

2022

RISKS and OPPORTUNITIES of climate change



Table of Contents

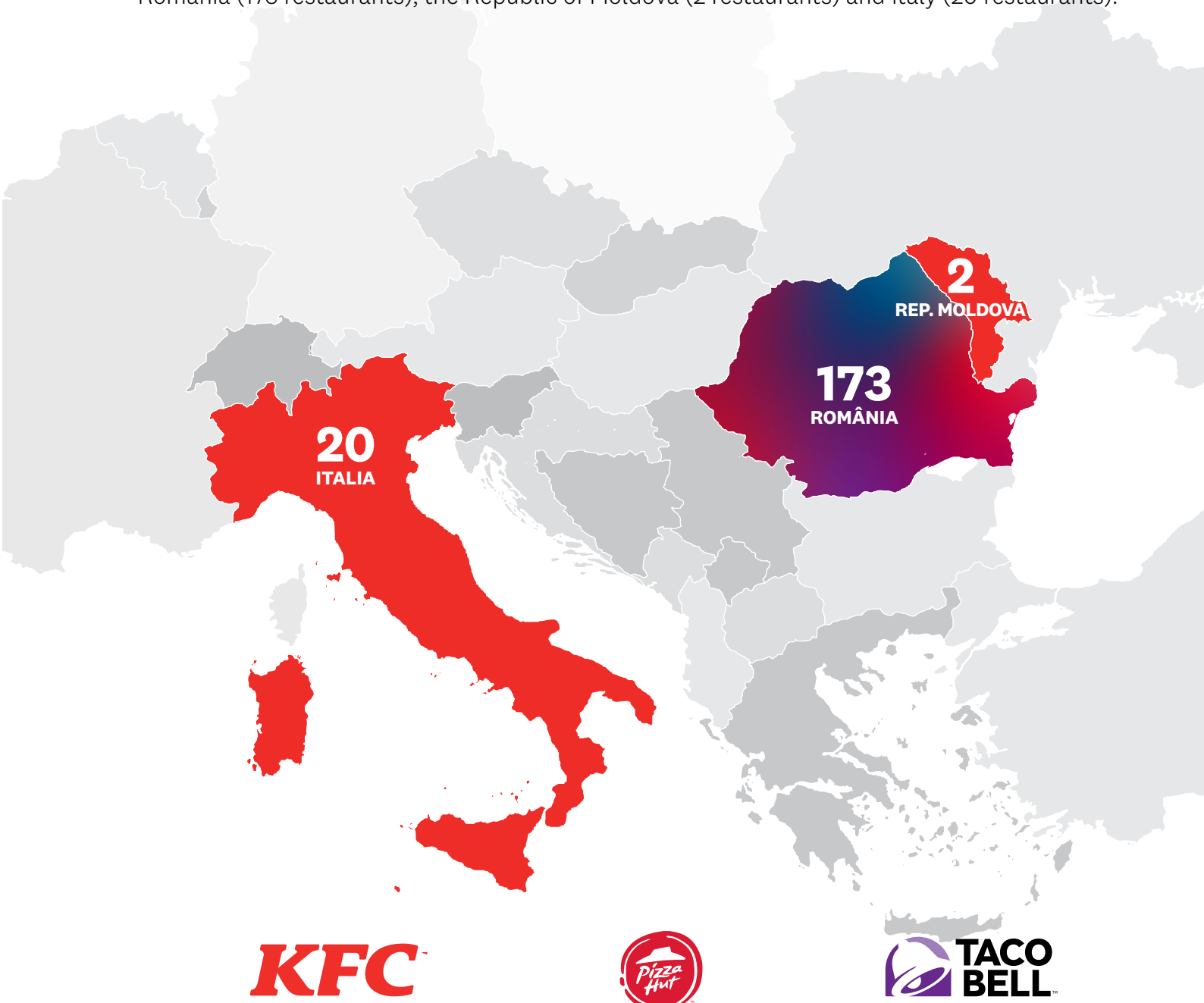
- Introduction** 3
- 1. Governance** 5
 - 1.1. Role of the Board of Directors 5
 - 1.2. Role of the Management 6
- 2. Strategy** 7
 - 2.1. Transition risks 7
 - 2.2. Physical risks 8
 - 2.3. Identified opportunities 8
 - 2.4. Scenario analysis 9
- 3. Risk management** 11
 - 3.1. Transition risks 11
 - 3.2. Physical risks 12
- 4. Metrics and targets** 13
- About the report** 14

