SPHERA FRANCHISE GROUP SA

CONSOLIDATED 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 2022

CONTENTS

All amounts in RON thousand, unless specified otherwise

	Note	2022	2021
Restaurant sales	27	1,322,822	1,000,312
Other restaurant income	27	1,172	2,627
Restaurant expenses			
Food and material expenses		457,108	327,645
Payroll and employee benefits	8.1	287,056	225,869
Rental expenses	14	32,110	17,058
Royalties expenses		78,803	59,987
Advertising expenses		66,988	52,919
Other operating expenses	6	184,450	141,735
Depreciation, amortization and impairment	8.2	100,551	90,046
Restaurant operating profit		**116,928**	**87,680**
General and administrative expense	7	55,572	49,947
Profit from operating activities		**61,356**	**37,733**
Finance costs	9.1	23,062	20,497
Finance income	9.2	496	150
Profit before tax		**38,790**	**17,386**
Income tax credit from continuing operations	10	(1,725)	(3,702)
Specific tax expense	10	2,565	2,424
Profit		**37,950**	**18,664**
Attributable to:			
Owners of the parent		37,557	18,425
Non-controlling interests		393	239
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations		(87)	12
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods			
Remeasurement (loss)/gain on defined benefit plan	8.1	199	(397)
Total comprehensive income		**38,062**	**18,279**
Attributable to:			
Owners of the parent		37,690	18,010
Non-controlling interests		372	269
Earnings per share, basic and diluted (RON/share)	23	0.9680	0.4749

These consolidated financial statements from page 2 to page 52 were approved by the Board of Directors and were authorised for issue on 23 March 2023.

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes

Ernst & Young Assurance Services S.R.L.
27. MAR. 2023
Signed for identification
Semnat pentru identificare

All amounts in RON thousand, unless specified otherwise

	Note	31 December 2022	31 December 2021
Assets			
Non-current assets		**537,600**	**540,873**
Property, plant and equipment	11	230,557	222,069
Right-of-use assets	14	217,719	232,393
Intangible assets and goodwill	12	57,778	59,771
Financial assets (cash collateral)	18	8,929	7,554
Deferred tax assets	10	22,617	19,086
Current assets		**168,282**	**193,441**
Inventories	16	15,907	13,391
Trade and other current receivables	17	21,279	30,621
Prepayments		3,007	3,313
Cash and short-term deposits	18	128,089	146,116
Total assets		**705,882**	**734,314**
Equity and liabilities			
Equity			
Issued capital	19	581,990	581,990
Share premium	19	(519,998)	(519,998)
Reserves for share-based remuneration	8.1	1,502	-
Other reserves	8.1	(1,115)	(1,314)
Retained earnings	20	54,012	71,457
Reserve of exchange differences on translation		(324)	(258)
Equity attributable to owners of the parent		**116,067**	**131,877**
Non-controlling interests		297	175
Total equity		**116,364**	**132,052**
Non-current liabilities		**318,323**	**353,165**
Long-term borrowings	13	122,949	146,110
Non-current lease liabilities	14	190,729	202,820
Employee defined benefit liabilities	8.1	3,861	4,235
Deferred tax liabilities	10	784	-
Current liabilities		**271,195**	**249,097**
Trade and other current payables	20	152,667	128,437
Short-term borrowings	13	65,086	66,479
Current lease liabilities	14	52,693	54,181
Provisions	7	749	-
Total liabilities		**589,518**	**602,262**
Total equity and liabilities		**705,882**	**734,314**

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All amounts in RON thousand, unless specified otherwise

	Issued capital	Share premium	Reserves for share-based remuneration	Other reserves	Retained earnings	Foreign currency translation reserve	Equity attributable to owners of the parent	Non-controlling interest	Total equity
As at 1 January 2022	**581,990**	**(519,998)**	**-**	**(1,314)**	**71,457**	**(258)**	**131,877**	**175**	**132,052**
Profit	-	-	-	-	37,557	-	37,557	393	37,950
Other comprehensive income									
Gains on remeasurements of defined benefit plans (Note 8.1)	-	-	-	199	-	-	199	-	199
Exchange differences on translation	-	-	-	-	-	(66)	(66)	(21)	(87)
Total comprehensive income	**-**	**-**	**-**	**199**	**37,557**	**(66)**	**37,690**	**372**	**38,062**
Share based remuneration (Note 8.1)	-	-	1,502	-	-	-	1,502	-	1,502
Dividends declared	-	-	-	-	(55,002)	-	(55,002)	(250)	(55,252)
At 31 December 2022	**581,990**	**(519,998)**	**1,502**	**(1,115)**	**54,012**	**(324)**	**116,067**	**297**	**116,364**
As at 1 January 2021	**581,990**	**(519,998)**	**-**	**(917)**	**88,033**	**(240)**	**148,868**	**253**	**149,121**
Profit	-	-	-	-	18,425	-	18,425	239	18,664
Other comprehensive income									
Losses on remeasurements of defined benefit plans (Note 8.1)	-	-	-	(397)	-	-	(397)	-	(397)
Exchange differences on translation	-	-	-	-	-	(18)	(18)	30	12
Total comprehensive income	**-**	**-**	**-**	**(397)**	**18,425**	**(18)**	**18,010**	**269**	**18,279**
Dividends declared	-	-	-	-	(35,001)	-	(35,001)	(347)	(35,348)
At 31 December 2021	**581,990**	**(519,998)**	**-**	**(1,314)**	**71,457**	**(258)**	**131,877**	**175**	**132,052**

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All amounts in RON thousand, unless specified otherwise

	Note	2022	2021
Operating activities			
Profit before tax		38,790	17,386
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of right-of-use assets	14	58,415	56,733
Depreciation and impairment of property, plant and equipment	11	43,471	34,858
Amortisation and impairment of intangible assets and goodwill	12	5,253	4,597
Rent concessions	14	-	(3,846)
Movement in current assets allowance		128	170
Movements in provisions		746	-
Adjustments for share-based remuneration		936	-
Adjustments for unrealized foreign exchange losses/(gains)		(1,482)	3,659
Adjustments for (gain)/loss on disposals of property, plant and equipment and right-of-use assets		(152)	8
Adjustments for finance income	9.2	(496)	(150)
Adjustments for finance costs (interest)	9.1	20,727	14,846
Working capital adjustments:			
Adjustments for decrease/(increase) in trade and other receivables and prepayments		7,525	(13,765)
Adjustments for decrease/(increase) in inventories		(2,517)	(2,292)
Adjustments for (decrease)/increase in trade and other payables		6,448	11,724
Interest received classified as operating activities		496	150
Interest paid classified as operating activities		(19,843)	(14,475)
Income tax paid		(5,019)	(2,731)
Cash flows from operating activities		**153,426**	**106,872**
Investing activities			
Proceeds from sales of property, plant, and equipment		182	-
Purchase of intangible assets		(3,259)	(4,630)
Purchase of property, plant and equipment		(51,971)	(55,817)
Cash flows used in investing activities		**(55,048)**	**(60,447)**
Financing activities			
Proceeds from borrowings	13	21,100	65,222
Repayment of borrowings	13	(45,680)	(4,747)
Payment of lease liabilities		(56,879)	(47,550)
Net dividends paid to owners of the parent		(34,708)	(34,663)
Net dividends paid to non-controlling interests		(250)	(347)
Cash flows used in financing activities		**(116,417)**	**(22,085)**
Net (decrease) / increase in cash and cash equivalents		(18,039)	24,340
Net foreign exchange differences		12	(133)
Net increase of cash and cash equivalents, including net foreign exchange differences		(18,027)	**24,207**
Cash and cash equivalents at 1 January		**146,116**	**121,909**
Cash and cash equivalents at 31 December		**128,089**	**146,116**

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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".
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 Dorobantilor, Bucharest, Romania.
The consolidated financial statements for the year ended 31 December 2022 were authorized for issue in accordance with the resolution of the Board of Directors dated 23 March 2023.

The Group operates quick service and takeaway restaurant concepts (a chain of 118 restaurants as at 31 December 2022 and 114 restaurants as at 31 December 2021, respectively) 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 2022 and 31 December 2021, respectively) as well as pizza delivery points (21 locations as at 31 December 2022 and 20 locations as at 31 December 2021, respectively) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (15 restaurants as at 31 December 2022; 13 restaurants as at 31 December 2021) and one restaurant under Paul brand, in Romania. The Group's number of employees at 31 December 2022 was 4,935 (31 December 2021: 4,757).

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 Dorobantilor 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 Dorobantilor 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 Dorobantilor, 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 Order of Public Finance Ministry no. 2844/2016 (with subsequent modifications), for approval of accounting regulation in accordance with International Financial Reporting Standards applicable to entities which are listed on stock exchanges.

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 and presentation of the specific tax for HORECA industry.

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 37,950 (2021: 18,664) and had a net current liability position of 102,913 (31 December 2021: 55,658). The Group holds a cash and cash equivalent balance of 128,089 and has undrawn cash facilities of 60,440 as at 31 December 2022.

The management based their assessment on the Group's detailed cash flow projections for the period up to 31 December 2023 that take into account the current available cash resources of the Group as of 31 December 2022, 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 2022, the Group had available 60,440 of undrawn uncommitted borrowing facilities (31 December 2021: 36,039), 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 ongoing war in Ukraine and the related sanctions targeted against the Russian Federation have a continuous impact on the European economies and globally. The entity does not have any significant direct exposure to Ukraine, Russia or Belarus. However, the impact on the general economic situation may require timely revisions of certain assumptions and estimates (cost of energy, cost of raw materials and the overall impact of inflation pressure).

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2022.

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

All amounts in RON thousand, unless specified otherwise

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loyalty points programme

The Group has a loyalty points programme which allows customers to accumulate points that can be redeemed for free or discounted products. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of products by the customer. When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed on a monthly basis and any adjustments to the contract liability balance are charged against revenue.

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 rates as at 31 December 2022 and 31 December 2021 and the average exchange rates for the years 2022 and 2021 were:

	Closing exchange rates		Average exchange rates	
	31 December 2022	31 December 2021	2022	2021
RON – EUR	4.9474	4.9481	4.9316	4.9205
RON – USD	4.6346	4.3707	4.6885	4.1604
RON – MDL	0.2428	0.2463	0.2480	0.2353

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 using the average exchange rates of daily exchange rates published by National Bank of Romania (NBR) as detailed above. 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.

2.4.6 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.

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

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:

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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.

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)

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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)
Equipment and vehicles	2 to 10 years for equipment and 5 years for vehicles
Other equipment and furniture	3 to 10 years for other equipment and 2 to 10 years for furniture

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.

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 20 years
Right-of-use assets of motor vehicles and other equipment	3 to 5 years

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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 5 years (except for the franchise rights with an economic useful live of 10 years, as presented below) 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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.4.10 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, Romania, Moldova and Italy
- Pizza Hut restaurants
- Taco Bell restaurants

Goodwill acquired through business combinations was 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. Further disclosures related to impairment test are also presented in Note 12.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, cash in transit with the banks or in transit with food aggregating platforms, 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 fixed assets 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 computed based on percentage of the applicable restaurants' sales and 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 and share-based payments

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 profit or loss in the same period as the related salary cost. Accruals are created for holiday allowances if there are non-used holidays according the local legislation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

Remeasurements, comprising of actuarial gains and losses, 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. 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.

Share-based payments

Senior executives of the Group might receive part of their variable remuneration in the form of share-based payments. The cost of equity-settled transactions with senior management is measured by reference to awarding fair value at the grant date. That cost is recognised in employee benefits expense together with a corresponding increase in equity (in Reserves for share-based remuneration), over the period in which the performance conditions are fulfilled (the vesting period). The expense or credit in the profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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.

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

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 the renewal option, when it is reasonably certain the renewal option will be exercised. The renewal periods for leases with longer non-cancellable periods (i.e., more than 10 years) are not included as part of the lease term as these are not reasonably certain to be exercised.

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. 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 the leasehold improvements' useful life is of 10 years due to the fact that, generally, significant refurbishment is realised after 10 years of use and that 10 years is also the duration of the related franchise (renewable every 10 years).

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

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.

Regarding the estimation of the useful lives of right-of-use assets the lease term, thus the useful life of right-of-use assets, as determined in accordance with IFRS 16, includes the extension period at the commencement date of the lease, when the Group determined it is reasonably certain to exercise the renewal option (normally for leases with a initial duration no longer than 10 years). 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.

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 2022

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 2022:

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

These amendments had no significant impact on the financial statements of the Group.

4.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2022 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.

IFRS 17: Insurance Contracts
The standard is effective for annual periods beginning on or after 1 January 2023 with earlier application permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measuring, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretional participation contracts. The Group does not issue contracts in scope of IFRS 17, therefore its application does not have an impact on the Group financial performance, financial performance or cash flows.

