# 2022 ANNUAL REPORT

SPHERA FRANCHISE GROUP SA


SPHERA

# TABLE OF CONTENTS



The individual and consolidated financial statements as of December 31st, 2022, presented on the following pages are audited and are 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.

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

# ISSUER INFORMATION

## INFORMATION ABOUT THIS FINANCIAL REPORT

| | |
|---|---|
| Type of report | Annual Report |
| For financial period | 01.01.2022 – 31.12.2022 |
| Date of publishing | 27.03.2023 |
| According to | Annex 15 of ASF Regulation 5/2018 |

## ISSUER INFORMATION

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

## INFORMATION ABOUT FINANCIAL INSTRUMENTS

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

## CONTACT DETAILS FOR INVESTORS

| | |
|---|---|
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| Website | www.spheragroup.com |

# LETTER FROM THE CEO

Dear Shareholders,

I am pleased to present our annual report for 2022, which was a difficult yet rewarding year for Sphera Franchise Group. As we reflect on the challenges that we faced in 2022, it is important to acknowledge the unprecedented nature of the past two years. The VUCA period of volatility, uncertainty, complexity, and ambiguity that started with the pandemic has tested our organization's resilience and ability to adapt. Yet, despite these challenges, we are particularly proud to have ended 2022 with record sales and a healthy profitability.

We have managed to overcome challenge after challenge throughout the year, starting with the weak start of 2022. The main issue we had to tackle last year was the abrupt increase in the cost of inputs. Significant price increases, sometimes surpassing 50%, were registered for core raw materials, such as chicken meat, shortening, flour, mozzarella, and vegetables. Our teams approached these challenges immediately by revising our contracts and initiating negotiations with the suppliers. In addition, we further streamlined our offering while ensuring our high-quality standards are not impacted. As a result, we are happy to report that due to our actions, coupled with a tempered trend in the market, the weight of COGS in net sales decreased in H2 2022 by 2.4pp compared to the peak registered in H1 2022.

The price increases in raw materials were further amplified by the volatility in the energy market, with multiple changes in the legislation, which, in the end, translated into massive price increases for electricity and gas. Thus again, we have entered negotiations for lower rates, and, at the same time, we have revised our flow and processes to reduce energy consumption.

The inflationary pressures also affected our customers, driving them to pay more and more attention to value for money spending. Therefore, we have adapted our marketing strategy to meet their needs. We are happy that despite the economic challenges, our iconic brands continue to be sought after by customers as the number of transactions registered continued positive evolution in 2022.

Another major challenge was the labor market, which remained extremely tight, putting pressure on both recruitment and retention. Consequently, we had to adjust, and our payroll costs grew by 27% in 2022, following wage increases and higher performance incentives.

Finally, the entire macroeconomic and geopolitical context was marked by uncertainty, which we managed to navigate by leveraging our almost 30 years' experience. We had efficient cost management at multiple levels, a strong marketing strategy which delivered, and a sustainable development strategy, making the hard decisions when needed – such as closing one Pizza Hut restaurant in 2022 and two KFCs in Italy this year.

But the results speak for themselves – the consolidated sales reached RON 1.3 billion– the highest in Sphera's history, while the normalized net profit stands at RON 44.3 million. We have registered double-digit growth for all brands in all markets. These achievements result from an excellent second half of the year, particularly the last quarter, which continued a series of record-high quarters in terms of sales and performance, offsetting the weak results in the first quarter of 2022.

We are proud that Q4 2022 brought us the best quarter in the history of the Group also in terms of normalized EBITDA, which reached RON 44.4 million, up 243% year-on-year. Our results are thanks to our loyal clients and a growing customer presence in stores leading to an increase in transactions overall, further supported by price adjustments and efficient cost management.

Looking ahead, we will continue to pursue our prudent development strategy, paired with agility in decision-making and always keeping an eye on efficient cost management. As our business grows, I want to underline that we are in the business of high volumes, meaning that both topline growth and profitability must remain our priority. As we look ahead, we recognize further challenges and uncertainties will undoubtedly exist. However, we are confident that with our experienced and dedicated team, our strong brands, and our prudent development strategy, we will continue to thrive in 2023, and in the years to come.

**Călin Ionescu**

# DIRECTORS' REPORT

SPHERA

# CORPORATE INFORMATION

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

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

The Group operates quick service and takeaway restaurant concepts under the Kentucky Fried Chicken ("KFC") brand, spread across Romania (96 restaurants as of December 31st, 2022) as well as in the Republic of Moldova (2 restaurants) and in Italy (20 restaurants). The Group also operates a chain of pizza restaurants (22 restaurants as of December 31st, 2022) as well as pizza delivery points (21 locations, including 1 subfranchise) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, and a chain of restaurants under the "Taco Bell" brand (15 restaurants as of December 31st, 2022) and one restaurant under Paul brand, in Romania. As of December 31st, 2022, the Group had 4,935 employees, out of which 4,450 in Romania, 411 in Italy and 74 in the Republic of Moldova.

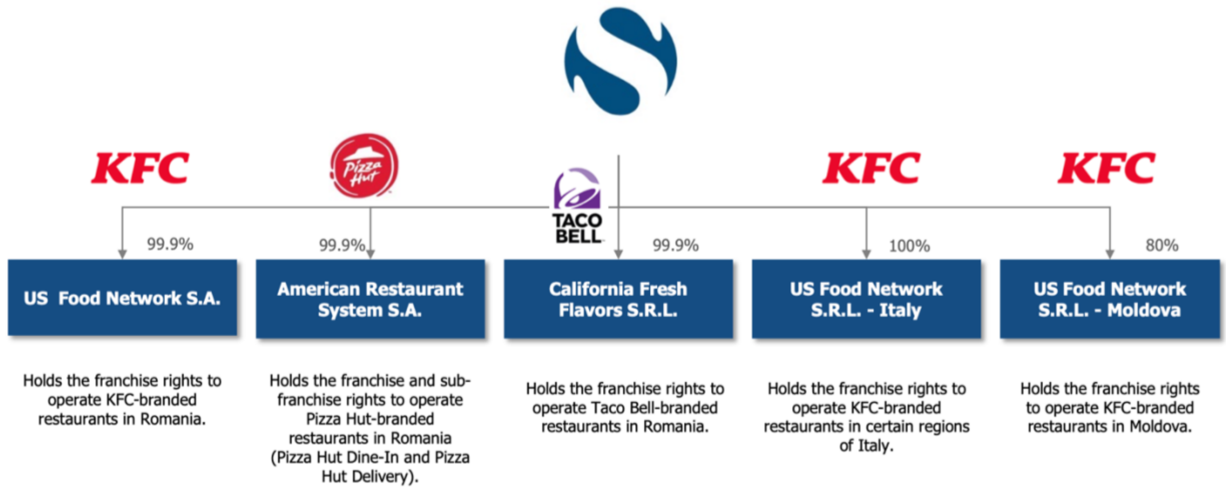
In 2017, ahead of listing on Bucharest Stock Exchange, the Group underwent reorganization that resulted in the establishment of Sphera as the legal parent company of US Food Network SA (USFN), American Restaurant System SA (ARS), US Food Network S.r.l. ("USFN Italy" or the "Italian subsidiary"), US Food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

# GROUP STRUCTURE

Details of the Sphera's investments in controlled companies also representing the Group's consolidated subsidiaries as of December 31st, 2022, and December 31st, 2021, are as follows:

| Company name | Incorporation | Field of activity | Control 31.12.2022 | Control 31.12.2021 |
|---|---|---|---|---|
| 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 S.r.l. | Italy | Restaurants | 100.0000% | 100.0000% |

The visual representation of the Group holding structure is presented below:




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

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

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

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

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

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

# SCOPE OF BUSINESS

The Group's franchised foodservice business was launched in 1994 with the opening of the first Pizza Hut location, which was followed by the opening in 1997 of the first KFC location, both in Bucharest. As of December 31st, 2022, the Group operates 177 restaurants in Romania, Italy, and the Republic of Moldova.

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

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

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

### ABOUT THE BRANDS

**KFC** is the world's second-largest restaurant chain as measured by sales. KFC is a quick-service restaurant specialized in fried chicken and chicken meals. As of December 2022, there were over 25,000 KFC Restaurants located in 147 countries and territories in the world. The first KFC restaurant was launched in Bucharest, Romania in 1997 by the Group.