Introduction

TCFD (Task Force on climate-related financial disclosures) was created by the Financial Stability Board (FSB) with the well-defined purpose of developing recommendations on the types of disclosures that companies should make available for stakeholders, in order to facilitate the assessment of associated costs specific to climate change risks.

In this sense, at Sphera Franchise Group, we understand the importance of initiating this approach, complementing our efforts to strengthen a sustainable business model in line with our **Sustainability Strategy** and the **Sustainable Development Goals** (SDGs) set by the 2030 Agenda.

As the largest operator in the food service industry in Romania, Sphera Franchise Group SA is present with specific activities and geographically serves three European markets: Romania (173 restaurants), the Republic of Moldova (2 restaurants) and Italy (20 restaurants).



Our Sustainability Strategy is based on four pillars, and material topics relevant to the company, identified together with our stakeholders. A series of general and specific objectives have been agreed upon for the medium and long term, setting specific targets to be achieved by 2025. In order to highlight the materialization of our efforts in correlation with the assumed indicators, with a view to achieving Sustainable Development Goals at international level, we are committed to systematic, transparent communication with all stakeholders.



Our company's sustainability goal is to be a leader in the food service industry by maintaining a balance between the impact that all business activities generate and the needs of society and the environment. The environmental performance associated with our operations is on an upward trend, and the well-being of communities is continuously considered through our social responsibility initiatives.

At Sphera, our sustainability mission is to provide customers with excellent services and unique products based on our priorities of socially responsible development, risk management and sustainable resource management (human, food and environmental).

Sphera owns the companies that operate in franchise system the brands:

- **Kentucky Fried Chicken** (KFC);
- **Pizza Hut Dine-In**;
- **Pizza Hut Delivery** (in master-franchise system);
- **Taco Bell**.

The business activities of the companies are divided into three segments:

- quick-service restaurants (KFC and Taco Bell);
- dine-in restaurants (Pizza Hut Dine-In);
- home delivery (Pizza Hut Delivery and KFC Delivery).

The focus of our TCFD reporting approach is an assessment based on the key areas of our business, our restaurants, operations and supply chain.



Governance

Investors, lenders, insurers, customers and other stakeholders have a vested interest in understanding the role of the organisation's Board of Directors in overseeing all implications arising from climate change issues and how management assesses and addresses these issues.

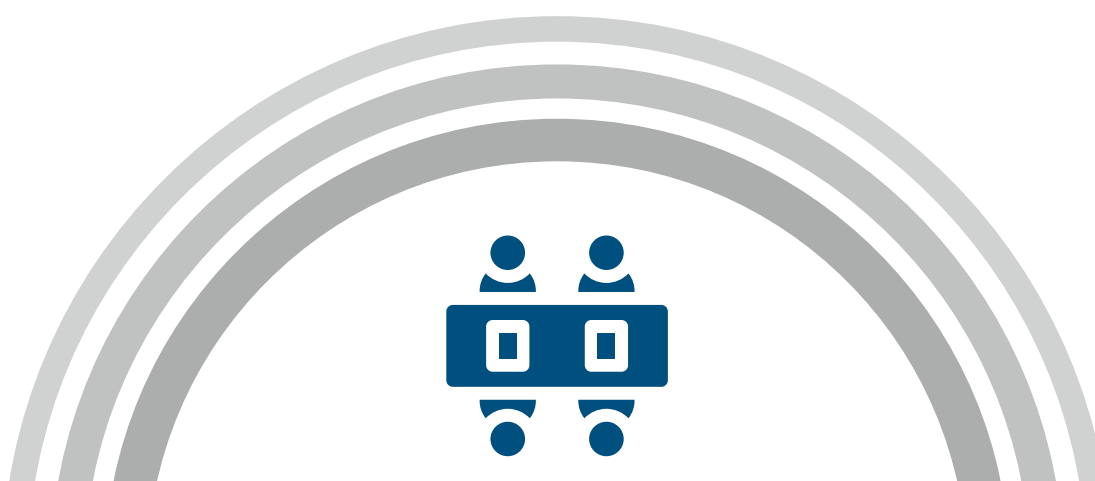
Governance mechanisms for climate issues include: setting strategy guidelines and reviewing strategy, developing action plans, risk management policies, annual budgets and business plans, setting and monitoring performance indicators, overseeing major capital expenditure, acquisitions and disposals, and reviewing progress against commitments and targets.

Remuneration of members of the executive team includes, in addition to fixed remuneration, a variable component based on financial and non-financial performance criteria, such as social impact and sustainability of the Group's operations (environment, safety and employee engagement).

1.1 Role of the Board of Directors

Responsibility for oversight of environmental, social and governance (ESG) issues rests with the Board of Directors of Sphera Franchise Group.

The Board of Directors oversees and supports the sustainable development of Sphera Group, with equitable growth in economic, social and environmental terms. Environmental responsibility is one of the company's core values, and the business strategy addresses climate issues and their impact on day-to-day operations.



Board of Directors



Through the Audit Committee, the Board of Directors is briefed at least once a year by the ESG Council, made up of senior leaders at the executive level, on all areas of focus, and ESG risks to sustainability are assessed and managed.

1.2 Role of the Management

The CEO of Sphera Group, the most important decision-maker at operational level, has the ultimate responsibility for managing climate issues and climate change within the company.

At operational level, the ESG Council, led by the CEO, includes:



The ESG Board plays a key role in promoting and coordinating the Group's overall strategy and priorities for sustainable development, operating Sphera Group efficiently and sustainably to generate shareholder value and strengthen the positioning of the operated brands.

Climate risks and opportunities are also assessed and managed by cross-functional working groups, which include employees from food safety, human resources, supply chain, development, communications and corporate legal teams.



Strategy

The consequences of climate change pose potential risks to Sphera Group and its portfolio companies, both in terms of physical and transitional risks. Physical risks associated mainly with extreme weather events may lead to disruptions in the supply chain, interruption of activities or in the supply of resources. Transition risks may affect economic and financial stability through the possibility of increased energy costs, the introduction of certain carbon taxes driven by increasing international pressure to reduce greenhouse gas emissions or new regulations aimed at mitigating the effects of climate change.

Our Group's investments in energy efficiency and low-carbon technologies are already starting to benefit the company, the environment and the communities in which we operate.

2.1 Transition risks

Following an analysis of the risks arising predominantly from the process of decarbonisation, a number of transition risks have been identified that could affect the company's strategy, operations and financial planning.


CATEGORY	Risk type	Time horizon
 POLICY AND LEGAL RISKS	New regulations for existing products and services	Short term: 0-2 years

Description of the risk and potential impact on the business

The regulatory risks identified involve increased reporting obligations on emissions, environmental performance indicators and how our business impacts society at large, as set out in the Non-Financial Reporting Directive ("NFRD") of the European Union (EU), the EU Taxonomy Regulation and the forthcoming Corporate Sustainability Reporting Directive ("CSRD") which is expected to enter into force from 2024. Failure to comply with these obligations, or partial compliance, will lead to limitations on business development.


In the near future (2024) we also expect new requirements for sustainable procurement, labelling and animal welfare, as foreseen in the 'Farm to Fork Strategy' of the EU. These are anticipated to impact the cost of procurement, but also our business model.

