the VAT receivables taken over from ARS that are going to be settled in the future periods (Note 14).

The balances with related parties comprise also loans receivables and payables, included in the Statement of financial position under "Trade and other receivables" (Note 14) and "Borrowings" respectively (Note 11).

Interest income and interest expense and related accrued balances as well as the balances of the intercompany loan receivables and payables are presented below:

	Interest expense 2021	Interest payable 31 December 2021	Loan payable 31 December 2021
Related party			
US Food Network SA	1,196	3,794	28,678
Total	**1,196**	**3,794**	**28,678**

	Interest income 2021	Interest receivable 31 December 2021	Loan receivable 31 December 2021
California Fresh Flavors SRL	361	1,109	12,382
US Food Network SRL (Italy)	862	3,155	32,048
American Restaurant System SA	372	2,442	16,333
Total	**1,595**	**6,706**	**60,763**

	Interest expense 2020	Interest payable 31 December 2020	Loan payable 31 December 2020
Related party			
US Food Network SA	859	2,552	28,560
Total	**859**	**2,552**	**28,560**

	Interest income 2020	Interest receivable 31 December 2020	Loan receivable 31 December 2020
California Fresh Flavors SRL	373	735	8,458
US Food Network SRL (Italy)	889	2,254	4,757
American Restaurant System SA	706	2,035	7,883
Total	**1,968**	**5,024**	**21,097**

All amounts in RON thousand, unless specified otherwise

19. RELATED PARTY DISCLOSURES (continued)

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

The intercompany loans granted by the Company to California Fresh Flavors is payable within a period of one to five years from the contract date, the loan granted to US Food Network Srl (Italy) is payable within two-year period and the loan to American Restaurant System SA is payable within one-year period.

In 2021, the shareholders of Sphera Franchise Group SA paid dividends in amount of 35,001, representing 0.9021 RON/ordinary share (2020: 13,679, representing 0.3525 RON/ordinary share).

Compensation of key management personnel of the Company:

	2021	2020
Short-term employee benefits	6,656	7,752
Total compensation paid to key management personnel	**6,656**	**7,752**

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

20. COMMITMENTS AND CONTINGENCIES

Company as lessee - lease commitments

The Company has entered into operating lease agreements for the headquarters premises and other administrative areas and several vehicles and equipment. The contract period of the operating lease agreements varies between three and ten years term.

Please see Note 13 for presentation of the maturity profile of the Company'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.

Borrowing facilities granted to third parties

At 31 December 2021, the value of the undrawn borrowing facilities granted to related parties was of 54,592 (31 December 2020: 52,137).

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 Company's treatment.

The Romanian tax legislation 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.

20. COMMITMENTS AND CONTINGENCIES (continued)

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.

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

Transfer pricing

According to the applicable relevant tax legislation in Romania, 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 payer in Romania.

The Company has prepared transfer pricing files.

21. AUDITOR'S FEES

The auditor of the Company 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 IFRS as adopted by EU and respectively MOF 2844/2016 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.

22. 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 in amount of 29,799 of the financial year 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.

23. EVENTS AFTER THE REPORTING PERIOD (continued)

Increase of the subsidiaries' equity, American Restaurant System SA and California Fresh Flavors SRL

In January 2022, the General Shareholders Meetings of American Restaurant System SA and California Fresh Flavors SRL have approved the increase of the subsidiaries' equity (share capital and share premium) by conversion of the existing shareholder loans granted by SFG to equity and by cash contribution of the minority shareholder. SFG's contribution will be 16,333 to the increase of the equity of American Restaurant System SA and 12,328 to the increase of the equity of California Fresh Flavors SRL. The shareholding structure of the subsidiaries has remained unchanged.

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 Company does not have direct exposures to related parties and/or key customers or suppliers from those countries.
The Company 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 Company's management is analysing the possible impact of changing micro- and macroeconomic conditions on the Company's financial position and results of operations.

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes