2021 ANNUAL REPORT

SPHERA FRANCHISE GROUP

SPHERA

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

ISSUER INFORMATION

INFORMATION ABOUT THIS FINANCIAL REPORT

Type of report	Annual Report
For financial period	01.01.2021 – 31.12.2021
Date of publishing	29.04.2022
According to	Annex 15 of ASF Regulation 5/2018

ISSUER INFORMATION

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

INFORMATION ABOUT FINANCIAL INSTRUMENTS

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

CONTACT DETAILS FOR INVESTORS

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LETTER FROM THE CEO

Dear Shareholders,

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

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

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

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

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

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

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

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

Călin Ionescu

DIRECTORS' REPORT

CORPORATE INFORMATION

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

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

The Group operates quick service and takeaway restaurant concepts (a chain of 114 restaurants as of December 31st, 2021) under the Kentucky Fried Chicken ('KFC"), spread across Romania (92 restaurants) as well as in the Republic of Moldova (2 restaurants) and in Italy (20 restaurants). The Group also operates a chain of pizza restaurants (22 restaurants as of 31 December 2021) as well as pizza delivery points (20 locations, including 1 subfranchise) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (13 restaurants as of 31 December 2021) and one restaurant under Paul brand, in Romania. As of 31 December 2020, the Group had 4,757 employees, out of which 4,387 work in Romania, 290 in Italy and 80 in the Republic of Moldova.

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

GROUP STRUCTURE

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

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

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

US Food Network SA (USFN), the subsidiary which operates the KFC franchise in Romania was incorporated in 1994 as a limited liability company and further has changed the organization form as joint stock company with registered office at no. 239 Dorobanti Ave., Bucharest, Romania.

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

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

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

California Fresh Flavors SRL ("Taco Bell") was set up on 19 June 2017 and operates Taco Bell franchise in Romania. Sphera owns 99.99% of the company's shares. The company operates as a limited liability company and is registered at no. 239 Dorobanti Ave., Bucharest, Romania.

SCOPE OF BUSINESS

The Group's franchised foodservice business was launched in 1994 with the opening of the first Pizza Hut location, which was followed by the opening in 1997 of the first KFC location, both in Bucharest. As of 31 December 2021, the Group operates 170 restaurants in Romania, Italy, and the Republic of Moldova.

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

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

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

ABOUT THE BRANDS

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

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

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

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

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

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

Pizza Hut is the largest casual dine-in restaurant chain in Romania in terms of both total sales and number of restaurants. On 31 December 2021 there were 22 Pizza Hut Dine-In restaurants across the major cities of Romania and 19 Pizza Hut Delivery restaurants. Of the 22 Pizza Hut Dine-In restaurants operating in Romania as of 31 December 2021, 19 (including 1 Pizza Hut Express location) are located near food courts with dedicated seating (in malls or commercial centers) and 3 are inline (street locations). For Pizza Hut Delivery, 8 out of the 19 Pizza Hut Delivery restaurants were located within commercial centers (including 1 Fast Casual Delivery location), while the remaining 11 were inline locations.

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

TACO BELL is the world's leading Mexican-inspired quick service restaurant (QSR), with over 7,000 locations worldwide. The restaurants serve a variety of Mexican inspired foods that include tacos, burritos, quesadillas, nachos, novelty and specialty items and a range of "value menu" products. The first Taco Bell store was launched in Bucharest, Romania, by Sphera Franchise Group in October 2017. As of 31 December 2021, the Group operated 13 Taco Bell restaurants, all of them based in commercial centers across Romania.

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

SHAREHOLDERS AND ISSUED CAPITAL

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

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

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

MANAGEMENT OF THE GROUP

BOARD OF DIRECTORS

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

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

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

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

LUCIAN HOANCA

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

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

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

SILVIU GABRIEL CÂRMACIU

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

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

Affiliate companies: Computerland Romania SRL.

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

GEORGIOS VASSILIOS REPIDONIS

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

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

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

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

VALENTIN ARNAOUTOU

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

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

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

RAZVAN STEFAN LEFTER

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

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

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

CONSULTATIVE COMMITTEES

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

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

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

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

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

EXECUTIVE MANAGEMENT

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

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

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

CĂLIN IONESCU

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

VALENTIN BUDEȘ

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

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

CRISTIAN OSIAC

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

MONICA EFTIMIE

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

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

CONSOLIDATED FINANCIAL RESULTS

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

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

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

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

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

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

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

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

Data in RON'000	2021	2021	2020	2020	Change (%)	
	1	2	1	2	**2021/ 2020** (1)	**2021/ 2020** (2)
Restaurant sales	**1,000,312**	**1,000,312**	**710,797**	**710,797**	**40.7%**	**40.7%**
Other restaurant sales	2,627	2,627	726	726	262.1%	262.1%
Restaurant expenses	**915,260**	**917,211**	**657,425**	**662,256**	**39.2%**	**38.5%**
Food and material	327,645	327,645	232,338	232,338	41.0%	41.0%
Payroll and employee benefits	225,869	225,869	150,124	150,124	50.5%	50.5%
Rent	17,058	72,515	5,293	58,593	222.3%	23.8%
Royalties	59,987	59,987	41,274	41,274	45.3%	45.3%
Advertising	52,919	52,919	33,033	33,033	60.2%	60.2%
Other operating expenses, net	141,735	141,735	109,479	110,004	29.5%	28.8%
Depreciation and amortization	90,046	36,540	85,884	36,889	4.8%	-0.9%
Restaurant operating Profit	**87,680**	**85,729**	**54,098**	**49,267**	**62.1%**	**74.0%**
General & Admin expenses, net	49,947	50,537	51,140	50,904	-2.3%	-0.7%
Operating Profit/(Loss)	**37,733**	**35,192**	**2,958**	**(1,637)**	**1.175.4%**	
Finance costs	20,497	8,364	17,314	5,256	18.4%	59.1%
Finance income	150	150	237	237	-36.9%	-36.9%
Profit/(Loss) before tax	**17,386**	**26,978**	**(14,118)**	**(6,656)**		
Income tax expense/(credit)	(3,702)	(2,853)	(6,380)	(6,156)	-42.0%	-53.7%
Specific tax	2,424	2,424	1,872	1,872	29.4%	29.4%
Profit/(Loss) for the year	**18,664**	**27,407**	**(9,610)**	**(2,373)**		
EBITDA	133,921	75,004	93,810	36,907	42.8%	103.2%
Normalized EBITDA*	**132,394**	**73,477**	**100,992**	**44,088**	**31.1%**	**66.7%**

Notes: (1) Including the impact of the adoption of IFRS 16; (2) Excluding the impact of the adoption of IFRS 16.
(*) In 2021, Normalized EBITDA – excludes the reversal of accrued penalties from franchisor for postponed development of Pizza Hut restaurants in 2019, following the signing of the new Development Agreement. In 2020, Normalized EBITDA – excludes the following expenses: impairment loss of goodwill ARS (4,420), accrued penalties due to Pizza Hut Europe (Master Franchisor - YUM!) for the restaurants committed to be opened in 2019 and postponed for the future periods (1,528) and accrued costs related to the Italian subsidiary's development agreement terminated in 2020 (1,234).

The G&A expenses decreased by 1% in 2021 compared to 2020, despite a 5% increase in payroll, which reached RON 30.4 million, primarily from an increased volume of activity. Throughout the year, the Group continued to perform cost optimization measures focused on decreasing costs related to third-party services (-2%, down to RON 5.9 million), transportation (-16%, down to RON 0.8 million), and other expenses (-14%, down to RON 2.2 million).

	Data in RON '000				Change (%)		Percentage of sales			
	2021	**2021**	**2020**	**2020**	2021/ 2020 (1)	2021/ 2020 (2)	**2021**	**2021**	**2020**	**2020**
	(1)	(2)	(1)	(2)			(1)	(2)	(1)	(2)
General and administration (G&A) expenses, net	**49,947**	**50,537**	**51,140**	**50,904**	**-2.3%**	**-0.7%**	**5.0%**	**5.1%**	**7.2%**	**7.2%**
Payroll and employee benefits	30,374	30,374	28,955	28,955	4.9%	4.9%				
Third-party services	5,925	5,925	6,041	6,041	-1.9%	-1.9%				
Depreciation and amortization	6,142	3,272	4,968	1,655	23.6%	97.7%				
Impairment of goodwill	-	-	4,420	4,420	-100.0%	-100.0%				
Rent	357	3,816	394	3,472	-9.4%	9.9%				
Banking charges	4,122	4,122	2,810	2,810	46.7%	46.7%				
Transport	781	781	929	929	-16.0%	-16.0%				
Other*	2,246	2,246	2,622	2,622	-14.3%	-14.3%				

Note: (1) Including the impact of the adoption of IFRS 16; (2) Excluding the impact of the adoption of IFRS 16.
**Other expenses include maintenance & repairs, smallware, insurance, advertising, phone & postage, miscellaneous expenses.*

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

All the brands, except for USFN Italy, ended 2021 with a restaurant operating profit. USFN Romania generated restaurant operating profit of RON 87.4 million, operating profit of RON 51.9 million, EBITDA normalized of RON 79.8 million and a net profit of RON 47.6 million. USFN Moldova closed 2021 with a restaurant operating profit of RON 2 million, a positive EBITDA of RON 2 million and a net result of RON 1.4 million. CFF ended

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

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

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

** At individual level, Normalized EBITDA excludes the following: USFN RO - the impairment loss for the intercompany loan granted to ARS (7,263), ARS - the impact of reversal of penalties due to the master franchisor, following the signing of the new Development Agreement (-1,527) and SFG - the impairment loss for the investment in ARS (5,400).*

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

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

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

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

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

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

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

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

STANDALONE FINANCIAL RESULTS

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

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

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

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

Data in RON'000

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

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

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

- Despite of the prolongation of the COVID-19 pandemic, USFN and USFN Moldova's activities in 2021 have registered a good performance, in line with the cash flow projections; both subsidiaries are in a profit position, therefore no impairment indicator was identified;
- USFN Italy, that started activity during 2017, was affected by the COVID-19 outbreak due to the severe impact of the pandemic. The result of the year 2021 was impacted by the effect of the COVID-19 restrictions from the first half of 2021, paired with a still relatively smaller scale of activity and the fact that significant part of the stores has not yet reached maturity. Management has performed an impairment analysis as at 31 December 2021 and estimated the recoverable amount of the investment based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2022-2026). The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor. (This fair value measurement is on level 3 of the fair value hierarchy). Consequently, the FVLCD versus carrying amount analysis shows that there is enough headroom and no impairment need to be recorded.
- Taco Bell has registered a good operating performance in 2021 and, at the same time, it has continued the network expansion and opened 2 new restaurants (in addition to the 11 already opened as at 31.12.2020). Following the impairment analysis performed as at 31 December 2021 it was considered that there are no impairment indicators.
- Pizza Hut's performance in 2021 was below the cash flow projections, the subsidiary continuing to be affected by the pandemic due to the restrictions on indoor dining. Management estimated the recoverable amount of the investment at 51,276 (2020: 47,815) based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2022-2026). The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor. (This fair value measurement is on level 3 of the fair value hierarchy).

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

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

FY Standalone Financial Statements

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

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

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

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

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

MAIN FINANCIAL RATIOS

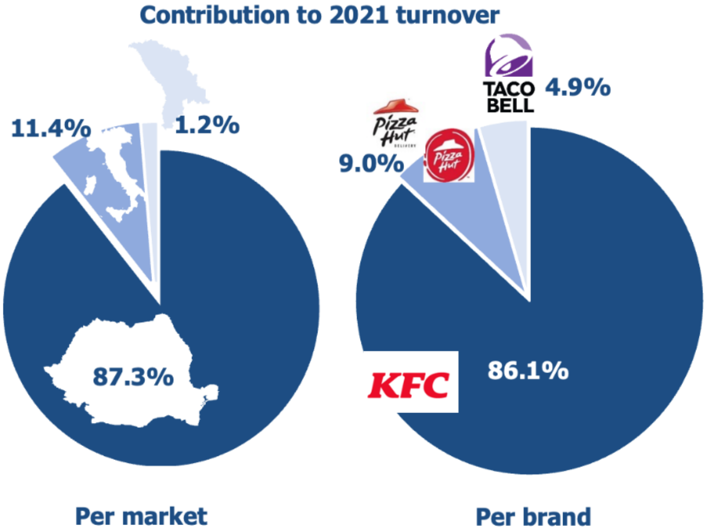
The main financial ratios of Sphera Franchise Group (consolidated result) as of December 31st, 2021 (including and excluding IFRS 16 impact) are presented below, together with the result as of 2020 (including IFRS 16 impact).

Financial data in RON '000	FY 2021(1)		FY 2021(2)		FY 2020(1)	
Current ratio						
Current assets	193,441		196,569		153,481	
Current liabilities	249,097	**= 0.78**	201,874	**= 0.97**	232,704	**= 0.66**
Debt to Equity ratio						
Interest-bearing debt (long term)	348,930	**= 263%**	146,148	**= 95%**	280,741	**= 188%**
Equity	132,052		153,562		149,121	
Interest-bearing debt (long term)	348,930	**= 72.5%**	146,148	**= 48.8%**	280,741	**= 65.3%**
Capital employed	480,982		299,710		429,862	
Trade receivables turnover (days)						
Average receivables	24,491	**= 8.81**	24,491	**= 8.81**	28,825	**= 14.6**
Sales	1,000,312		1,000,312		710,797	
Fixed asset turnover						
Sales	1,000,312		1,000,312		710,797	
Net fixed assets	514,233	**= 1.95**	284,964	**= 3.51**	492,745	**= 1.44**

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

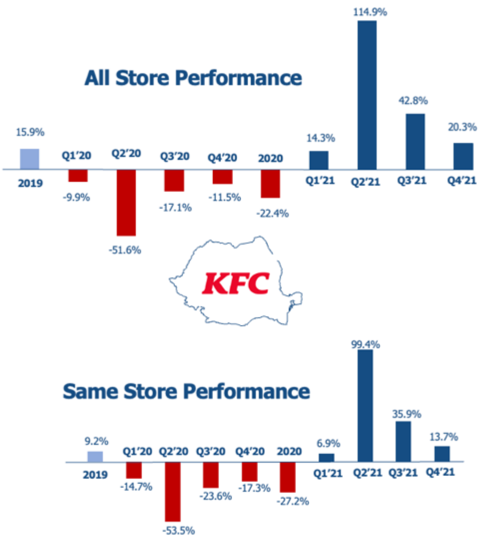
BRAND & SALES PERFORMANCE

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

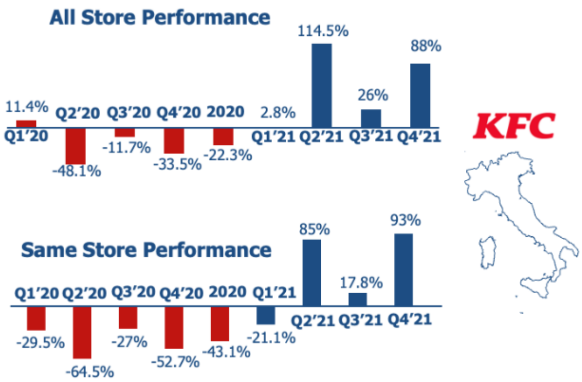


KFC ROMANIA – 2021 was the year of return for the Group as well as its brands, particularly KFC Romania. KFC Romania registered increases for both same store and all store performance in all quarters of 2021, with the biggest increase being registered in Q2 2021, due to reopening of the local economy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

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

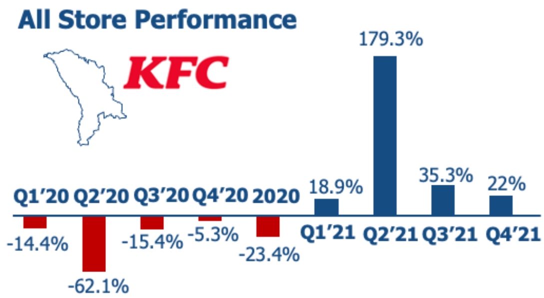


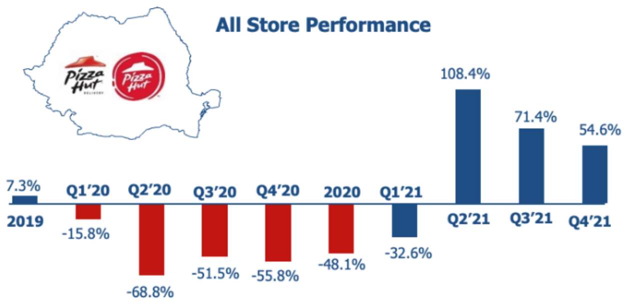
KFC ITALY – 2021 was mixed for KFC Italy (USFN Italy), with a very strong Q2 as well as Q4 2021, and weaker Q1 and Q3, which still registered increases compared to 2020, but lower compared to the other two quarters. This was directly related to the more severe impact of the COVID-19 and related to it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



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

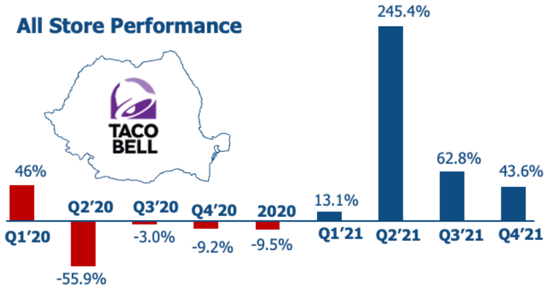
KFC MOLDOVA – The performance in the Republic of Moldova grew throughout 2020, with the best performance recorded, in line with the sister brands, in Q2 2021. The turnover of USFN Moldova (KFC Moldova) grew by 43% in 2021 compared to 2020. USFN Moldova closed 2021 with a restaurant operating profit of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





PIZZA HUT – Because of the dine-in concept of Pizza Hut, the performance of the brand was the one most affected of all the Group's brands in 2020. In 2021, the sales have recovered as of Q2 2021, due to the reopening of the Romanian economy and continued to be at heightened levels until the end of the year. Consequently, in 2021, the turnover of Pizza Hut increased by 32% compared to 2020, the lowest increase of all of the Group's brands – due to the face that there was still limitation on the seating capacity as well as, as of Q4 2021, the non-vaccinated clients could not enter the restaurants or malls and could have only ordered Pizza Hut for delivery. All in all, ARS (Pizza Hut) registered restaurant operating profit of RON 1.1 million, a negative normalized EBITDA of RON -3.5 million and a net loss of RON -9 million.

TACO BELL – Taco Bell sales grew by 65% in 2021 compared to 2020, the largest increase out of all the companies from the Group due to the increase in the number of restaurants which are still to reach full maturity. CFF (Taco Bell) ended 2021 with a restaurant operating profit of RON 0.8 million, a positive EBITDA of RON 0.9 million and a net loss of RON -3.7 million



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

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

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

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

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

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

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

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

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

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

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

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

KEY EVENTS IN 2021

COVID-19 RELATED EVENTS

COVID-19 VACCINATION CAMPAIGNS

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

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

LEASES

In 2021, the Group continued to renegotiate the lease agreements whenever possible. Consequently, in 2021, the Group registered savings in total amount of RON 3.85 million, a third of savings registered in 2020 (RON 11.6 million).

STAFF

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

In terms of technical unemployment indemnities, there were limited technical unemployment grants provided in Q4 2021 (RON 0.3 million). In Q1 2021 the Group registered RON 1.27 million in the technical unemployment indemnities, RON 1.2 million in Q2 2021, and RON 15K in Q3 2021.

HORECA AID IN ROMANIA

On December 30th, 2020, Emergency Ordinance 224/30.12.2020 was published that stipulates that companies from HoReCa sector can apply for a state aid in the amount that represents 20% of the loss of turnover in 2020 compared to 2019, capped at EUR 800,000 at Group level. On December 28th, 2021, the Group has informed the market that it has received the first tranche of the state aid payment, in the following amounts:

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

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

HORECA SPECIFIC TAX FACILITY

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

BUSINESS EVENTS

UPDATE TO THE PIZZA HUT RESTAURANT DEVELOPMENT PLAN

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

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

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

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

DEVELOPMENT OF THE NETWORK

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

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

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

CAPITAL MARKET AND GOVERNANCE EVENTS

DIVIDEND

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

LAUNCH OF MARKET MAKING FOR SFG SHARES

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

GENERAL MEETING OF THE SHAREHOLDERS

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

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

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

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

DIVIDENDS

Data in RON'000

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

On 19 August 2021, the Ordinary General Shareholder Meeting of the Group approved the distribution of dividends in the total amount of RON 35 million, from the undistributed profit from 2019 and 2020. The gross dividend per share was RON 0.9021. The ex-date for dividend was 16 September 2021 with payment date being set up for 30 September 2021.

On 4 February 2022, the Ordinary General Shareholder Meeting of the Group approved the dividend distribution amounting to RON 35,000,884.61 from the undistributed net profit of 2020, fixing a gross dividend per share at RON 0.9021. The ex-date is May 6th, 2022, registration date is May 9th, 2022, and the payment date is May 30th, 2022.

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

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

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

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

KEY FACTORS AFFECTING GROUP'S RESULTS

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

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

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

The presence of food-aggregators contributes also to the increase of the competition on a segment where the Group had a relatively safe position. As of 2020, the Group has decided to include the food aggregators in its sales strategy to increase the customer base and extend the delivery coverage while avoiding the increase in personnel costs. This decision has allowed the Group to recover part of the revenues lost due to the temporary closing of the restaurants or due to restrictions imposed by the authorities.

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

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

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

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

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

Payroll – Cost of labor represents the second most important expense for the Group and was the fastest growing expense item at restaurant level over the past years. It is expected for the personnel costs to grow proportionally with the growth of the number of the restaurants and the restaurant revenue. Factors that influence fluctuations in the labor costs include minimum wage and payroll tax legislation, the frequency and severity of labor-related claims, health care costs, the performance of restaurants, new openings and whether new employees are fixed overhead costs or are restaurant hires. Moreover, COVID-19 pandemic put additional pressure on the HoReCa industry as many employees decided to requalify to other sectors. Consequently, in 2021 the Group continued the project of hiring employees from abroad. In 2021, Sphera hired over 200 employees from Sri Lanka, with most of them currently working for USFN Romania, approximately 11% for Taco Bell and 4% for ARS.

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

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

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

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

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

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

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

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

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

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

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

Dependency on the franchisor – Sphera manages KFC (in Romania, Italy and Moldova) and Pizza Hut and Taco Bell (in Romania), as a franchisee, and therefore a number of factors and decisions related to the business activities conducted by Sphera depend on the franchisors' decisions or on their agreement. The duration of the franchising agreements related to the KFC, Pizza Hut and Taco Bell brands is 10 years. Sphera has the option of extending this period for the next 10 years provided that it meets the conditions specified in the franchising agreements and other requirements, including the payment of the related continuing and marketing fees, and further the renewal fees. Despite meeting the above-mentioned terms, there is no guarantee that after the expiry of these periods a given franchising agreement will be prolonged to the next period. In the case of KFC restaurants, the first period commenced in 1997, the first Pizza Hut restaurant opened on the Romanian market in 1994, while for Taco Bell, the first period commenced in 2017 with the opening of the first restaurant of this brand. Sphera and Yum! are constantly in touch with respect to current and further cooperation.

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

FINANCIAL INSTRUMENTS RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Calculation of consolidated gearing ratio is presented below:

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

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

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

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

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

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

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

INTERNAL CONTROL

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NON-FINANCIAL TOPICS & DIVERSITY POLICY

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

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

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

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

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

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

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

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

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

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

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

COMMITMENTS AND CONTINGENCIES

Group as lessee - lease commitments

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

Other commitments

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

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

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

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

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

Bank letter of guarantees

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

Other contingencies

Taxation

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

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

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

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

Transfer pricing

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

The Group has prepared transfer pricing files.

Legal proceedings

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

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

ENVIRONMENTAL MATTERS

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

Chairman of the Board of Directors
Lucian Hoanca

L.S.

CORPORATE GOVERNANCE

SPHERA

SPHERA

BVB CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

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

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

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

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

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

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

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

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

CONSOLIDATED NON-FINANCIAL STATEMENT

SPHERA

CONSOLIDATED NON-FINANCIAL STATEMENT[2]

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

THE GROUP BUSINESS MODEL

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

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

APPLIED DUTY OF CARE PROCEDURES

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

SOCIAL RESPONSIBILITY; SOCIAL, ENVIRONMENTAL AND DIVERSITY-RELATED ISSUES

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

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

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

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

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

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

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

THE COMPLIANCE POLICY AND THE ANTI- BRIBERY POLICY

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

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

KEY PERFORMANCE INDICATORS RELATED TO NON-FINANCIAL STATEMENTS

Environment

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

Social Responsibility

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

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

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

RISK MANAGEMENT

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

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

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

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

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

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

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

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

DECLARATION FROM THE MANAGEMENT

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

Chairman of the Board of Directors
Lucian Hoanca

L.S.

SPHERA FRANCHISE GROUP SA

CONSOLIDATED FINANCIAL STATEMENTS

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

31 December 2021

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sphera Franchise Group S.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for opinion

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

Key audit matters

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

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

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

Key audit matter

Goodwill impairment testing

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

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

How our audit addressed the key audit matter

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

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

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

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

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

Appointment and Approval of Auditor

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

Consistency with Additional Report to the Audit Committee

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

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Provision of Non-audit Services

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

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

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

Description of the subject matter and the applicable criteria

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

Responsibilities of the Management and Those Charged with Governance

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

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

Auditor's Responsibility

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

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

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

Our Independence and Quality Control

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

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

Summary of procedures performed

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

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

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

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

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

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

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

Alina Dimitriu

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

Bucharest, Romania
25 March 2022

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

CONTENTS

All amounts in RON thousand, unless specified otherwise

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

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

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

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

All amounts in RON thousand, unless specified otherwise

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

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

Ernst & Young Assurance Services S.R.L.
25. MAR. 2022
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All amounts in RON thousand, unless specified otherwise

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

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

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

1. CORPORATE INFORMATION

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

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

The Group operates quick service and takeaway restaurant concepts (a chain of 114 restaurants as at 31 December 2021, a chain of 108 restaurants as at 31 December 2020) under the Kentucky Fried Chicken (''KFC''), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (22 restaurants as at 31 December 2021; 21 restaurants as at 31 December 2020) as well as pizza delivery points (20 locations as at 31 December 2021; 18 locations as at 31 December 2020) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (13 restaurants as at 31 December 2021; 11 restaurants as at 31 December 2020) and one restaurant under Paul brand, in Romania. The Group's number of employees at 31 December 2021 was 4,757 (31 December 2020: 4,802).

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

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

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

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

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

California Fresh Flavors SRL ("Taco Bell") was set up on 19 June 2017 and operates Taco Bell franchise in Romania. Sphera owns 99.99% of the company's shares. The company operates as a limited liability company and is registered at No. 239 Calea Dorobanti, Bucharest, Romania.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

Statement of Compliance

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

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

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

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

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

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

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

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

2.2 Basis of consolidation

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

If the Group loses control over a subsidiary, it:

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

2.3 Business combination and goodwill

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

2.4 Summary of significant accounting polices

2.4.1 Current versus non-current classification

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

All other assets are classified as non-current.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.2 Fair value measurement

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

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

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

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

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

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

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

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

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

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

2.4.3 Revenue

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

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

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

All amounts in RON thousand, unless specified otherwise

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.4 Government grants

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

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

2.4.5 Foreign currencies

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

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

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

Transactions and balances

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

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

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

Group companies

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.6 Taxes

Current income tax

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

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

Deferred tax

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Sales tax (VAT and similar taxes)

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

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

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

2.4.7 Property, plant and equipment

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

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Start-up expenses for new restaurants

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

2.4.8 Leases

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

Group as a lessee

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

i) Right-of-use assets

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

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

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

ii) Lease liabilities

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Group as a lessor

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

2.4.9 Intangible assets

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

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

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

Franchise rights

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.10 Impairment of non-financial assets, including goodwill

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

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

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

- KFC restaurants
- Pizza Hut restaurants
- Taco Bell restaurants

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

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

2.4.11 Financial instruments

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

i) Financial assets

Initial recognition and measurement

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Subsequent measurement

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

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

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

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

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

De-recognition

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Impairment of financial assets