EU's intensified ambitions for decarbonisation until 2030, under the 'Green Deal' umbrella, will lead to an upward trend in carbon costs which could be translated into higher energy prices and indirectly into higher costs associated with transport, logistics and operational activities.

CATEGORY	Risk type	Time horizon
 MARKET	Price increases associated with supply chain and operations, and changing consumer perceptions	Long term: over 5 years


Description of the risk and potential impact on the business

The identified market risks relate, on the one hand, to rising prices associated with the procurement of raw materials, energy and other services and, on the other hand, to changing consumer behaviour.

CATEGORY	Risk type	Time horizon
 REPUTATION	Increasing external pressure to communicate ESG performance	Long term: over 5 years

Description of the risk and potential impact on the business

Reputational risks relate to how the organisation's image may be affected by potential ESG litigation cases (including greenwashing), increased stakeholder concern for ESG performance and its impact on the business development strategy. The vulnerability of the company to these types of risks can be determined in terms of damage to the company's image, more difficult access to financing sources and even a reduction in capital availability.

CATEGORY	Risk type	Time horizon
 TECHNOLOGY	High initial costs	Average term: 3-5 years


Description of the risk and potential impact on the business

Technology risks are expected in terms of high upfront costs of adoption of new decarbonisation technologies, and replacement of existing equipment with new and more energy efficient or less polluting options.

2.2 Physical risks


The category of transition risks is complemented by those physical risks arising from climate change, which decrease with the intensive decarbonisation process. Physical risks are further divided into two distinct categories: acute physical risks and chronic physical risks.

The following describes the main types of physical risks identified and their impact on our business.

CATEGORY	Risk type	Time horizon
 ACUTE RISK	Extreme weather events	Long term: over 5 years

Description of the risk and potential impact on the business

Acute risks are generally associated with extreme weather events. In this case, we can mention floods caused by heavy rainfall, strong storms with increased winds, or wildfires. All of these weather events can lead to damage to company-owned or leased premises, operational or supply chain disruptions, and can even affect the health and safety of employees.

CATEGORY	Risk type	Time horizon
 CHRONIC RISK	The continuous rise in temperatures and associated hazards	Long term: over 5 years

Description of the risk and potential impact on the business

Chronic risks refer to long-term changes in climate patterns, such as rising multi-annual average temperatures, heat waves, drought and water stress. The manifestation of these risks can lead to undesirable business impact, such as utility outages, increased prices for water supply or certain products and services in the supply chain.