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. Management has assessed that application of these amendments will have no significant impact on the consolidated financial statements of the Group.

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. 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. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a

4. CHANGES IN ACCOUNTING POLICIES (continued)

matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. 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. Management has assessed that application of this amendment will have no impact on the consolidated financial statements of the Group, as the Group did not apply the exemption allowed by the standard at the initial recognition of a lease asset and lease liability.

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, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. 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.

16 Leases: Lease Liability in a Sale and Leaseback (amendments)
The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. 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.

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. The amendments have not yet been endorsed by the EU. Management has assessed that application of these amendments will not have any impact on the Group's consolidated financial statements.

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5. GROUP INFORMATION

Details of the Group consolidated subsidiaries at 31 December 2022 and 31 December 2021 are as follows:

Company name	Country of incorporation	Field of activity	Control 31 December 2022	Control 31 December 2021
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%

6. OTHER OPERATING EXPENSES

	2022	2021
Third-party services	90,418	81,234
Utilities	47,597	29,027
Maintenance and repairs	17,720	14,710
Cleaning supplies	9,949	4,989
Small-wares	2,930	2,409
Transport	8,052	6,185
Telephone and postage	1,205	1,304
Insurance	641	806
Bank charges	4,506	-
Miscellaneous expenses and income, net	1,346	2,420
Provision for receivables	128	170
Net (gain)/loss on disposal of property and equipment and right-of-use assets	(42)	8
YUM penalties (Note 22)	-	(1,527)
Total	**184,450**	**141,735**

Third party services refer to services rendered to restaurants and include: services provided by the food aggregating platforms (Glovo, Tazz, Bolt, Uber Eats etc.), 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 delivery services) and are influenced by contract prices negotiated with suppliers.

Starting 1st of January 2022, the banking charges related to the POS commissions, in amount of 4,506 in 2022 are presented within Other operating expenses category, being directly related to the operating sales activity. In 2021, these banking charges in amount of 2,262 were presented within General and administrative expenses category. Please see Note 7.

YUM penalties: 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).

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7. GENERAL AND ADMINISTRATIVE EXPENSES

	2022	2021
Payroll and employee benefits	36,488	30,374
Third-party services	7,210	5,925
Depreciation, amortization and impairment of non-current assets (Note 8,2)	6,588	6,142
Rent	264	357
Banking charges (Note 6)	773	4,122
Transport	1,203	781
Maintenance and repairs	483	388
Small-wares	114	153
Insurance	769	572
Advertising	158	345
Telephone and postage	342	331
Other provisions	746	-
Miscellaneous expenses and income, net	434	457
Total	**55,572**	**49,947**

Third party services include mainly consultancy, audit, IT, HR services.
Other provisions include the estimated costs of 494 related to the closing of two KFC stores in Italy at the beginning of the year 2023 and a provision for the estimated compensations claimed in court by a former employee of the Group (252).

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

8.1 Payroll and employee benefits

	2022	2021
Payroll and employee benefits recognized in “Restaurant expenses”	287,056	225,869
Payroll and employee benefits recognized in "General and administrative expenses"	36,488	30,374
Total Payroll and employee benefits	**323,544**	**256,243**

For the year ended 31 December 2022, the government grants included in payroll and employee benefits were of 118 (2021: 2,800) 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).

Payroll costs of 1,728 representing the value of project management and other technical activities performed by the Group’s employees for the year ended 31 December 2022 (1,661 for the year ended 31 December 2021) for the construction or refurbishment of restaurants were capitalized in the cost of construction of the non-current assets.

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 the benefits in amount of 3,861 (4,235 as at 31 December 2021) was calculated as a career-average lump sum, in accordance with the Italian statutory regulations. The Group performs an actuarial computation of these benefits in line with the IAS 19 “Employee benefits”.

The amount of 3,860 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 (continued)

	2022	2021
Net benefit expense (recognized in profit or loss)		
Current service cost - Payroll and employee benefits	1,082	1,419
Current service cost - G&A expenses	221	130
Interest cost on benefit obligation	35	9
Net benefit expense	**1,338**	**1,558**

Reconciliation of benefit obligation

Defined benefit obligation as at 1 January	**4,235**	**3,141**
Interest cost	35	9
Current service cost - Payroll and employee benefits	1,082	1,419
Current service cost - G&A expenses	221	130
Benefits paid	(1,279)	(820)
Gross remeasurement (gain)/loss on defined benefit plan	(285)	397
Exchange difference	(149)	(41)
Defined benefit obligation as at 31 December	**3,861**	**4,235**
Remeasurement loss on defined benefit plan (recognized in other comprehensive income and Other reserves)		
Gross remeasurement loss on defined benefit plan	1,471	1,756
Deferred tax credit	(356)	(442)
Net remeasurement loss on defined benefit plan	**1,115**	**1,314**

The tax impact on the remeasurement loss on defined benefit plan of 356 (31 December 2021: 442) is presented in Note 10.

Share-based remuneration

In line with the new remuneration policy approved in 2022, part of the variable remuneration of the senior executives might be granted in shares of the parent company with a vesting period of one year from the date of grant.
As at 31 December 2022, the Group recognized an equity reserve related to the share based remuneration in amount of 1,502 for the qualifying variable remuneration.

8.2 Depreciation and amortization

	2022	2021
Depreciation of right-of-use assets recognized in "Restaurant expenses" (Note 14)	55,465	53,781
Depreciation, amortization and impairment of other non-current assets recognized in "Restaurant expenses"	45,086	36,265
Depreciation, amortization and impairment recognized in "Restaurant expenses"	**100,551**	**90,046**
Depreciation of non-operating right-of-use assets recognized in "General and administrative expenses" (Note 14)	2,951	2,952
Depreciation, amortization and impairment of non-current assets recognized in "General and administrative expenses"	3,637	3,190
Depreciation, amortization and impairment recognized in "General and administrative expenses" (Note 6)	**6,588**	**6,142**
Total depreciation, amortization and impairment	**107,139**	**96,188**

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9. FINANCE COSTS AND INCOME

9.1 Finance costs

	2022	2021
Interest on loans and borrowings and related charges	10,573	6,016
Interest on lease liabilities (Note 14)	10,119	8,830
Interest cost on benefit obligation (Note 8.1)	35	9
Foreign exchange loss, net	2,335	5,642
Total finance costs	**23,062**	**20,497**