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

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

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

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

ii) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

De-recognition

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

iii) Offsetting of financial instruments

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

2.4.12 Inventories

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

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

2.4.13 Cash and cash equivalents

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

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

2.4.14 Prepayments

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

2.4.15 Equity

Share capital

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

2.4.16 Royalties

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

2.4.17 Provisions

General

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

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

Onerous contracts

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

2.4.18 Employee benefits

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

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

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

Defined benefit plans (Italian subsidiary)

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

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

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

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

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

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

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

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

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

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

Estimates and assumptions

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

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

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

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

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

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

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

Impairment of goodwill

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

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

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

Deferred for tax losses carried forward

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

4. CHANGES IN ACCOUNTING POLICIES

4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2021

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

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

4. CHANGES IN ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

4. CHANGES IN ACCOUNTING POLICIES (continued)

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

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

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

4. CHANGES IN ACCOUNTING POLICIES (continued)

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

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

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

All amounts in RON thousand, unless specified otherwise

4. CHANGES IN ACCOUNTING POLICIES (continued)

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

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

5. GROUP INFORMATION

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

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

All amounts in RON thousand, unless specified otherwise

6. OTHER OPERATING EXPENSES

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

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

Following the signing of the new development agreement with Pizza Hut Europe (Master Franchisor - YUM!) in August 2021, the accrued penalties due to the master franchisor in amount of 1,527 were reversed (Note 22). In prior year, YUM penalties included the accrued penalties due to Pizza Hut Europe for the restaurants committed to be opened in 2019 and postponed for the future periods (1,528) and accrued costs related to the Italian subsidiary's development agreement terminated in 2020 (1,234).

7. GENERAL AND ADMINISTRATIVE EXPENSES

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

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

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

8.1 Payroll and employee benefits

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

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

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

Net employee defined benefit liabilities (Italian subsidiary)

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

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

All amounts in RON thousand, unless specified otherwise

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

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

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

8.2 Depreciation and amortization

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

All amounts in RON thousand, unless specified otherwise

9. FINANCE COSTS AND INCOME

9.1 Finance costs

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

9.2. Finance income

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

10. INCOME TAX

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

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

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

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

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

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10. INCOME TAX (continued)

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

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

Deferred tax

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

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

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

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

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

All amounts in RON thousand, unless specified otherwise

11. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

All amounts in RON thousand, unless specified otherwise

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Analysis regarding the impairment of property, plant and equipment

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

12. INTANGIBLE ASSETS AND GOODWILL

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

12. INTANGIBLE ASSETS (continued)

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

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

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

The recoverable amount of the CGU as at 31 December 2021, has been determined at 51,276 (2020: 47,815) based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2022-2026). The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor. This fair value measurement is on level 3 of the fair value hierarchy.

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

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

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

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

Budget EBITDA margins are based on the following assumptions:

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

All amounts in RON thousand, unless specified otherwise

12. INTANGIBLE ASSETS (continued)

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

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

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

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

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

All amounts in RON thousand, unless specified otherwise

13. BORROWINGS

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

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

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

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

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

All amounts in RON thousand, unless specified otherwise

13. BORROWINGS (continued)

Covenants:

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

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

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

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

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

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

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

All amounts in RON thousand, unless specified otherwise

14. LEASE LIABILITIES

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

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

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

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

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

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

All amounts in RON thousand, unless specified otherwise

14. LEASE LIABILITIES (continued)

The following are the amounts recognized in profit or loss:

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

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

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

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT

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

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

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Trade and other receivables and payables are non-interest bearing financial assets and liabilities. The borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term and short-term credit facilities. Interest rates on the Group's debt finance are variable. The interest rates on credit facilities of the Group are disclosed in Note 13. Changes in interest rates impact primarily loans and borrowings by changing their future cash flows (variable rate debt). Management policy is to resort mainly to variable rate financing. However, at the time of rising new loans or borrowings management uses its judgment to decide whether it believes that fixed or variable rate would be more favourable to the Group over the expected period until maturity.

All amounts in RON thousand, unless specified otherwise

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Interest rate sensitivity

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

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

The Group does not hedge its interest rate risk.

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

Foreign currency risk

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

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

Foreign currency sensitivity

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

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

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

All amounts in RON thousand, unless specified otherwise

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Credit risk

The Group is not significantly exposed to credit risk as the majority of its sales are on a cash basis. The Group's credit risk is primarily attributed to trade and other receivables and balances with banks. The carrying amount of trade and other receivables, net of allowance for impairment (Note 17 and deposits for rent guarantee as per statement of financial position) plus balances with banks (Note 18), represent the maximum amount exposed to credit risk. Management believes that there is no significant risk of loss to the Group beyond the allowances already recorded.

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

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

Liquidity risk

The Group has adopted a prudent financial liquidity management approach, assuming that sufficient cash and cash equivalents are maintained and that further financing is available from guaranteed funds from credit lines. The tables below summarize the maturity profile of the Group's financial liabilities, including principal amounts and interests according to contractual terms, at 31 December 2021 and 31 December 2020 based on contractual undiscounted payments.