Today, KFC is the leading chicken restaurant chain in Romania in terms of both total sales and number of restaurants. As of December 31st, 2022, there were 96 KFC restaurants in Romania. In 2008, the Group opened the first KFC restaurant in the Republic of Moldova, and as of December 31st, 2022, the Group operated two restaurants (both in Chisinau). In 2017 the Group opened the first two restaurants in Italy. As of December 31st, 2022, there were 20 KFC restaurants operated by the Group spread across the central - northern region of Italy. Of all KFC restaurants operating in Romania, Italy and Republic of Moldova, as of December 31st, 2022, 69 were food court locations (in malls or commercial centers), 25 were inline (street locations), while another 24 were Drive-Thru locations. In 2018, KFC Romania has lunched the delivery activity, which is now carried out in most of the stores, with delivery either carried own by own staff, or in collaboration with food aggregator platforms.

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

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

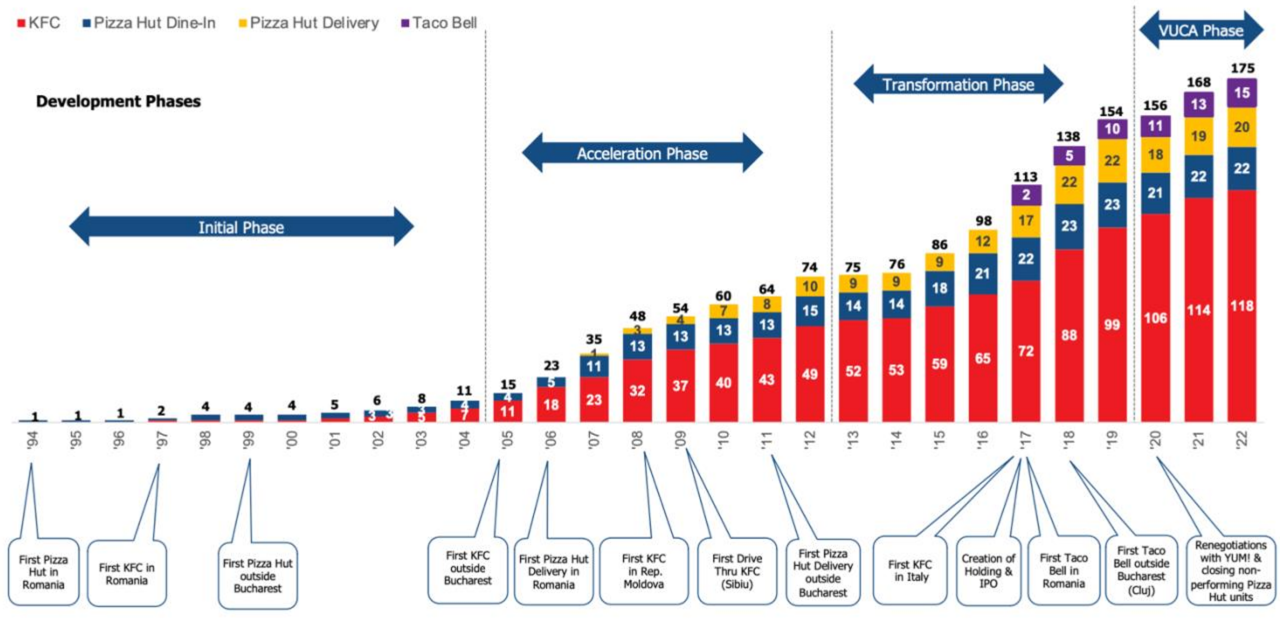
**PIZZA HUT DELIVERY** is the concept for home delivery launched by Pizza Hut. Pizza Hut Delivery has been present on the Romanian market since December 2007, with the opening of its first location in Vitan area, Bucharest.

Pizza Hut is the largest casual dine-in restaurant chain in Romania in terms of both total sales and number of restaurants. On December 31st, 2022 there were 22 Pizza Hut Dine-In restaurants across the major cities of Romania and 21 Pizza Hut Delivery restaurants (including 1 PHD sub-franchise). Of the 22 Pizza Hut Dine-In restaurants operating in Romania as of December 31st, 2022, 19 (including 1 Pizza Hut Express location) are located near food courts with dedicated seating (in malls or commercial centers) and 3 are inline (street locations). For Pizza Hut Delivery, 9 out of the 20 Pizza Hut Delivery restaurants were located within commercial centers (including 1 Fast Casual Delivery location), while the remaining 12 were inline locations.

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

**TACO BELL** is the world's leading Mexican-inspired quick service restaurant (QSR), with over 7,000 locations worldwide. The restaurants serve a variety of Mexican inspired foods that include tacos, burritos, quesadillas, nachos, novelty and specialty items and a range of "value menu" products. The first Taco Bell store was launched in Bucharest, Romania, by Sphera Franchise Group in October 2017. As of December 31st, 2022, the Group operated 15 Taco Bell restaurants, all of them based in commercial centers across Romania.

The historical evolution of the network* rollout since 1994 until 2022 is presented below:




*This chart does not include the PHD sub franchise and the Paul restaurant.*

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

# SHAREHOLDERS AND ISSUED CAPITAL

The share capital of Sphera Franchise Group SA on December 31st, 2022, equaled to RON 581,990,100, divided into 38,799,340 ordinary shares with a nominal value of RON 15 per share. The share capital on December 31st, 2021, was the same.

The shareholders of Sphera Franchise Group SA as of December 31st, 2022, and December 31st,2021 are as follows:

| Shareholder | Percent of shares on 31.12.2022 | Percent of shares on 31.12.2021 |
|---|---|---|
| Tatika Investments Ltd. | 28.61% | 28.61% |
| Computerland Romania SRL | 20.53% | 20.53% |
| Wellkept Group SA | 16.88% | 16.34% |
| Free-float | 33.98% | 34.52% |

# MANAGEMENT OF THE GROUP

### BOARD OF DIRECTORS

Company is managed by the Board of Directors whose members are appointed for a mandate of 4 years. As of December 31, 2022, the number of the Board Members of the Company, is 5 members.

On December 29th, 2021, the Board of Directors of Sphera Franchise Group convened the Ordinary General Meeting of the Shareholders for February 4th, 2022. During the OGSM, the shareholders elected a new Board of Directors consisting of Mr. Silviu-Gabriel Carmaciu, Mr. Mihai Ene, Mr. Lucian Hoanca, Mr. Razvan Lefter and Mr. Georgios Repidonis. The mandate of the Board of Directors is until May 30th, 2023. On February 23rd, 2022, the Board appointed Mr. Lucian Hoanca as the Chairman of the Board, and Mr. Georgios Repidonis as the Vice-Chairman of the Board.

The structure of the Board of Directors as of December 31st, 2022 was the following:

| Name | Date of appointment | Title | Role | Number of SFG shares held on 31.12.2022 |
|---|---|---|---|---|
| Lucian Hoanca | February 4th, 2022 | Chairman of the BoD | Non-executive member | - |
| Georgios Vassilios Repidonis | February 4th, 2022 | Vice-Chairman of the BoD | Non-executive member | - |
| Silviu Gabriel Cârmaciu | February 4th, 2022 | Member of the BoD | Non-executive member | - |
| Mihai Ene | February 4th, 2022 | Member of the BoD | Non-executive member | - |
| Razvan Stefan Lefter | February 4th, 2022 | Member of the BoD | Independent member | 70,000 shares |

### LUCIAN HOANCA

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

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

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

**GEORGIOS VASSILIOS REPIDONIS**

Born in 1961, Mr Repidonis is a non-executive member of the Group's Board of Directors since 2019 and Vice-Chairman of the Board of Directors of the Group since February 2022. Mr Repidonis graduated from the Faculty of Planning and Economic Cybernetics within the Academy of Economic Studies in Bucharest. His professional career has been in the field of executive management, development projects, product marketing and accounting. Between 1994 - 1997 he was a shareholder, administrator, and General Manager of Comtra Intl Distributor in Romania, and between 2004 - 2010 he was a shareholder and General Manager of El Greco restaurant in Bucharest. Mr Repidonis was also a shareholder and responsible for the development of the Romanian franchise of the Lacoste and Gant brands between 2001 and 2015.