9.2. Finance income

	2022	2021
Interest income	496	150
Total finance income	**496**	**150**

10. INCOME TAX

The major components of income tax expense for the years ended 31 December 2022 and 31 December 2021 are:

	2022	2021
Current income tax:		
Current income tax charge	1,099	1,375
Deferred tax:		
Relating to origination and reversal of temporary differences	(2,824)	(5,077)
Income tax credit	**(1,725)**	**(3,702)**
Specific tax expense	2,565	2,424
Total income tax expense/ (credit) reported in the statement of comprehensive income	**840**	**(1,278)**

A reconciliation between tax expense and the product of accounting profit multiplied by Romania's domestic tax rate for the years ended 31 December 2022 and 31 December 2021 is as follows:

	2022	2021
Accounting profit before income tax	**38,790**	**17,386**
At Romanian statutory income tax rate of 16%	6,206	2,782
Effect of higher tax rates in Italy on tax loss	(2,471)	(2,091)
Effect of lower tax rates in the Republic of Moldova	(99)	(63)
Other income and legal reserves exempted from tax	(579)	(628)
Effect of using specific tax for the restaurant activity	(5,693)	(1,537)
Non-deductible expenses for tax purposes	3,476	259
At the effective income tax rate	**840**	**(1,278)**

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10. INCOME TAX (continued)

According to the new tax changes introduced in 2022 by the Government Ordinance no 16/2022, specific tax for HORECA industry will no longer be in place starting January 1st, 2023. This tax will be replaced by the profit tax (16%) or tax on micro-company income, at the choice of the companies. The option must be exercised by March 31st, 2023. At the balance sheet date, the Group estimates the choice of the following options: the payment of the tax on micro-company revenue for USFN and profit tax for ARS and CFF.

As at 31 December 2022, the Group recognised deferred tax liabilities in amount of 784 for the taxable temporary differences expected to be settled in the future, as a result of the above change in the tax regulations.

In 2021, in the context created by the COVID-19 pandemic, 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 (180 days of exemption when calculating 2021 annual tax amount). In 2022, there were no such tax incentives granted to the Group.

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 2022	31 December 2021	2022	2021
Right-of-use assets	(14,143)	(15,054)	(910)	660
Property, plant and equipment	(302)	(494)	(192)	52
Intangible assets	45	54	10	(30)
Loans and borrowings	661	-	(661)	-
Lease liabilities	15,320	16,350	1.027	(1,266)
Fiscal losses	19,830	17,788	(2,042)	(4,725)
Provisions	65		(65)	-
Translation difference	-	-	(78)	381
			(2,911)	**(4,928)**
Deferred tax benefit				
Remeasurement benefit/(loss) on defined benefit plan (Note 8.1) – recognized OCI	356	442	87	(149)
Net deferred tax assets	**21,833**	**19,086**	**(2,824)**	**(5,077)**

Reflected in the statement of financial position as follows:

	31 December 2022	31 December 2021
Net deferred tax assets	**21,833**	**19,086**
Deferred tax assets	22,617	19,086
Deferred tax liabilities	(784)	-

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.

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10. INCOME TAX (continued)

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

- 19,352 (31 December 2021: 16,845) arising from the tax losses of the Italian subsidiary that are available indefinitely for offsetting against its own future taxable profits;
- 478 (31 December 2021: 943) 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 three years according to the budget (i.e. seven years from the recognition, according to the Romanian tax law).

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold buildings and leasehold improvements	Equipment and vehicles	Other equipment and furniture	Fixed assets in progress	Total
Cost					
At 1 January 2021	**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**
Additions	17,418	8,408	5,011	51,964	**82,801**
Disposals	417	1,444	1,678	-	**3,539**
Transfers	-	-	-	(30,497)	**(30,497)**
Exchange differences	(24)	(33)	(5)	-	**(62)**
At 31 December 2022	**213,233**	**128,836**	**59,988**	**43,321**	**445,378**
Depreciation and impairment					
At 1 January 2021	**63,115**	**53,758**	**22,847**	**-**	**139,720**
Depreciation charge for the year	15,823	12,093	7,245	-	**35,161**
Disposals	-	168	-	-	**168**
Transfers	615	229	67	-	**911**
Depreciation of assets transferred from ROUA	-	(42)	42	-	**-**
Exchange differences	209	172	87	-	**468**
At 31 December 2021	**78,532**	**66,004**	**30,070**	**-**	**174,606**
Depreciation charge for the year	18,223	12,625	8,080	-	**38,928**
Impairment charge	3,184	932	621	-	**4,737**
Disposals	414	1,382	1,627	-	**3,423**
Exchange differences	(14)	(17)	4	-	**(27)**
At 31 December 2022	**99,511**	**78,162**	**37,148**	**-**	**214,821**
Net Book Value					
At 1 January 2021	**111,567**	**57,142**	**26,951**	**5,459**	**201,118**
At 31 December 2021	**117,724**	**55,901**	**26,590**	**21,854**	**222,069**
At 31 December 2022	**113,722**	**50,674**	**22,840**	**43,321**	**230,557**

As at 31 December 2022 and 31 December 2021, the gross book value of fully depreciated property, plant and equipment that were still in use amounted to 94,003 and 80,502 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 2022 is of 54,372 (31 December 2021: 38,705).

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11. PROPERTY, PLANT AND EQUIPMENT (continued)

The additions during the years ended 31 December 2022 and 31 December 2021 consist mainly in new restaurants' leasehold improvements, as well as restaurants' kitchen equipment and furniture. The increase of the additions during 2022 is related to the network expansion by new 8 restaurants in Romania (4 KFC restaurants, 2 PH and PHD and 2 Taco Bell). Fixed assets in progress refers to the restaurants under development or refurbishment at the end of the reporting period.
Disposals of property, plant and equipment refer mainly to leasehold improvements of the restaurants refurbished or closed during the year (1PH restaurant) and other obsolete equipment and furniture fully depreciated.