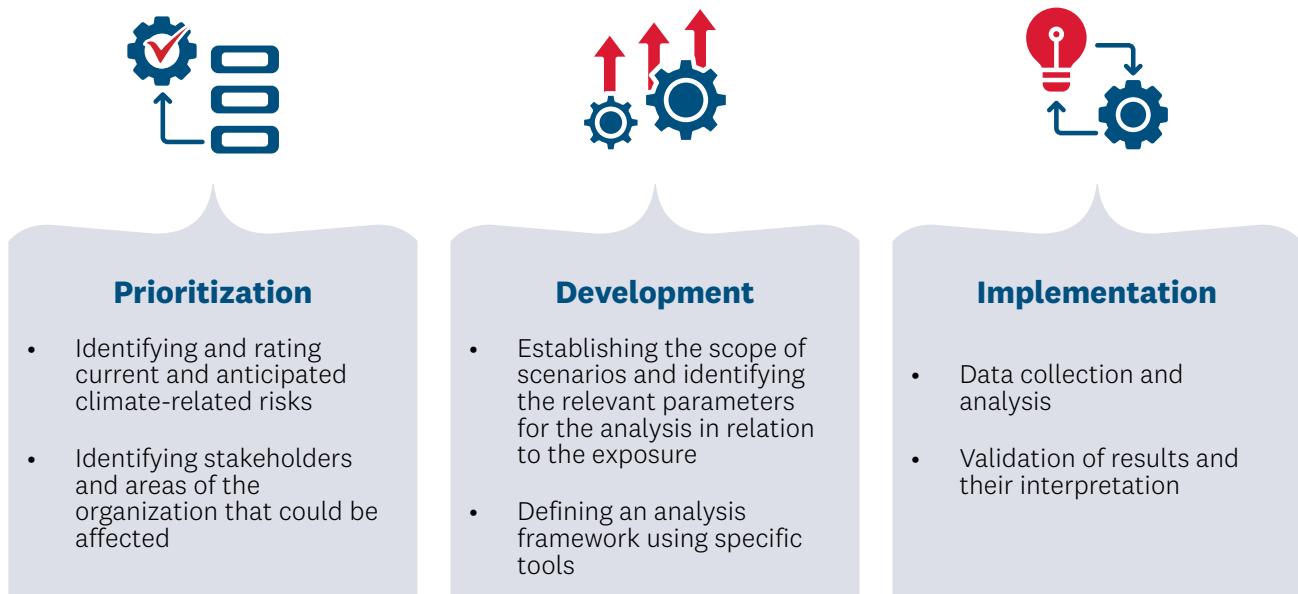
2.3 Identified opportunities

The mitigation or adaptation measures to climate risks involve as well a number of opportunities for Sphera:

1. Resource Efficiency - optimising energy and water consumption through technical solutions and process efficiency, reducing and recycling waste and gradually implementing a circular economy model.
2. Energy Sources - sourcing energy from low-carbon sources or generating it by own means, participating in the carbon market, implementing new technologies and accessing financial incentives offered by the state or other political bodies to make the transition to decarbonisation as easy as possible.
3. Products and Services - developing or expanding the portfolio of low carbon goods and services, research and innovation, diversifying menu options according to market demand, mitigating factors that generate high insurance premiums.
4. Markets - new sources of finance and/or lower associated financing costs, partnerships with local or central authorities or access to new, emerging markets.
5. Resilience - replacing or diversifying products and services, ensuring supply chain continuity and operational systems adapted to different conditions.

2.4 Scenario analysis

Analysis of climate scenarios allows us to explore different development paths and examine the assumptions on which they are based. At Sphera, we have carried out such an analysis in order to assess the potential risks posed by climate change and the opportunities associated with the transition to a greener economy.



Our scenario analysis is comprised of 2 scenarios for transition risks, which consider different pathways to limit global warming: Nationally Determined Contributions (NDCs) and Net Zero. They were compared to a reference scenario: “current policies”, which illustrates commitments that have currently been made. The data used for these scenarios were taken from the Global Change Assessment Model 5.3 (GCAM 5.3) proposed by the Network for Greening the Financial System (NGFS). The scope is forward-looking to the year 2040, with the reference year 2020. And the geographical areas analysed were the 3 markets in which we operate: Romania, the Republic of Moldova and Italy.

The physical risk assessment was carried out by selecting the IPCC SSP3-7.0 scenario. It assumes high GHG emissions leading to a temperature rise of up to 3.6°C in 2100, the penultimate IPCC scenario (4 out of 5) in terms of global warming.

The most relevant findings:

- In the context of limiting global warming (~2°C)
 - Increased costs due to stricter carbon pricing mechanisms applied in the economies of the three countries where we operate.
 - Increased EU efforts to regulate emissions reporting and green indicators.
 - Increased requirements for responsible and sustainable sourcing, with potential cost implications.
- In the context of inaction on global warming (~4°C)
 - Varying exposure to risk depending on different geographical locations.
 - Flood risk hotspots in parts of Romania and the Republic of Moldova.
 - Drastic decrease in precipitation, especially in summer, in all regions. The most significant droughts are expected to be in Italy, followed by the Republic of Moldova and Romania.
 - Potential danger to agricultural production due to extreme weather events, in particular droughts, floods and storms, causing unstable supplies and volatile prices.



Risk management

Sphera's Board of Directors plays a key role in shaping the strategy and risk management approach at all business levels. Climate risks are an important part of this system and are treated carefully considering the impact they can have on the key areas of activity of our company.