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

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

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

**SILVIU GABRIEL CÂRMACIU**

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

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

Affiliate companies: Computerland Romania SRL.

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

### RAZVAN STEFAN LEFTER

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

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

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

### MIHAI ENE

Mr. Ene was born in 1975 and has been a non-executive member of the Board of Directors since February 4, 2022. He graduated from the Faculty of Business and Tourism at the Academy of Economic Studies, later obtaining a Diploma in Hospitality Management at Ecole Hoteliere de Lausanne in Switzerland. Over time, he has participated in numerous courses and programs for professional development and specialization. He is currently General Manager and Chairman of the Board of Directors of Practic SA, Business operational director at Star Consulting & Training SRL and Trade operations manager at Euroacces Foundation. In the past he was also part of the boards of directors of Obor Market & Trade Center, Universal SA, and at the beginning of his career, for a long time, he worked in the hotel sector, holding positions from Front Desk Officer to Deputy General Manager.

Affiliated companies: Practic SA, Star Consulting & Training SRL, Euroacces Foundation.

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

### CONSULTATIVE COMMITTEES

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

The members of the Audit Committee as of December 31st, 2022, were:

- Razvan Lefter – Chairman;
- Mihai Ene – member;
- Georgios Repidonis – member.

The members of the Nomination and Remuneration Committee as of December 31st, 2022, were:

- Lucian Hoanca – Chairman;
- Georgios Repidonis – member;
- Razvan Lefter – member.

## EXECUTIVE MANAGEMENT

The Board of Directors delegates the management of the Company to managers who fulfil their functions based on mandate contracts. The list of persons holding management positions as of December 31st, 2022, is presented below:

| Name | Title | Date of Appointment | Number of SFG shares held on 31.12.2022 |
|---|---|---|---|
| Călin Viorel Ionescu | Chief Executive Officer (CEO) | October 8th, 2020 | - |
| Valentin-Ionut Budes | Chief Financial Officer (CFO) | May 9th, 2019 | 34,906 shares |
| Cristian Osiac | Chief Development Officer (CDO) | September 1st, 2019 (new mandate) | - |
| Oana Monica Eftimie | Chief Marketing Officer (CMO) | September 1st, 2019 (new mandate) | - |

There were no changes to the Executive Management team in the course of 2022.

## CĂLIN IONESCU

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

## VALENTIN BUDEȘ

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

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

### CRISTIAN OSIAC

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

### MONICA EFTIMIE

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

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

# CONSOLIDATED FINANCIAL RESULTS

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

In 2022, the Group recorded RON 1.3 billion in consolidated restaurant sales, a 32% increase compared to 2021, normalized EBITDA of RON 102.7 million, a 40% increase YoY, and a normalized net profit of RON 44.3 million, a 71% increase. Sales generated in Romania contributed to 86% of this result, amounting to RON 1.14 billion followed by Italy bringing in the contribution of 13% amid sales of RON 166.3 million while the Republic of Moldova generated 1% of total sales, in the amount of RON 17.4 million. Overall, the excellent topline performance and positive bottom line in the second half of 2022, particularly in the last quarter, helped to recover the losses that the Group registered in Q1 2022.

The restaurant expenses in 2022 amounted to RON 1.21 billion, a 32% YoY increase, with the growth pace of the expenses being fully aligned with the pace of sales. With significantly larger volume of sales, food and material costs increased 40%. These costs amounted to RON 457.1 million in 2022, 35% of sales, versus RON 327.6 million in 2021, 33% of sales. The payroll and employee benefits increased 27% YoY, reaching RON 287.1 million in 2022 as a combined effect of higher average number of FTEs and increased remuneration scheme.

Rent in 2022 amounted to RON 94.6 million, a 31% increase reflecting the rent contract variable structure set in line with the sales increase, while the royalties, also linked to the sales, amounted to RON 78.8 million, a 31% YoY increase. The advertising costs reached RON 67 million, a 27% increase due to the different timing of the marketing campaigns and, overall, more intense advertising activity, especially in the first half of the year. Depreciation and amortization increased 24% YoY, up to RON 45.3 million, mainly due to the impairment of the non-current assets related to the closing of the non-performing stores.

Other operating expenses increased 30%, reaching RON 184.6 million due to 64% increase in the utility costs, which reached RON 47.6 million and an 11% increase in the third-party expenses, which grew to RON 90.4 million. This category also includes aggregator commissions, which increased 4% YoY, with the weight of aggregators' commissions in net sales decreasing by 1pp in 2022 vs. 2021.

The excellent performance in Q4 2022 contributed to the full year result with RON 44.6 million in restaurant operating profit, triple compared to Q4 2021, and a 14% improvement QoQ. The weight of G&A in sales decreased with 0.8pp in 2022 vs. 2021, despite a 12% YoY increase, as these expenses reached RON 56.4 million. This led to an operating profit for 2022 of RON 53.2 million, a 51% increase compared to 2021.

The finance costs increased 59%, reaching RON 13.3 million due the growing costs of financing since the beginning of 2022, mainly triggered by the raised reference interest rates. With the negative financial result, the profit before tax for 2022 amounted to RON 40.4 million, versus RON 27 million registered in 2021, resulting in a normalized profit for 2022 of RON 44.3 million, versus RON 25.9 million for 2021 (net profit of RON 39.1 million in 2022, vs. RON 27.4 million in 2021, +43%).

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

| Data in RON'000 | 2022 | 2021 | Y/Y % 2022/2021 | % of Sales 2022 | % of Sales 2021 | Δ% |
|---|---|---|---|---|---|---|
| **Restaurant sales** | **1,322,822** | **1,000,312** | **32.2%** | - | - | - |
| **Other restaurant income** | **1,172** | **2,627** | **-55.4%** | - | - | - |
| **Restaurant expenses** | **1,214,438** | **917,211** | **32.4%** | **91.8%** | **91.7%** | **0.1%** |
| Food and material | 457,108 | 327,645 | 39.5% | 34.6% | 32.8% | 1.8% |
| Payroll and employee benefits | 287,056 | 225,869 | 27.1% | 21.7% | 22.6% | -0.9% |
| Rent | 94,646 | 72,515 | 30.5% | 7.2% | 7.2% | -0.1% |
| Royalties | 78,803 | 59,987 | 31.4% | 6.0% | 6.0% | 0.0% |
| Advertising | 66,988 | 52,919 | 27% | 5.1% | 5.3% | -0.2% |
| Other operating expenses | 184,560 | 141,735 | 30.2% | 14.0% | 14.2% | -0.2% |
| Depreciation and amortization | 45,276 | 36,540 | 23.9% | 3.4% | 3.7% | -0.2% |
| **Restaurant operating profit** | **109,555** | **85,728** | **27.8%** | **8.3%** | **8.6%** | **-0.3%** |
| General & Admin expenses | 56,389 | 50,537 | 11.6% | 4.3% | 5.1% | -0.8% |
| **Operating Profit** | **53,166** | **35,192** | **51.1%** | **4.0%** | **3.5%** | **0.5%** |
| Finance costs | 13,307 | 8,364 | 59.1% | 1.0% | 0.8% | 0.2% |
| Finance income | 496 | 150 | 231.4% | 0.0% | 0.0% | 0.0% |
| **Profit before tax** | **40,355** | **26,977** | **49.6%** | **3.1%** | **2.7%** | **0.4%** |
| Income tax expense/(credit) | (1,264) | (2,853) | -55.7% | -0.1% | -0.3% | 0.2% |
| Specific Tax | 2,565 | 2,424 | 5.8% | 0.2% | 0.2% | 0.0% |
| Profit for the year | 39,054 | 27,407 | 42.5% | 3.0% | 2.7% | 0.2% |
| **Normalized Profit for the year**** | **44,270** | **25,880** | **71.1%** | **3.3%** | **2.6%** | **0.8%** |
| EBITDA | 102,161 | 75,004 | 36.2% | 7.7% | 7.5% | 0.2% |
| **Normalized EBITDA*** | **102,655** | **73,477** | **39.7%** | **7.8%** | **7.3%** | **0.4%** |