Analysis regarding the impairment of property, plant and equipment

The management has assessed property, plant and equipment for impairment indicators as at 31 December 2022. 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.
The Group has recognised an impairment of 4,737 for the property, plant and equipment related to the stores that are going to be closed in 2023 (KFC Italia: 4,438, Pizza Hut: 284); their recoverable amount, determined as fair value less cost of disposal (level 3 of fair value hierarchy), was estimated to be zero. Based on the analysis performed, it was 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 2021	**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**
Additions	-	2,571	2,009	2,200	6,780
Transfers	-	-	-	(3,524)	(3,524)
Disposals	-	30	72	-	102
Exchange differences	-	(5)	(1)	-	(6)
At 31 December 2022	**50,585**	**29,351**	**11,624**	**1,160**	**92,720**
Amortisation and impairment					
At 1 January 2021	**15,138**	**12,963**	**1,831**	-	**29,932**
Amortisation	-	2,671	1,926	-	4,597
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**
Amortisation	-	2,748	2,489	-	5,237
Accumulated amortisation and impairment of disposals	-	30	65	-	95
Exchange differences	-	(2)	-	-	(2)
At 31 December 2022	**15,138**	**13,601**	**6,202**	-	**34,942**
Net book value					
At 1 January 2021	**35,447**	**17,664**	**2,558**	**5,504**	**61,173**
At 31 December 2021	**35,447**	**15,930**	**5,910**	**2,484**	**59,771**
At 31 December 2022	**35,447**	**15,750**	**5,422**	**1,160**	**57,778**

12. INTANGIBLE ASSETS (continued)

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 the Group's companies (SFG and CFF at the beginning of the 2022 and USFN and ARS in 2021).
For impairment testing, goodwill acquired through business combinations was 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 2022.
The recoverable amount of the CGU as at 31 December 2022, has been determined at 55,231 (2021: 51,276) based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2023-2027). 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 as the new types of stores Express/ Fast Casual Delivery implemented since 2021, a tighter control of certain expenses (restaurant payroll, rent, other operating expenses, general and administrative costs), increase of operational efficiency, volume synergies as the group activity increased.

Discount rate (post tax) used is 12.7% (2021: 11%). 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.
- Strengthening the operating performance of the new stores concept (Pizza Hut Express and Pizza Hut FCD – Fast Casual Delivery) that involve smaller costs for investment and smaller crew and smaller costs to operate. In 2022, ARS opened two new restaurants, out of which one FCD and one express concept.

As a result of the analysis, as compared to the CGU carrying value of 55,231 (2021: 51,276), there was no need to recognise an impairment loss in the financial statements as at and for the year ended 31 December 2022 (2021: impairment loss of 0).

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12. INTANGIBLE ASSETS (continued)

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.

Key drivers	Key drivers (%)	Fair value less cost to sell	Impairment / Headroom
	12.7%	**55,231**	**15,571**
Cost of capital	13.2%	52,070	12,410
	12.2%	58,741	19,081
	0.00%	**55,231**	**15,571**
EBITDA margin	-0.5%	52,392	12,732
	0.50%	58,071	18,411
	3.00%	**55,231**	**15,571**
Perpetuity growth factor	2.50%	52,537	12,877
	3.50%	58,218	18,558
Net working capital (%/sales)	-0.5pp	59,174	19,514
	+0.5pp	52,035	12,376

13. BORROWINGS

	Interest rate, %	Maturity	31 December 2022	31 December 2021
Current borrowings				
Current portion of bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	44,786	41,326
Short-term working capital facility	ROBOR 3M + relevant spread	1 year from contract date	20,300	25,153
Total current borrowings			**65,086**	**66,479**
Non-current borrowings				
Non-current portion of bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	122,949	146,110
Total non-current borrowings			**122,949**	**146,110**
Total borrowings			**188,035**	**212,589**

The Group's financing facilities consist of:

- Financing facilities with Alpha Bank as follows: an uncommitted long term credit facility in maximum amount of EUR 42,167,000 for the development of new locations and financing of the foreign subsidiaries, a credit facility for issuance of bank guarantee letters of EUR 3,500,000, as well as a multi-optional short-term facility in a maximum amount of RON 20.2 million, to be used also for financing of working capital. The loan facilities are secured with property, plant and equipment of restaurant locations 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.

13. BORROWINGS (continued)

In August 2022, the Extraordinary General Shareholders Meeting of SFG approved the increase of the amount available for utilization of the uncommitted long term loan facility, the extension of the maturity/validity of the short-term facility and the facility for issuance of letters of guarantees agreements with maintaining all guarantees previously constituted in the guarantee of the facilities.

- A short-term borrowing arrangement (Sphera Franchise Group – Borrower) with Vista Bank Romania in total amount of RON 10 million. 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 2022, the term of the loan facility was extended until 28 May 2023. As at 31 December 2022 and 31 December 2021, respectively, the loan balance with Vista Bank is nil.
- A short-term credit facility agreement with Intesa Sanpaolo Romania Bank (USFN Romania - Borrower and Sphera Franchise Group SA - Guarantor). The uncommitted credit facility amounting to RON 9.6 million and valid until August 2023 is revolving and may be used by the Borrower to finance the working capital needs. As at 31 December 2022, the loan facility balance with Intesa Sanpaolo is RON 1.4 (31 December 2021: RON 4.7 million).

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 2022 and 31 December 2021.

Breaches in meeting standalone financial covenants may allow the bank to cease any loan disbursement to the affected company and to immediately call the loan. In 2022 and 2021, 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. As at 31 December 2022, the entire loan balance of American Restaurant System, in amount of 353, is short term. As at 31 December 2021 the loan balance was of 2,752, out of which the amount of 353 representing the long term part was presented as short term.

The Group's short-term borrowing arrangement with the Intesa Sanpaolo contains covenants at standalone level, mainly of quantitative nature, respectively: 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. Breaches in meeting the financial covenants at individual level would permit the bank to call the loan amount. There have been no breaches of the consolidated financial covenants for the years ended 31 December 2022 and 31 December 2021.