At Sphera Group level, financial and non-financial risks are identified and managed at both subsidiary and group level by department managers, top management and ultimately the Board of Directors.


The organisation chart of Sphera Group includes an Internal Audit Manager, who reports functionally directly to the Audit Committee of the Board of Directors, and administratively, in relation to management's duties to identify and mitigate risks, to the CEO. Its duties include supporting department managers, top management and the Board of Directors with risk management aimed at identifying risks and opportunities at Group level, checking and reporting on the degree of implementation of the action plan prepared on this basis, and developing an Annual Audit Plan. It also regularly updates the risk mapping at Sphera Group level, with risks grouped into several categories: strategic, financial, operational and compliance. All these types of risks are regularly assessed by the Top Management of Sphera Group.

3.1 Transition risks

CATEGORY	Risk type	Time horizon
 POLICY AND LEGAL RISKS	New regulations for existing products and services	Short term: 0-2 years

Our approach to risk mitigation


The identified regulatory risks occupy an important place in Sphera Group's materiality matrix and proactive measures are taken to mitigate them accordingly. The reporting system is constantly adapted to current and future regulatory requirements through continuously improved data management, increased transparency, collaboration with experts in the field, investment in human resources, streamlining and monitoring resource consumption, optimisation of logistics operations and planned investments in new equipment and renewable energy generation systems.

CATEGORY	Risk type	Time horizon
 MARKET	Price increases associated with supply chain and operations, and changing consumer perceptions	Long term: over 5 years

Our approach to risk mitigation

Market risks are addressed strategically by adapting contractual relationships with key suppliers. This involves negotiating contracts on as long a period as possible, in advance, diversifying the range of suppliers in terms of geographical location to prevent possible economic imbalances and ensuring relative price stability and cost predictability.

Monitoring consumer behaviour is another ongoing concern for us. In order for our products and services to remain relevant, we conduct research, analyse the market and identify consumer patterns and needs. Innovation is a priority in the process of sustainable development. The use of innovative technologies for ordering, digital communication of menus, nutritional content and the origin of ingredients, as well as other digitalisation initiatives have been introduced with the aim of improving the experience of our customers and employees. The satisfaction of our customers is measured through Guest Experience Survey, a system that allows them to rate their experience in our restaurants.


CATEGORY	Risk type	Time horizon
 REPUTATION	Increasing external pressure to communicate ESG performance	Long term: over 5 years

Our approach to risk mitigation

Reputational risks can have a major impact on Sphera Group's image and at the same time can lead to losses and financial imbalances. Therefore, our communication methods are transparent, honest and integral, using user-friendly platforms for a wide range of stakeholders. Our sustainability policies are in line with international standards and legislative frameworks.

We remain committed to integrating responsibility into all our marketing processes in line with our Responsible Marketing Policy and our marketing strategy. All important information about the products and services offered by the brands in our portfolio is available both online, on each brand's website, and physically in each restaurant, on menus. The way products are labelled is transparent and accessible, and the ingredients used are largely sourced locally, supporting local producers. Sphera is committed to providing products and services of the highest quality that meet the requirements and expectations of our customers.


Our business depends on the quality and integrity of the products we sell and the perception of consumers. We ensure effective control and seek to mitigate the risks associated with each stage of our supply chain through our food safety and quality programs. Food safety procedures, in line with HACCP food safety principles, are implemented in all our units and, through them, we monitor all parameters with potential impact on consumer health. All new suppliers are selected based on food safety criteria and then audited for quality and food safety by a Yum! Brands third party, a process that includes the merging of food safety standards (IFS, BRC, FSCC).

CATEGORY	Risk type	Time horizon
 TECHNOLOGY	High initial costs	Average term: 3-5 years

Our approach to risk mitigation


Technological risks are systematically addressed by implementing measures to reduce the environmental impact and the carbon footprint. One of the targets we already committed to is achieving 100% energy-efficient lighting (LED lighting) for all our sites by 2024. At the same time, we will continue to assess the feasibility of other green investments, such as installing alternative energy systems, replacing temperature control systems, implementing smart air conditioning systems and more. We also consider involving in green development projects with local or central authorities.