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

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

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

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

All amounts in RON thousand, unless specified otherwise

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Capital management

Capital includes the equity attributable to the equity holders of the parent.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

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

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

	31 December 2021	**31 December 2020**
Borrowings	212,589	150,209
Leases	257,001	242,826
Trade and other payables	84,209	58,780
Less: cash and cash equivalents	146,116	121,913
Net debt	**407,683**	**329,902**
Equity	132,052	149,144
Capital and net debt	**539,735**	**479,046**
Gearing ratio:	76%	69%

The Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. For the covenants in force as at 31 December 2021 and 31 December 2020 please refer to Note 13.

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

Fair values

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

The carrying amount of the interest bearing loans and borrowings approximate their fair value. Management estimates that the margin applicable over Euribor at the balance sheet date would be similar to the ones at the dates of each previous withdrawal, due to the fact that the Group maintained over the past years a low gearing ratio and a stable financial condition, and also based on statistics published by the National Bank of Romania. The carrying amounts of these financial instruments are considered to approximate their fair values, of these instruments (level 3 measurement).

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

All amounts in RON thousand, unless specified otherwise

16. INVENTORIES

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

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

17. TRADE AND OTHER CURRENT RECEIVABLES

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

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

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

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

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

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

17. TRADE AND OTHER CURRENT RECEIVABLES (continued)

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

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

18. CASH AND CASH EQUIVALENTS

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

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

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

19. ISSUED CAPITAL

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

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

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

All amounts in RON thousand, unless specified otherwise

19. ISSUED CAPITAL (continued)

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

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

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

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

20. PROFIT DISTRIBUTION

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

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

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

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

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

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

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

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

All amounts in RON thousand, unless specified otherwise

21. TRADE AND OTHER CURRENT PAYABLES

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

Terms and conditions of the above financial liabilities:

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

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

22. EBITDA

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

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

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

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

All amounts in RON thousand, unless specified otherwise

23. EARNINGS PER SHARE (EPS)

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

There are no dilutive instruments to be considered.

24. COMMITMENTS AND CONTINGENCIES

Group as lessee - lease commitments

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

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

Other commitments

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

In August 2021, the Group signed a revised development agreement with Pizza Hut Europe (Master Franchisor. The parties have agreed on a minimum net new unit target (base tier) for the period 2021-2023, replacing the original restaurant rollout plan applicable for the period 2017-2021 (34 outlets). The new minimum net unit target as agreed by the parties consisted of 10 units (out of which 3 in 2021, 3 in 2022 and 4 in 2023). The Group will benefit of progressive financial incentives, depending on the number of net new restaurants being opened that will exceed the base tier. In terms of the initial franchise fees for years 2019 and 2020 related to the previous development plan as well as accrued penalties for not meeting the minimum target for new Pizza Hut restaurants from 2019, the parties agreed to use these amounts in entirety as a reinvestment credit for development of Pizza Hut and Pizza Hut Delivery network in Romania.

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

24. COMMITMENTS AND CONTINGENCIES (continued)

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

Bank letter of guarantees

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

Other contingencies

Taxation

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

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

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

Transfer pricing

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

Legal proceedings

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

24. COMMITMENTS AND CONTINGENCIES (continued)

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

25. RELATED PARTY DISCLOSURES

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

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

All amounts in RON thousand, unless specified otherwise

25. RELATED PARTY DISCLOSURES (continued)

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

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

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

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

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

All amounts in RON thousand, unless specified otherwise

25. RELATED PARTY DISCLOSURES (continued)

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

Terms and conditions of transactions with related parties

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

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

Compensation of key management personnel of the Group:

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

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

26. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the restaurants' brands, as follows:
- KFC restaurants
- Pizza Hut restaurants
- Taco Bell restaurants

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

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

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

All amounts in RON thousand, unless specified otherwise

26. SEGMENT INFORMATION (continued)

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

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

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

All amounts in RON thousand, unless specified otherwise

26. SEGMENT INFORMATION (continued)

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

Geographic information:

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

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

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

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

27. AUDITOR'S FEES

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

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

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

28. EVENTS AFTER THE REPORTING PERIOD

Distribution of dividends

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

Proposed profit allocation for the financial year 2021

For the year ended 31 December 2021, the Board of Directors has proposed to the shareholders' approval, the following allocation of the net profit of Sphera Franchise Group SA of 29,799 as presented in its separate financial statements as at and for the year ended 31 December 2021:

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

New openings

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

Current situation in Ukraine and Russia

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

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes

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

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.

Building a better working world

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

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

Alina Dimitriu

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.

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).

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.

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

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.

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).

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**

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25. MAR. 2022
Signed for identification
Semnat pentru identificare

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.

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%).

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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.

All amounts in RON thousand, unless specified otherwise

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	Chief Financial Officer
Calin Ionescu	Valentin Budes

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