*(*) EBITDA for 2022 was normalized to exclude the provisions related to the closing of non-performing stores in amount of RON 494k. EBITDA for 2021 was normalized to exclude the reversal of accrued penalties due to Pizza Hut Europe (Master Franchisor) for the restaurants committed to be opened in 2019 and postponed for the future periods (RON 1,527k).*
*(**) Net profit for 2022 was normalized to exclude the impairment of non-current assets (RON 4,723k) and other costs related to the closing of non-performing stores (RON 494k). Net profit for 2021 was normalized to exclude the reversal of accrued penalties due to Pizza Hut Europe (Master Franchisor) for the restaurants committed to be opened in 2019 and postponed for the future periods (RON 1,527k).*

## Summary of the Consolidated Financial Statements for FY – results and evolution presented with and without IFRS 16 impact

| Data in RON'000 | 2022 (1) | 2022 (2) | 2021 (1) | 2021 (2) | Change (%) 2022/2021 (1) | Change (%) 2022/2021 (2) |
|---|---|---|---|---|---|---|
| **Restaurant sales** | **1,322,822** | **1,322,822** | **1,000,312** | **1,000,312** | **32.2%** | **32.2%** |
| **Other restaurant income** | **1,172** | **1,172** | **2,627** | **2,627** | **-55.4%** | **-55.4%** |
| **Restaurant expenses** | **1,207,065** | **1,214,438** | **915,260** | **917,211** | **31.9%** | **32.4%** |
| Food and material | 457,108 | 457,108 | 327,645 | 327,645 | 39.5% | 39.5% |
| Payroll and employee benefits | 287,056 | 287,056 | 225,869 | 225,869 | 27.1% | 27.1% |
| Rent | 32,110 | 94,646 | 17,058 | 72,515 | 88.2% | 30.5% |
| Royalties | 78,803 | 78,803 | 59,987 | 59,987 | 31.4% | 31.4% |
| Advertising | 66,988 | 66,988 | 52,919 | 52,919 | 26.6% | 26.6% |
| Other operating expenses | 184,450 | 184,560 | 141,735 | 141,735 | 30.1% | 30.2% |
| Depreciation and amortization | 100,551 | 45,276 | 90,046 | 36,540 | 11.7% | 23.9% |
| **Restaurant operating Profit** | **116,928** | **109,555** | **87,680** | **85,728** | **33.4%** | **27.8%** |
| General & Admin expenses | 55,572 | 56,389 | 49,947 | 50,537 | 11.3% | 11.6% |
| **Operating Profit** | **61,356** | **53,166** | **37,733** | **35,192** | **62.6%** | **51.1%** |
| Finance costs | 23,062 | 13,307 | 20,497 | 8,364 | 12.5% | 59.1% |
| Finance income | 496 | 496 | 150 | 150 | 231.4% | 231.4% |
| **Profit before tax** | **38,790** | **40,355** | **17,386** | **26,977** | **123.1%** | **49.6%** |
| Income tax expense/(credit) | (1,725) | (1,264) | (3,701) | (2,853) | -53.4% | -55.7% |
| Specific Tax | 2,565 | 2,565 | 2,424 | 2,424 | 5.8% | 5.8% |
| Profit for the period | 37,950 | 39,054 | 18,664 | 27,407 | 103.3% | 42.5% |
| **Normalized Profit/ for the year**** | **43,167** | **44,270** | **17,137** | **25,880** | **151.9%** | **71.1%** |
| EBITDA | 168,495 | 102,161 | 133,921 | 75,004 | 25.8% | 36.2% |
| **Normalized EBITDA*** | **168,988** | **102,655** | **132,394** | **73,477** | **27.6%** | **39.7%** |

*Notes: (1) Including the impact of the adoption of IFRS 16; (2) Excluding the impact of the adoption of IFRS 16.*
*(*) Normalized EBITDA for 2022 – excludes other provisions related to closing of stores. Normalized EBITDA for 2021 – excludes the reversal of penalties from franchisor Pizza Hut.*
*(**) Normalized profit for 2022 – excludes other provisions related to closing of stores and the related thereto depreciation. Normalized profit for 2021 excludes the reversal of penalties from franchisor Pizza Hut.*

The G&A expenses increased 12% in 2022 YoY: payroll and employee benefits (+20% YoY, amounting to RON 36.5 million, third party services (+22% YoY, RON 7.2 million), transportation costs grew 54% up to RON 1.2 million, while the depreciation and amortization increased 14%, reaching RON 3.7 million as well as other costs which increased +36% YoY, reaching RON 3 million. However, the share of G&A expenses in the consolidated sales improved by 0.8 pp in 2022 versus 2021.

| | Data in RON '000 | | | | Change (%) | | Percentage of sales | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2022 | 2022 | 2021 | 2021 | 2022/ 2021 (1) | 2022/ 2021 (2) | 2022 | 2022 | 2021 | 2021 |
| | (1) | (2) | (1) | (2) | | | (1) | (2) | (1) | (2) |
| **General and administration (G&A) expenses** | **55,572** | **56,389** | **49,947** | **50,537** | **11.3%** | **11.6%** | **4.2%** | **4.3%** | **5.0%** | **5.1%** |
| Payroll and employee benefits | 36,488 | 36,488 | 30,374 | 30,374 | 20.1% | 20.1% | | | | |
| Third-party services | 7,210 | 7,210 | 5,925 | 5,925 | 21.7% | 21.7% | | | | |
| Depreciation and amortization | 6,588 | 3,720 | 6,142 | 3,272 | 7.3% | 13.7% | | | | |
| Rent | 264 | 3,949 | 357 | 3,816 | -26.1% | 3.5% | | | | |
| Banking charges | 773 | 773 | 4,122 | 4,122 | -81.2% | -81.2% | | | | |
| Transport | 1,203 | 1,203 | 781 | 781 | 53.9% | 53.9% | | | | |
| Other* | 3,047 | 3,047 | 2,246 | 2,246 | 35.6% | 35.6% | | | | |

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

In terms of individual performance, all the companies from the group registered significant increases in 2022 compared 2021, led by USFN Italy (KFC Italy) reaching RON 166.3 million in sales (+46% YoY), CFF (Taco Bell) with RON 69.3 million (+42%), USFN Moldova (KFC Moldova) with RON 17.4 million in sales (+40%), ARS (Pizza Hut) with RON 122.9 million (+37%), and USFN Romania (KFC Romania) with RON 946.9 million (+29%). Standalone in Q4 2022, all brands on all markets of activity registered restaurant operating profit, thus validating the Group's development strategy, and improving overall the restaurant operating profit for 2022 with 28% compared to 2021. USFN Romania, USFN Moldova and CFF closed 2022 registering a restaurant operating profit, with USFN Italy significantly decreasing the restaurant operating loss, from RON 5.9 million loss in 2021, to RON 1.7 million loss in 2022. Taco Bell registered in the last two subsequent quarters of 2022 restaurant operating profit, thus leading to halving of the operating loss in 2022 (RON 0.7 million) versus 2021 (RON 1.8 million).