All amounts in RON thousand, unless specified otherwise

13. BORROWINGS (continued)

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

	31 December 2021	Non-cash changes				Cash changes				31 December 2022
		Interest accrual	Bank charges related to financing	Deferred bank charges recognized in the period	Foreign exchange gains/losses	Drawings	Repayments	Interest paid	Bank charges paid	
Borrowings	**212,589**	**9,690**	**106**	**(188)**	**229**	**21,100**	**(45,775)**	**(9,690)**	**(26)**	**188,035**
Bank loans	212,589	9,690	106	(188)	229	21,100	(45,775)	(9,690)	(26)	188,035

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

14. LEASE LIABILITIES

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

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

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

	Restaurant properties – (Land)	**Restaurant properties – (Freehold buildings)**	**Motor vehicles and other equipment**	**Total**
As at 1 January 2021	**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**
Additions	678	44,467	2,691	47,836
Depreciation expense	855	55,718	1,843	58,416
Disposals	-	4,024	2	4,026
Exchange difference	-	(67)	(1)	(68)
As at 31 December 2022	**14,808**	**199,799**	**3,112**	**217,719**

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14. LEASE LIABILITIES (continued)

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

As at 1 January 2022	**257,001**
Additions	47,836
Accretion of interest	10,119
Payments (principal and interest)	66,997
Disposals	4,136
Unrealized forex exchange gain	(359)
Translation difference	(42)
As at 31 December 2022	**243,422**
Non-current	190,729
Current	52,693

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

The following are the amounts recognized in profit or loss:

	2022
Depreciation expense of right-of-use assets	58,416
Interest expense on lease liabilities	10,119
Forex exchange differences, net	(359)
Rent presented in restaurant expenses, including:	*32,110*
• Variable lease payments (included in restaurant expenses - rent)	30,583
• Expense relating to short-term leases and low value assets (included in restaurant expenses)	1,527
Rent presented in "General and administrative expenses"	252
Net (gain)/ loss on disposal	(111)
Total amount recognized in profit or loss	**100,427**

	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 and low value assets (included in restaurant expenses)	1,874
• Rent concessions (included in restaurant expenses)	(3,846)
Rent presented in "General and administrative expenses"	357
Total amount recognized in profit or loss	**86,308**

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

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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 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 and other payables.

The Group is exposed to several financial risks in connection with its activities, including the market risk (interest rate risk, foreign exchange rate risk), risk related to the financial liquidity, and, to a limited extent to credit risk.
The Group's senior management oversees the management of these risks, setting up the appropriate financial risk governance framework for the Group. 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 the Group's policies and risk objectives.
The Group's financial policies for managing the main financial risks with the objective to limit the negative impact on the Group's financial results are summarised below:

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.

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 2022	1%	(1,880)
EUR		
31 December 2021		
EUR	1%	(2,126)

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.

All amounts in RON thousand, unless specified otherwise

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

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 2022	1%	(3,068)	1%	(172)
31 December 2021	1%	(2,999)	1%	(367)

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

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, including the cash in transit with the banks or in transit with food aggregating platforms. The carrying amount of trade and other receivables, net of allowance for impairment (trade receivables - Note 17 and deposits for rent guarantee as per statement of financial position) plus cash and cash equivalents (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 2022 or up to the date of these consolidated financial statements. Also, the food aggregating platforms the Group collaborates with, are reputable commercial partners, part of international group of companies. 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, Vista Bank, Unicredit Bank Italy, Intesa Sanpaolo Romania S.A., a member of Intesa Sanpaolo Group from Italy, Victoria Bank (Republic of Moldova). The long-term credit rating of Alpha Bank Greece is Ba2 as provided by Moody's rating agency, no credit rating being available for its Romanian subsidiary. The long-term credit rating of BRD is Baa1, while the one for Unicredit is Baa1, both provided by Moody's. According to Fitch Ratings, the long-term credit rating of Banca Transilvania and Victoria Bank is BB+, for Vista Bank (Vista Bank Global) B+ and for Intesa Sanpaolo S.p.A. is BBB+, no credit rating being available for the Romanian subsidiary of Intesa.

As at 31 December 2022, more than 87% of the Group's cash balance is placed at bank institutions with a stable credit rating (58% - Ba2, 23% - B+ and BB+, 7% - Baa1).

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.

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 2022 and 31 December 2021 based on contractual undiscounted payments.

All amounts in RON thousand, unless specified otherwise

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

31 December 2022	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**	**Total**
Borrowings	142	14,441	61,881	123,627	12,726	**212,817**
Lease liability	-	15,508	46,528	152,839	75,547	**290,422**
Total trade and other payables	10,997	71,276	7	-	-	**82,280**
Total:	**11,139**	**101,225**	**108,416**	**276,466**	**88,273**	**585,519**

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**
Total trade and other payables	27,375	54,225	3	-	-	**81,603**
Total:	**27,516**	**81,879**	**108,738**	**288,854**	**104,515**	**611,502**

At 31 December 2022, the Group had available 60,440 of undrawn uncommitted borrowing facilities (31 December 2021: 36,039), thus being able to respond to any unforeseen higher cash outflow needs.

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 2022	**31 December 2021**
Borrowings	188,035	212,589
Leases	243,422	257,001
Trade and other payables	85,190	84,209
Less: cash and cash equivalents	128,089	146,116
Net debt	**388,558**	**407,683**
Equity	116,364	132,052
Capital and net debt	**504,921**	**539,735**
Gearing ratio:	77%	76%

All amounts in RON thousand, unless specified otherwise

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

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 2022 and 31 December 2021 please refer to Note 13.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2022 and 31 December 2021.

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

16. INVENTORIES

	31 December 2022	31 December 2021
Raw materials (at cost)	11,771	9,956
Consumables (at cost)	3,250	2,740
Finished goods (at lower of cost and net realisable value)	886	695
Total inventories at the lower of cost and net realisable value	**15,907**	**13,391**

For the year ended 31 December 2022, inventories amounting to 470,102 (2020: 335,197) 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 2022	31 December 2021
Trade receivables	4,248	3,031
Trade receivables from related parties	13	-
Loans granted to related parties (Note 25)	-	600
Tax receivables (VAT receivables mainly)	10,458	12,888
Government grants for technical unemployment	-	28
Advance to suppliers	776	2,682
Meal tickets	37	695
Social security – medical leave to be received	5,262	8,908
Other debtors	485	1,789
Total	**21,279**	**30,621**

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17. TRADE AND OTHER RECEIVABLES (continued)

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 2022, trade receivables with a value of 451 (31 December 2021: 323) and other debtors with a value of 170 (31 December 2021: 170) were impaired and fully provided for.

As at 31 December 2021, other debtors included 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 related 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 2022 and 31 December 2021, the ageing analysis of trade receivables and trade receivables from related parties, net of allowances, is as follows:

	Trade receivables					
			Days past due			
31 December 2022	**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	**4,699**	1,898	48	84	442	2,226
Expected credit loss	**451**	-	-	-	-	451
Net value	**4,248**	1,898	48	84	442	1,775

	Trade receivables					
			Days past due			
31 December 2021	**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 value	**3,031**	81	1,644	402	5	899

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

18. CASH AND CASH EQUIVALENTS

	31 December 2022	**31 December 2021**
Cash at banks and on hand	90,741	129,381
Cash in transit	4,399	4,352
Cash in transit – food aggregating platforms	7,949	12,383
Short-term deposits	25,000	-
Total	**128,089**	**146,116**

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.