3.2 Physical risks

CATEGORY	Risk type	Time horizon
 ACUTE RISK	Extreme weather events	Long term: over 5 years

Our approach to risk mitigation

Acute physical risks relevant to Sphera Group locations are addressed both locally and at supply chain level. We are constantly concerned with diversifying the range of suppliers and collaborators and engaging the entire supply chain in finding solutions to adapt in this context. Our close relationship with them allows us to find mutually beneficial solutions to address these risks by establishing actions or practices that include portfolio diversification, menu adaptation and flexibility in approach. The restaurants, logistics and administrative centres are insured by policies that largely cover the risks associated with extreme weather events, as well as any damage caused to third parties.

CATEGORY	Risk type	Time horizon
 CHRONIC RISK	The continuing rise in temperatures and associated hazards	Long term: over 5 years

Our approach to risk mitigation

The identified chronic physical risks require a number of measures that the organisation has already started to implement such as digital automation solutions for air temperature management in cold storage and restaurant areas, LED lighting and energy-efficient equipment/facilities. Medium and short-term energy management plans also include investments in sustainable power generation capacity. We also consider it very important to work with local authorities and communities on the sustainable use of natural resources.



Metrics and targets

For us, it is particularly important to ensure that our environmental impact through greenhouse gas emissions is gradually reduced. To this end, since 2019, we have been calculating our direct and indirect carbon emissions (Scope 1 and Scope 2) annually, rigorously monitoring our energy consumption to get a clear picture of the effectiveness of the measures implemented.

In regard to Scope 3, we aim to undertake a thorough analysis of our supply chain emissions in the coming years and, together with our partners, decrease our carbon footprint.

Greenhouse gas emissions of Sphera Group (Romania, Italy, Republic of Moldova)

		2019*	2020	2021
SCOPE 1	Emissions from the combustion of own fleet fuel	905,83	1 111,75	1 205,26
	Emissions from the combustion of natural gas used directly in day-to-day activities (cooking, burning or space heating)	159,29	167,33	166,08
SCOPE 2	Emissions associated with electricity purchased for consumption	12 664,21	11 771,39	14 015,69
SCOPE 3	Emissions associated with raw materials, supply chain, logistics operations, waste management and business travel without own fleet	N/A	N/A	N/A
Total (tCO₂eq)		13 729,34	13 050,47	15 387,03

Note * we have recalculated Scope 2 emissions for 2019 using the latest available European emission factors validated for the markets served by Sphera Franchise Group.

For 2020, in quantitative terms, carbon emissions decreased compared to 2019, amidst a decrease in the intensity of economic activity due to the pandemic context and therefore in energy consumption. 2021 was the year of recovery for activities at all levels and the development of the restaurant network, with a notable increase in resource consumption and carbon emissions compared to the baseline year 2019. The increase in resource consumption and carbon emissions is due to the opening of 12 new restaurants.

We have started the process of implementing the TCFD recommendations with the aim of improving our procedures for identifying, assessing, mitigating, managing and reporting climate risks and setting a target for reducing greenhouse gas emissions.

In the future, we aim to adapt the reporting process to include both our green investments and their operational costs. In 2022, we have started the process of identifying our activities that are subject to the EU Taxonomy, and, once this process is completed, we will be able to report on specific indicators, such as the nature and proportion of green investments, and the revenues associated with making these investments.



About the report

This report is the first disclosure by Sphera Franchise Group based on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). The Financial Disclosures Report covers the period from January 1, 2022, to December 31, 2022, although some information and figures may fall outside the reporting period. The report was prepared in accordance with the TCFD Recommendations covering Governance, Strategy, Risk management and Metrics and targets, with the support of denkstatt Romania.



KFC

Pizza Hut
DELIVERY

TACO
BELL

TACO
BELL

Pizza Hut
DELIVERY

za Hut
DELIVERY

KFC