**Breakdown of consolidated results by Group companies in 2022 (excluding IFRS 16 Impact):**

| | 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Data in RON'000** | **USFN (RO)** | **ARS** | **USFN (MD)** | **USFN (IT)** | **CFF** | **SFG** | **Cons. Adj.** | **SFG Cons** |
| **Restaurant sales** | **946,881** | **122,918** | **17,393** | **166,335** | **69,303** | **35,080** | **(35,088)** | **1,322,822** |
| **Dividends revenue** | **-** | **-** | **-** | **-** | **-** | **50,502** | **(50,502)** | **-** |
| **Other restaurant income** | **1,172** | **-** | **-** | **-** | **-** | **-** | **-** | **1,172** |
| **Restaurant expenses** | **839,637** | **125,544** | **14,739** | **168,023** | **66,908** | **-** | **(414)** | **1,214,438** |
| Food and material | 342,281 | 36,515 | 7,783 | 46,659 | 23,870 | - | - | 457,108 |
| Payroll and employee benefits | 195,704 | 33,989 | 2,287 | 39,077 | 16,000 | - | - | 287,056 |
| Rent | 63,345 | 11,337 | 995 | 13,614 | 5,355 | - | - | 94,646 |
| Royalties | 56,374 | 7,272 | 1,045 | 9,929 | 4,184 | - | - | 78,803 |
| Advertising | 45,951 | 6,750 | 506 | 10,717 | 3,452 | - | (389) | 66,988 |
| Other operating expenses | 114,770 | 24,803 | 1,797 | 32,312 | 10,883 | - | (5) | 184,560 |
| Depreciation | 21,212 | 4,878 | 326 | 15,716 | 3,163 | - | (20) | 45,276 |
| **Restaurant operating profit/(loss)** | **108,415** | **(2,626)** | **2,654** | **(1,688)** | **2,395** | **85,582** | **(85,176)** | **109,555** |
| G&A expenses | 31,782 | 8,032 | 305 | 11,001 | 3,180 | 40,641 | (38,550) | 56,389 |
| **Operating profit/(loss)** | **76,633** | **(10,658)** | **2,349** | **(12,689)** | **(785)** | **44,941** | **(46,626)** | **53,166** |
| Finance costs | 9,792 | 1,059 | 87 | 2,965 | 1,844 | 2,913 | (5,353) | 13,307 |
| Finance income | 4,033 | 8 | - | 1 | - | 1,807 | (5,353) | 496 |
| **Profit/(Loss) before tax** | **70,874** | **(11,709)** | **2,262** | **(15,653)** | **(2,628)** | **43,835** | **(46,626)** | **40,355** |
| Income tax expense/(credit) | 631 | 724 | 297 | (4,289) | 908 | 464 | - | (1,264) |
| Specific tax expense | 1,629 | 719 | - | - | 217 | - | - | 2,565 |
| Profit/(Loss) for the period | 68,614 | (13,153) | 1,966 | (11,364) | (3,753) | 43,370 | (46,626) | 39,054 |
| **Normalized Profit/(Loss) for the period**** | **68,614** | **(12,869)** | **1,966** | **(6,432)** | **(3,753)** | **47,392** | **(50,648)** | **44,270** |

| Data in RON'000 | USFN (RO) | ARS | USFN (MD) | USFN (IT) | CFF | SFG | Cons. Adj. | SFG Cons |
|---|---|---|---|---|---|---|---|---|
| | 2022 | | | | | | | |
| EBITDA | 99,817 | (5,117) | 2,712 | 3,206 | 2,548 | 45,648 | (46,653) | 102,161 |
| **Normalized EBITDA*** | **99,817** | **(5,117)** | **2,712** | **3,700** | **2,548** | **49,670** | **(50,675)** | **102,655** |

*(*) Normalized EBITDA for 2022 – excludes other provisions related to closing of stores. At individual level, normalized EBITDA for 2022 excludes the impairment loss for the investment in ARS (4,022) registered in SFG.*
*(**) Normalized profit for 2022 – excludes other provisions related to closing of stores and the related thereto depreciation.*

Throughout 2022, all brands continued to improve their same store performance, with none of the brands registering a decline in that category. In 2022, Sphera opened 8 new restaurants: 4 new KFC stores in Romania, 2 new Taco Bells and 2 new Pizza Hut units, those contributing to the all-stores performance across all the brands.

| | | Y/Y Q1-21 | Y/Y Q2-21 | Y/Y Q3-21 | Y/Y Q4-21 | Y/Y Q1-22 | Y/Y Q2-22 | Y/Y Q3-22 | Y/Y Q4-22 |
|---|---|---|---|---|---|---|---|---|---|
| **USFN RO** | **All Stores** | **14.3%** | **114.9%** | **42.8%** | **20.3%** | **23.6%** | **37.3%** | **20.1%** | **35.0%** |
| | o/w Same Stores | 14.1% | 112.4% | 39.8% | 14.3% | 15.1% | 28.3% | 13.3% | 31.1% |
| **ARS** | **All Stores** | **-32.6%** | **108.4%** | **71.4%** | **54.6%** | **55.3%** | **45.5%** | **15.1%** | **38.5%** |
| | o/w Same Stores | -32.6% | 108.4% | 71.0% | 47.5% | 45.3% | 35.9% | 6.3% | 34.4% |
| **CFF** | **All Stores** | **13.1%** | **245.4%** | **62.8%** | **43.6%** | **48.2%** | **39.6%** | **27.3%** | **56.3%** |
| | o/w Same Stores | 13.1% | 204.4% | 46.1% | 26.4% | 32.0% | 34.2% | 18.2% | 46.0% |
| **USFN IT** | **All Stores** | **2.5%** | **114.5%** | **26.0%** | **88.0%** | **70.3%** | **58.4%** | **37.5%** | **31.6%** |
| | o/w Same Stores | -6.0% | 102.7% | 20.8% | 79.2% | 73.0% | 56.9% | 33.5% | 29.0% |
| **USFN MD** | **All Stores** | **19.0%** | **179.3%** | **35.3%** | **22.3%** | **22.8%** | **44.8%** | **48.3%** | **42.0%** |
| | o/w Same Stores | 19.0% | 179.3% | 35.3% | 22.3% | 22.8% | 44.8% | 48.3% | 42.0% |
| **TOTAL** | **All Stores** | **6.6%** | **119.4%** | **43.6%** | **30.3%** | **31.8%** | **40.5%** | **22.3%** | **35.9%** |
| | o/w Same Stores | 5.6% | 114.9% | 39.9% | 23.5% | 23.6% | 32.3% | 15.6% | 31.9% |

The Group registered consecutive increases QoQ throughout 2022 on all markets of activity. Notably, Q4 2022 was the best quarter for the Group on all the markets since the onset of the pandemic and overall, in the history in terms of restaurant sales. Excellent performance was registered in the Republic of Moldova, where the milestone RON 5 million in sales generated in a single quarter was overpassed.

| Data in RON '000 | Q1-21 | Q2-21 | Q3-21 | Q4-21 | Q1-22 | Q2-22 | Q3-22 | Q4-22 | Change Q4-22/ Q4-21 | Change 2022/2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Sales by region** | | | | | | | | | | |
| Romania | 188,944 | 205,824 | 247,861 | 231,109 | 241,607 | 284,592 | 297,301 | 315,600 | ***36.6%*** | ***30.4%*** |
| Italy | 19,693 | 24,469 | 33,108 | 36,872 | 33,545 | 38,768 | 45,512 | 48,510 | ***31.6%*** | ***45.7%*** |
| Rep. Moldova | 2,791 | 2,823 | 3,206 | 3,608 | 3,427 | 4,086 | 4,757 | 5,123 | ***42.0%*** | ***39.9%*** |
| **Total sales** | **211,428** | **233,116** | **284,175** | **271,589** | **278,579** | **327,445** | **347,570** | **369,233** | ***36.0%*** | ***32.2%*** |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In terms of consolidated statement of financial position, out of total assets, 76% represent non-current assets, a decrease of 0.6% YoY, mainly due to regular amortisation in the right of use assets (IFRS 16). Current assets have decreased by 13% YoY, reaching RON 168.3 million, mainly due to the decrease in the cash position, a 12% decrease YoY reaching RON 128 million as the Group tempered bank loan financing in 2022 and resumed the repayment of the loan principal postponed for one year period in 2021; also trade and other receivables have decreased by 12% (the VAT recovered from the state budget in amount of RON 20.9 million) to RON 21.3 million.

Consolidated total equity decreased by 11.9% YoY, down to RON 116.3 million, as a result of the declared dividends to shareholders in 2022 (RON 55 million) offset by the profit registered by the Group (RON 38 million).

Consolidated total liabilities decreased by 2.1% YoY to RON 589.5 million, out of which 32% were accounted for interest bearing loans that decreased by RON 24.5 million as a combined effect of lower new loans activated versus prior year and loan principal repayments resumed in 2022. A summary of consolidated financial position as of ended December 31st, 2022 and December 31st, 2021, is presented below:

| *Data in RON'000* | 31-Dec-22 | 31-Dec-21 | Δ '22/'21 |
|---|---|---|---|
| **Non-current assets Total** | **537,600** | **540,873** | **-0.61%** |
| Non-current assets | 319,881 | 308,480 | 3.70% |
| Right-of-use assets | 217,719 | 232,393 | -6.31% |
| **Current assets Total** | **168,282** | **193,441** | **-13.01%** |
| **Total assets** | **705,882** | **734,314** | **-3.87%** |
| **Total equity** | **116,364** | **132,052** | **-11.88%** |
| **Total non-current liabilities** | **318,323** | **353,165** | **-9.87%** |
| Non-current liabilities | 127,594 | 150,345 | -15.13% |
| Lease liabilities (IFRS 16) | 190,729 | 202,820 | -5.96% |
| **Total current liabilities** | **271,195** | **249,097** | **8.87%** |
| Current liabilities | 218,502 | 194,916 | 12.10% |
| Lease liabilities (IFRS 16) | 52,693 | 54,181 | -2.75% |
| **Total liabilities** | **589,518** | **602,262** | **-2.12%** |
| **Total equity and liabilities** | **705,882** | **734,314** | **-3.87%** |

# STANDALONE FINANCIAL RESULTS

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

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

Net profit for 2022 was RON 43.4 million (2021: RON 29.8 million), the increase being mainly determined by the 34.6% increase in revenue from dividends.