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18. CASH AND CASH EQUIVALENTS (continued)

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 2022 is of 77,440 (31 December 2021: 111,730).

- **Financial assets (cash collateral)**

As at 31 December 2022, financial assets (cash collateral) include the amount of 7,909 (31 December 2021: 6,655) representing bank deposits set up as collateral guarantees based on contracts with various suppliers (landlords, utilities, supply etc.).

19. ISSUED CAPITAL

	31 December 2022	31 December 2021
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 2022 are: Tatika Investments Ltd. (28.6089%), Computerland Romania SRL (20.5327%), Wellkept Group SA (16.8793%) and free float (33.9792%).
As at 31 December 2021, the shareholder structure was: Tatika Investments Ltd. (28.6089%), Computerland Romania SRL (20.5327%), Wellkept Group SA (16.3400%) and free float (34.5184%).

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 2022 and 2021.

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20. PROFIT DISTRIBUTION

	2022	2021
Dividends declared during the period:		
To shareholders of Sphera Franchise Group SA	55,002	35,001
To non-controlling interests	250	347
Total dividends declared during the period,	**55,252**	**35,348**
out of which:		
Dividends declared and paid during the period:		
To shareholders of Sphera Franchise Group SA	35,001	35,001
To non-controlling interests	250	347
Total dividends declared and paid during the period	**35,251**	**35,348**
Total dividends declared per share SFG (RON/share)	**1.4176**	**0.9021**

At the Ordinary General Shareholders Meeting held on 4 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 was RON 0.9021. The payment of the dividends was processed on 30 May 2022.

In December 2022, the General Shareholders Meeting held on 20 December 2022 approved a new distribution of dividends in amount of 20,001 from the undistributed profit from 2020, with a gross dividend per share of RON 0.5155. The payment date will be 31 March 2023.

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

For the year ended 31 December 2022, 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 2022:

- Setting up the legal reserves in accordance with the statutory regulations in amount of 2,192.
- Allocation of undistributed profit of 41,190 to retained earnings.

As at 31 December 2022, the legal reserves balance, included into Retained earnings, is in amount of 10,611 (2021: 8,419).

21. TRADE AND OTHER CURRENT PAYABLES

	31 December 2022	31 December 2021
Trade payables	81,609	80,872
Other payables to related parties (Note 25)	673	607
Contract liability (customer loyalty programme)	311	-
Other payables	2,598	2,730
Salary liability	33,774	27,025
Social contribution liability	9,433	10,253
Other employee related liabilities	1,745	1,952
Current income tax	454	512
Specific tax	1,289	2,324
VAT payable	381	-
Other taxes	540	2,150
Dividends payable	19,860	12
Total	**152,667**	**128,437**

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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.

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22. EBITDA

	2022	2021
Operating profit	**61,356**	**37,733**
Adjustments to bridge operating profit to EBITDA:		
Depreciation, amortization and impairment of non-current assets included in restaurant expenses	100,551	90,046
Depreciation, amortization and impairment of non-current assets included in general and administration expenses	6,588	6,142
EBITDA	**168,495**	**133,921**
Normalization adjustments	494	(1,527)
Normalised EBITDA	**168,988**	**132,394**

EBITDA is one of the key performance measures monitored by senior management.
For the year ended 31 December 2022, EBITDA was normalized to exclude the impact of provision for estimated costs related to the closing of two non-performing KFC stores in Italy. 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.

23. EARNINGS PER SHARE (EPS)

	31 December 2022	31 December 2021
Profit attributable to ordinary equity holders of the parent	37,557	18,425
Weighted average number of ordinary shares	38,799,340	38,799,340
Earnings per share, basic and diluted (RON/share)	**0.9680**	**0.4749**

There are no dilutive instruments to be considered.

24. COMMITMENTS AND CONTINGENCIES

Lease commitments

The Group has entered into several lease agreements for restaurants that are going to be opened in the next period. The estimated value of the future lease payments for right-of-use assets is of 14,563 for a 10-year contractual period.

Other commitments

Per the Romania new network development plan signed in October 2017 for the period 2017-2022, the target for 2022 included opening of 9 new KFC restaurants. Based on the new addendum signed in 2022, the base target commitment for 2022 was revised to 4 net new outlets, any additional outlet opened above this minimum target ("base tier") being subject of financial incentives from the franchisor. Should the Group fail to achieve the base tier, 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 franchisor. The development plan for 2023 and beyond is under negotiation with the franchisor.

24. COMMITMENTS AND CONTINGENCIES (continued)

In August 2021, the Group signed a revised development agreement with Pizza Hut Europe. 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 benefits of progressive financial incentives, depending on the number of net new restaurants being opened that will exceed the base tier. In 2022, the Group opened 2 new stores. The development plan for 2023 and the following years is under negotiation with the franchisor.

According to Taco Bell restaurant rollout plan, the Group has committed to open two new Taco Bell restaurants in 2022. Further to the negotiations with Taco Bell Europe, CFF will benefit of progressive financial incentives, depending on the number of net new restaurants being opened. The Group opened two new restaurants in 2022 and plans to continue the network development.

In 2020, the Group has signed a development incentive agreement with Yum Italy for the period 1 July 2020-31 March 2021 to open a minimum one new store during the term. The Group has inaugurated two new stores in 2021 and none in 2022. The new development plan is under negotiation with Yum! Italy.

Climate change

In the current context, all companies face risks and opportunities derived from the climate and are having to make strategic decisions in this area adapted to the nature of their business, as well as to their footprint on the environment.
Sphera Group has started the process of implementing the TCFD (taskforce climate-related financial disclosures) recommendations to improve risk identification process, assessment, mitigation, management and reporting procedures on climate changes. Currently, the plastic consumption, energy and carbon footprint management are the main climate related objectives monitored by the Group.

Bank letter of guarantees

The Group has issued bank letters of guarantee in favour of suppliers as at 31 December 2022 in amount of 14,736 (31 December 2021: 15,652).

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.

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24. COMMITMENTS AND CONTINGENCIES (continued)

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 aprox. 705. To date, the court file is in progress. 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 USFN will be able to claim the payments from the landlord. The call for guarantee has been admitted in principle. Further, the evidence is still analysed by the Court and the Group cannot anticipate on the manner the Court may rule. Based on lawyer confirmation it is more probable than not to have a favourable decision and no provisions have been recorded for this matter.