Details of the investments in subsidiaries as at December 31st, 2022 and December 31st, 2021, respectively, are as follows:

*Data in RON'000*

| Company | Share interest percent | 31 December 2022 | | | 31 December 2021 | | |
|---|---|---|---|---|---|---|---|
| | | Investment at cost | Accumulated impairment loss | Carrying value | Investment at cost | Accumulated impairment loss | Carrying value |
| US Food Network SA (Romania) | 99.9997% | 519,704 | - | **519,704** | 519,704 | - | **519,704** |
| American Restaurant System SA (Romania) | 99.9997% | 105,119 | 60,310 | **44,809** | 88,786 | 56,288 | **32,498** |
| California Fresh Flavors SRL (Romania) | 99.9900% | 12,428 | - | **12,428** | 100 | - | **100** |
| US Food Network SRL (Moldova) | 80.0000% | 1,735 | - | **1,735** | 1,735 | - | **1,735** |
| US Food Network SRL (Italy) | 100.0000% | 77,899 | - | **77,899** | 70,027 | - | **70,027** |
| **Total** | | 716,885 | 60,310 | **656,575** | 680,351 | 56,288 | **624,064** |

In 2022, the Company increased the investment in US Food Network SRL Italy with the amount of 7,872, the investment in ARS with the amount of 16,333 and the investment in CFF with the amount of 13,328 by converting a part of the existing shareholder's loans to equity.

As of 31 December 2022, the Company assessed whether there are indicators of impairment for its cost of investment in subsidiaries and further to the analysis performed no impairment resulted for investments in US Food Netwrk SA, US Food Network SRL (Moldova), US Food Network SRL (Italy) and California Fresh Flavors SRL. For ARS, there was a decrease of the investment's recoverable amount of additional 4,022 for which the Company recognized an impairment loss in the financial statements as at and for the year ended 31 December 2022.

In what regards the financial position, the main elements of the balance sheet as of 31 December 2022 are detailed below.

## FY Standalone Financial Statements

| *Data in RON'000* | **2022** | **2021** | **Δ'22/'21** |
|---|---|---|---|
| Dividend revenues | 50,502 | 37,525 | 34.6% |
| Revenue from service contracts with related parties | 35,080 | 28,968 | 21.1% |
| Other income | 129 | | n/a |
| Payroll and employee benefits | 29,506 | 24,417 | 20.8% |
| Impairment loss of investments in subsidiaries | 4,022 | 5,400 | -25.5% |
| Other expenses | 7,096 | 6,154 | 15.3% |
| Operating profit | 45,087 | 30,522 | 47.7% |
| Financial result | (1,239) | (584) | 112.2% |
| Profit before tax | 43,847 | 29,938 | 46.5% |
| Income tax expense | 464 | 139 | 233.8% |
| **Profit for the period** | **43,383** | **29,799** | **45.6%** |

On the balance sheet, besides cash, current assets refer to loans and related interest granted to the subsidiaries of RON 37,593 (31 December 2021: 67,468), dividends to be received RON 19,681 (31 December 2021: 41,188) amounts invoiced to related parties for management and support services of RON 14,122 (31 December 2021: 7,364).

Non-current assets comprise mainly net investments in subsidiaries of RON 656,575 (31 December 2021: 624,064). Current and non-current liabilities are mainly in relation to the lease liabilities from lease of office premises and administrative vehicles, the bank loan and loan from one of its subsidiaries, US Food Network SA and dividends payable to shareholders.

Other non-current assets refer to property, plant and equipment and intangible assets RON 2,206 (31 December 2021: 2,368), right-of-use assets resulting from adoption of IFRS 16 of RON 4,597 (31 December 2021: 4,324), deferred tax asset recognized for the fiscal loss carried forward RON 478 (31 December 2021: 943) and loans and other receivables RON 44 (31 December 2021: 35,248).

| *Data in RON'000* | **31-Dec 2022** | **%** | **31-Dec 2021** | **%** |
|---|---|---|---|---|
| **Assets** | | | | |
| Non-current assets | 663,901 | 87% | 666,947 | 88% |
| Current assets | 100,552 | 13% | 94,270 | 12% |
| **Total assets** | **764,453** | **100%** | **761,217** | **100%** |
| **Total equity** | **667,034** | **87%** | **677,152** | **89%** |
| Non-current liabilities | 59,502 | 8% | 38,963 | 5% |
| Current liabilities | 37,917 | 5% | 45,102 | 6% |
| **Total liabilities** | **97,419** | **13%** | **84,065** | **11%** |
| **Total equity and liabilities** | **764,453** | **100%** | **761,217** | **100%** |

# MAIN FINANCIAL RATIOS

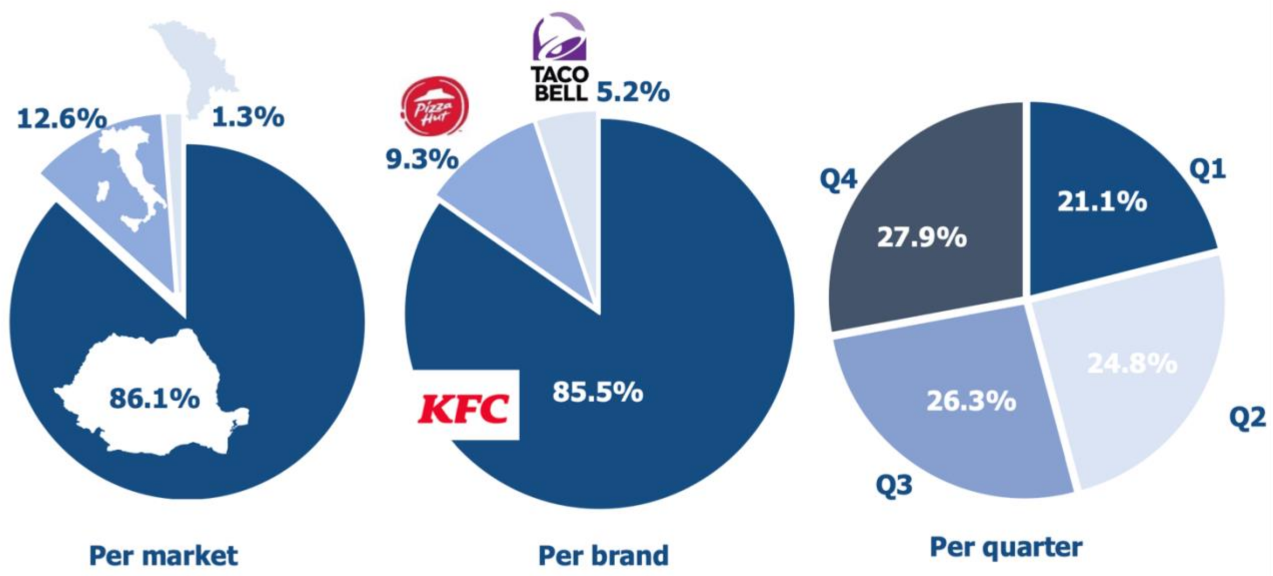
The main financial ratios of Sphera Franchise Group (consolidated result) as of December 31st, 2022, are presented below, together with the result from 2021 (ratios are including IFRS 16 impact).

| *Financial data in RON '000* | FY 2022 | | FY 2021 | |
|---|---|---|---|---|
| **Current ratio** | | | | |
| Current assets | 168,282 | = 0.62 | 193,441 | = 0.78 |
| Current liabilities | 271,195 | | 249,097 | |
| **Debt to Equity ratio** | | | | |
| Interest-bearing debt (long term) | 313,678 | = 270% | 348,930 | = 263% |
| Equity | 116,363 | | 132,052 | |
| Interest-bearing debt (long term) | 313,678 | = 73% | 348,930 | = 72.5% |
| Capital employed | 430,041 | | 480,982 | |
| **Trade receivables turnover (days)** | | | | |
| Average receivables | 25,950 | = 7.06 | 24,491 | = 8.81 |
| Sales | 1,322,822 | | 1,000,312 | |
| **Fixed asset turnover** | | | | |
| Sales | 1,322,822 | = 2.61 | 1,000,312 | = 1.95 |
| Net fixed assets | 506,054 | | 514,233 | |

Notes: calculated based on ASF methodology.

# BRAND & SALES PERFORMANCE

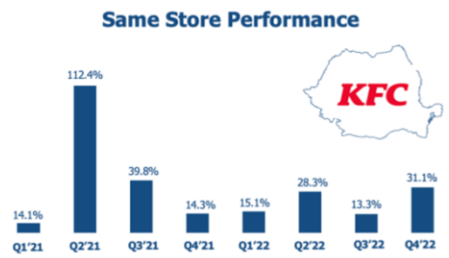
In 2022, the Group recorded RON 1.3 billion in consolidated restaurant sales, a 32% increase compared to the performance from 2021. Sales generated in Romania contributed to 86% of this result, amounting to RON 1.14 billion followed by Italy bringing in the contribution of 13% amid sales of RON 166.3 million while the Republic of Moldova generated 1% of total sales, in the amount of RON 17.4 million.

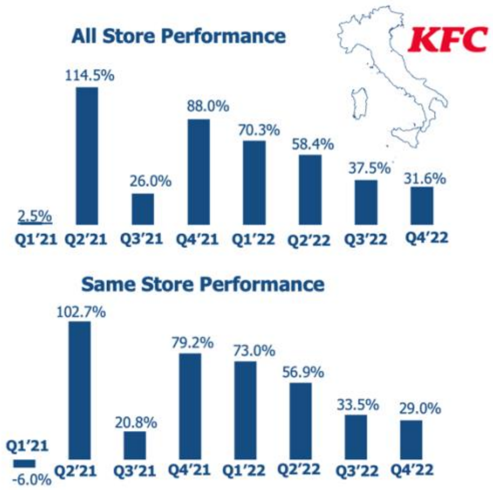



In terms of individual brand performance, all the companies from the group registered significant increases in 2022 compared 2021, led by USFN Italy (KFC Italy) reaching RON 166.3 million in sales (+46% YoY), CFF (Taco Bell) with RON 69.3 million (+42%), USFN Moldova (KFC Moldova) with RON 17.4 million in sales (+40%), ARS (Pizza Hut) with RON 122.9 million (+37%), and USFN Romania (KFC Romania) with RON 946.9 million (+29%). In a challenging economic climate, the Group increased the prices throughout 2022 for the three brands in order to protect the bottom line and absorb the increased cost of inputs. At the same time, the Group focused on value offerings to the customer to ensure continued traffic, visits, and transactions.

**KFC ROMANIA –** 2022 was the year of sustained, QoQ increases for KFC Romania. The brand registered increases for both same store and all store performance in Romania for all quarters of 2022, with the biggest increase being registered in Q2 2022 for all store performance (+4 new stores opened in the course of 2022), and Q4 2022 for same store performance.

Compared to 2021, in 2022, USFN Romania (KFC Romania) turnover grew by 29%. USFN Romania generated restaurant operating profit of RON 108.4 million, operating profit of RON 76.6 million, normalized EBITDA of RON 99.8 million and a net profit of RON 68.6 million.

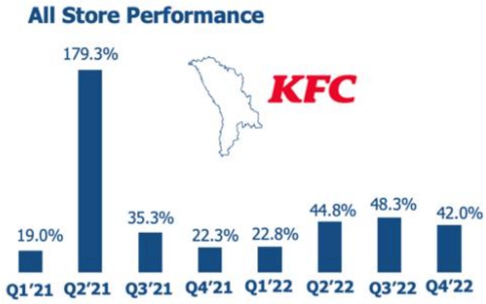



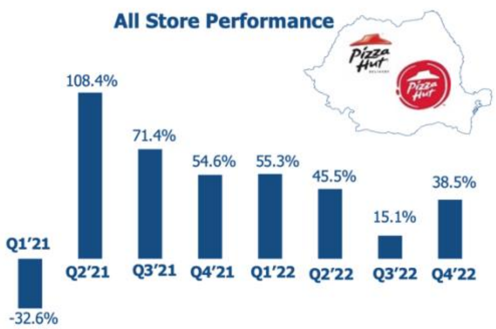



**KFC ITALY –** After a mixed 2021, USFN Italy saw a very strong 2022, with both all store and same store performance increasing significantly. Overall, in 2022, KFC Italy registered the largest YoY increase in turnover out of all the brands of the Group, with the revenues reaching RON 166.3 million, a 46% increase compared to 2021.

In 2022, USFN Italy significantly decreased the restaurant operating loss, from RON 5.9 million loss in 2021, to RON 1.7 million loss in 2022. The improving result is the result of the growing scale of operations in the market, paired with the attention to the profitability of individual units, which the management closely monitors. In this regard, in January 2023, two KFC stores in Italy were closed, KFC Verona Corso Milano and KFC Torino Moncalieri.

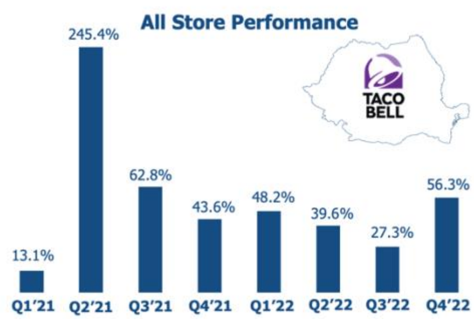
**KFC MOLDOVA –** The performance in the Republic of Moldova grew consistently throughout 2022, with the best performance recorded, in terms of YoY growth in Q3 2022, when the result increased 48%. Notable performance was registered in Q4 2022, when USFN Moldova overpassed the historic milestone of RON 5 million in sales generated in a single quarter. USFN Moldova closed 2022 with a restaurant operating profit of RON 2.7 million, a positive EBITDA of RON 2.7 million and a net result of RON 2 million.




**PIZZA HUT –** After a recovery in 2021, Pizza Hut continued sustained YoY sales increases throughout 2022. Overall, in 2022, the turnover of ARS (Pizza Hut) reached RON 122.9 million, a 37% increase compared to 2021. ARS registered restaurant operating loss of RON 2.6 million, a negative normalized EBITDA of RON 5.1 million and a normalized net loss of RON 12.9 million. Management is closely monitoring the profitability of individual units, therefore in 2022 one Pizza Hut restaurant – in AFI Cotroceni was closed.

**TACO BELL –** Taco Bell registered second-best increase in turnover in 2022, with the sales increasing 42%, up to RON 69.3 million. In 2022, the Group opened 2 new restaurants, which contributed to the all-store performance, particularly in Q4 2022. It is important to mention that Taco Bell registered in the last two subsequent quarters of 2022 restaurant operating profit, thus leading to halving of the operating loss in 2022 (RON 0.7 million) versus 2021 (RON 1.8 million). CFF (Taco Bell) ended 2022 with a positive EBITDA of RON 2.5 million and a net loss of RON 3.8 million



**Collaboration with food aggregators –** Collaboration with local food aggregators, Glovo, Tazz and TakeAway in Romania; Glovo, Deliveroo, Just Eat and UBER Eats in Italy; Straus and iFood in the Republic of Moldova continued in 2022 however the share of the third-party delivery sales and in-store sales was rebalanced. Consequently, collaboration with local food aggregators continued to be an essential pillar of the revised business and marketing strategy however due to increase of the prices of products in the applications versus in store, the profitability of these sales increased significantly. In parallel, the Group continued to develop dedicated menus, products, and bundles specifically for the aggregators to offer the Group higher margins than the traditional products sold in the store.