25. RELATED PARTY DISCLOSURES

During the years ended 31 December 2022 and 31 December 2021, 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 affiliated to shareholders of the parent	Romania	Services
Grand Plaza Hotel SA	Entity affiliated to a shareholder of the parent	Romania	Rent and utilities store PH Dorobanti, services
Arggo Software Development and Consulting SRL	Entity affiliated to a shareholder of the parent	Romania	IT services
Lunic Franchising and Consulting LTD	Shareholder of the parent until January 2022 and minority shareholder of subsidiaries (USFN, ARS, CFF)	Cyprus	Payment of dividends
Wellkept Group SA	Shareholder and entity under common control of Radu Dimofte, ultimate controlling party of the Group	Romania	Rent training center and payment of dividends
Tatika Investments Ltd.	Shareholder and entity under common control of Radu Dimofte, ultimate controlling party of the Group	Cyprus	Payment of dividends
Computerland Romania SRL	Shareholder with significant influence	Romania	Payment of dividends, acquisition of IT equipment, licenses
Cinnamon Bake&Roll SRL	Entity affiliated to a shareholder of the parent	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	Romania	Rent store KFC Mosilor

All amounts in RON thousand, unless specified otherwise

Related party	Nature of the relationship	Country of incorporation	Nature of transactions
	Ltd and ultimate controlling party of the Group		
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 (2021)
Parc Hotels SA	Entity affiliated to a shareholder of the parent	Romania	Accommodation services

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

	2022		31 December 2022	
Related party	**Sales to related parties**	**Purchases from related parties**	**Amounts owed by related parties**	**Amounts owed to related parties**
Cinnamon Bake&Roll SRL	6	2	7	-
Moulin D'Or SRL	-	2	-	-
Lucian Vlad	-	224	-	-
Radu Dimofte	-	93	-	-
Wellkept Group SA	-	499	-	10
Midi Development SRL	-	129	-	-
Grand Plaza Hotel SA	-	1,077	66	28
Arggo Software Development and Consulting SRL	-	1,144	-	13
Elicom SRL	-	589	-	54
Elicom Connect SRL	-	11	-	2
Dorobanti 239 Imobiliare SRL	-	3,376	-	69
Baneasa Developments SRL	-	4,581	-	270
Baneasa Investments SA	-	615	128	11
Computerland Romania SRL	23	243	6	213
Parc Hotels SA	-	18	-	3
	29	**12,603**	**207**	**673**

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25. RELATED PARTY DISCLOSURES (continued)

	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**

The Group had granted a loan to Cinnamon Bake&Roll SRL which was reimbursed in 2022 together with the related accrued interest. The loan balance as at 31 December 2022 is nil (31 December 2021: 529). As at 31 December 2022, of the total amount owed by related parties of 207, 194 represent long term deposits for rent guarantees (31 December 2021: 194 out of 194).

In 2022, Sphera Franchise Group SA paid cash 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 February 2022.

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, except for the amounts presented above as security deposits for rent agreements.

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:

	2022	**2021**
Short-term employee benefits	9,713	8,852
Total compensation paid to key management personnel	**9,713**	**8,852**

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

All amounts in RON thousand, unless specified otherwise

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 alsoone more immaterial operating segment, being one Paul restaurant which is managed by USFN and which was aggregated into the KFC segment.

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.

2022	**KFC**	**Pizza Hut**	**Taco Bell**	**Other**	**Eliminations**	**Consolidated**
Revenues from external customers	1,130,601	122,918	69,303	-	-	1,322,822
Inter-segment revenues	-	-	-	35,080	(35,080)	-
Other restaurant income *	1,172	-	-	-	-	1,172
Dividend revenues	-	-	-	50,502	(50,502)	-
Operating expenses	1,058,848	132,814	69,444	40,495	(38,964)	1,262,637
Segment operating profit / (loss)	**72,925**	**(9,896)**	**(141)**	**45,087**	**(46,618)**	**61,356**
Finance costs	19,298	2,269	2,308	3,046	(3,860)	23,061
Finance income	2,540	8	-	1,807	(3,860)	495
Income taxes	(3,042)	68	784	464	-	(1,726)
Specific tax expense	1,629	719	217	-	-	2,565
Net profit/(loss)	**57,580**	**(12,944)**	**(3,450)**	**43,384**	**(46,618)**	**37,950**
Total assets	**573,462**	**60,484**	**43,059**	**111,729**	**(82,853)**	**705,882**
Total liabilities	**506,582**	**72,412**	**50,064**	**97,419**	**(136,958)**	**589,518**
Capital expenditure, including right-of-use additions	77,436	14,135	9,934	2,063	(182)	103,386
Depreciation of right-of-use assets	43,575	10,022	3,578	1,240	-	58,415
Depreciation, amortization and impairment	39,250	5,461	3,333	707	(27)	48,724

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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 / (loss)	**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
Net 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, including right of use additions	**93,296**	**16,093**	**6,724**	**1,252**	**(172)**	**117,193**
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**

*For the year ended 31 December 2022, Other restaurant income refers to the incentives received from Yum; for the year ended 31 December 2021, other restaurant income is represented by the state aid received for the reduction of the turnover due to the Covid-19 business disruption in Romania.

Geographic information:

Revenue from external customers	**2022**	**2021**
Romania	1,139,094	873,743
Italy	166,335	114,141
Republic of Moldova	17,393	12,428
Total restaurant revenue	**1,322,822**	**1,000,312**

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

Non-current assets (other than financial assets and deferred tax assets)	**31 December 2022**	**31 December 2021**
Romania	396,374	379,548
Italy	106,691	130,654
Republic of Moldova	2,989	4,030
Total	**506,054**	**514,233**

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

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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 2022 of Sphera Franchise Group SA prepared in accordance with MOF 2844/2016 and of the statutory audit of the financial statements as of 31 December 202 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 696 (excluding VAT).

Other non-assurance services amounted 33 (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

Proposed profit allocation for the financial year 2022

For the year ended 31 December 2022, 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 2022:

- Setting up the legal reserves in accordance with the statutory regulations in amount of 2,192.
- Allocation of undistributed profit of 41,190 to retained earnings.

Network development

In January 2023, two KFC stores in Italy were closed, KFC Verona Corso Milano and KFC Torino Moncalieri and in March 2023 a new KFC store was opened in Romania, KFC Orastie on the A1 highway.

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes

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