The total value of sales for delivery in 2022 was RON 277.4 million, a 3% decrease compared to 2021 despite the restaurants sales increasing 32% YoY. Overall, in 2022, 12% of sales for delivery were carried out using Sphera's own delivery service, which is available exclusively for KFC and Pizza Hut in Romania. The detailed table of the evolution of sales for delivery split per brand and per quarter, is presented below:

| Sales by entity, by Country | | Q1-21 | Q2-21 | Q3-21 | Q4-21 | Q1-22 | Q2-22 | Q3-22 | Q4-22 |
|---|---|---|---|---|---|---|---|---|---|
| **USFN RO** | delivery | 28% | 27% | 23% | 30% | 27% | 20% | 16% | 16% |
| | non-delivery | 72% | 73% | 77% | 70% | 73% | 80% | 84% | 84% |
| **ARS** | delivery | 57% | 53% | 42% | 56% | 49% | 40% | 38% | 39% |
| | non-delivery | 43% | 47% | 58% | 44% | 51% | 60% | 62% | 61% |
| **CFF** | delivery | 44% | 42% | 34% | 42% | 41% | 32% | 26% | 27% |
| | non-delivery | 56% | 58% | 66% | 58% | 59% | 68% | 74% | 73% |
| **USFN IT** | delivery | 25% | 16% | 11% | 12% | 14% | 12% | 9% | 10% |
| | non-delivery | 75% | 84% | 89% | 88% | 86% | 88% | 91% | 90% |
| **USFN MD** | delivery | 33% | 35% | 28% | 37% | 35% | 31% | 31% | 29% |
| | non-delivery | 67% | 65% | 72% | 63% | 65% | 69% | 69% | 71% |
| **All** | delivery | 31% | 29% | 24% | 30% | 28% | 22% | 18% | 18% |
| | non-delivery | 69% | 71% | 76% | 70% | 72% | 78% | 82% | 82% |

Depending on the brand, the terms of cooperation between the restaurants and food aggregators differ. For KFC, sales for delivery are partly made through the aggregators, partly through the call center or KFC e-commerce platform available for 11 restaurants in Bucharest and delivered through its own service. The partnership with aggregators for KFC is hybrid, and it entails using the platforms both as a marketplace and end-to-end. The decision to work with the platforms under the marketplace or end-to-end model depends on the restaurant's location and the capability to handle an increased number of deliveries. In some parts of Bucharest as well as outside of the capital city, KFC orders can only be delivered through the food aggregators.

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

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

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

The management considers the progress made in the digital area between 2020-2022 as crucial for the future and for gaining new clients as well as retaining the loyal customers, translating into higher revenues due to widespread availability of the Group's products. Moreover, with the switch to digital services, it is now easier than ever to better track customers' preferences and better understand their behavior and critical decision drivers. With OOH and traditional advertising, the capability of brands to understand customer behaviors are limited and less precise. Digital services help track the full customer journey – from the moment they click on the ad, open the website, place the order and whether they come back in the future, making the conversion much easier to track. This approach was especially helpful in the past 3 years as it helped assess the effectiveness of the campaigns in real-time and when necessary, adjustments were made daily to bring better results.

For 2023, the Group expects KFC Romania to continue to be the main contributor to the Group's performance, with other brands from the Group such as KFC Moldova, Taco Bell and KFC Italy continuing the QoQ increases and consequently improving the restaurant operating performance. However, it is important to underline that the rising inflation, growing costs of energy paired with geopolitical conflicts in Europe and the rising tension within the population (which is easy to be influenced through a spread of so called 'fake news') will continue to cause a decline in the purchasing power of the population or the willingness to eat out (be it in-store or for delivery).

# KEY EVENTS IN 2022

## COVID-19 EVOLUTION

### COVID-19 UPDATES

As of March 9th, 2022, Romania has lifted all the COVID-19 restrictions. The restrictions in Italy were lifted as of May 1st, 2022, and in the Republic of Moldova as of April 19th, 2022. With the lifting of the COVID-19 restrictions, the rent renegotiations were not substantial and in terms of technical unemployment indemnities, there were limited grants provided, which amounted to RON 0.1 million in Q1 2022. As of Q2 2022, there were no technical indemnities granted and no further rent renegotiations.

### HORECA AID IN ROMANIA

On December 30th, 2020, Emergency Ordinance 224/30.12.2020 was published that stipulates that companies from HoReCa sector can apply for a state aid in the amount that represents 20% of the loss of turnover in 2020 compared to 2019, capped at EUR 800,000 at Group level. The Group has received RON 1,313,600 for USFN Romania and RON 1,313,600 for ARS in two tranches, first one received in December 2021 and second received in January 2022.

## BUSINESS EVENTS

### DEVELOPMENT OF THE NETWORK

In 2022, Sphera opened 8 new restaurants (4 in Q1 2022, 1 in Q2 2022 and 3 in Q4 2022) of which 4 restaurants were KFC – a food court restaurant in Colosseum Mall in Bucharest and 3 drive thrus, including in KFC restaurant in Funshop Park Timisoara. The Group also opened 2 new Taco Bell restaurants – in City Park Mall Constanta and Electroputere Mall Craiova, a Pizza Hut Fast Casual Delivery restaurant in Militari Shopping Centre in Bucharest and a Pizza Hut Express restaurant in Shopping City Targu Jiu. One restaurant was closed in Q2 2022 – a Pizza Hut restaurant in AFI Cotroceni.

As of 31.12.2022, Sphera Franchise Group operated 177 restaurants: 96 KFC restaurants in Romania, 2 in Moldova and 20 in Italy, as well as 42 Pizza Hut restaurants, 15 Taco Bell restaurants, one PHD subfranchise and one Paul restaurant.

In January 2023, two KFC stores in Italy were closed, KFC Verona Corso Milano and KFC Torino Moncalieri.

### STAFF

As of December 31st, 2022, the Group had 4,935 employees, out of which 4,450 in Romania, 411 in Italy and 74 in the Republic of Moldova. The HoReCa activity restrictions during COVID-19 pandemic convinced many employees to requalify to other sectors. Therefore, throughout 2022, the Group continued the process of digitalizing its network through further deployment of digital kiosks to simplify the selling process as well as continued the project of hiring employees from abroad. So far, Sphera hired 191 employees from Sri Lanka, with most of them currently working for USFN Romania.

### RECEIVING FOOD SAFETY CERTIFICATION FOR ALL PORTFOLIO BRANDS IN ROMANIA

On June 3rd, 2022, the company informed the market about receiving the ISO 22000:2018 certification, which sets out the requirements for a food safety management system and addresses all organizations in the food industry, regardless of size or sector. The certification has been granted for all the brands in the portfolio with activity in Romania and will be subject to supervisory audits for a period of two years. Obtaining the ISO 22000:2018 certification represents a natural step in the evolution of the Group. Among the benefits of implementing such standard are: providing safe products for all customers, complying with applicable regulatory requirements for food safety, and improving risk management in food safety processes.

### DEVELOPMENT PLAN FOR TACO BELL ROMANIA

On July 11th, 2022, the Group signed a new development plan for 2022 for Taco Bell network with franchisor YUM!. Following negotiations with the representative of YUM! and Taco Bell Europe, the parties agreed that in 2022, CFF (the subsidiary operating Taco Bell restaurants in Romania) will benefit from progressive financial incentives, depending on the number of newly opened restaurants. For any exceeding of the minimum number of 2 new net restaurants, CFF will benefit from additional financial incentives. Due to the confidentiality of the agreement with YUM!, the Group cannot disclose the total amount of negotiated financial incentives.

### FISCAL UPDATES

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 December 31, 2022, 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.

## CAPITAL MARKET AND GOVERNANCE EVENTS

### GENERAL MEETING OF THE SHAREHOLDERS FROM 4.02.2022

On December 29th, 2021, the Board of Directors of Sphera Franchise Group convened the Ordinary General Meeting of the Shareholders for February 4th, 2022. During the OGSM, the shareholders elected a new Board of Directors consisting of Mr. Silviu-Gabriel Carmaciu, Mr. Mihai Ene, Mr. Lucian Hoanca, Mr. Razvan Lefter and Mr. Georgios Repidonis. The mandate of the Board of Directors is until May 30th, 2023. On February 23rd, 2022, the Board appointed Mr. Lucian Hoanca as the Chairman of the Board and Mr. Georgios Repidonis as the Vice-Chairman .

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

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

### INCLUSION IN THE FTSE GLOBAL MICROCAP

On February 18th, 2022, FTSE Russell announced that SFG shares will be included, as of March 21st, 2022, in the FTSE Russell indices for Emerging Markets, FTSE Global Micro Cap index. FTSE Global Micro Cap Index includes global micro-cap stocks, and it is suitable as the basis for investment products, such as funds, derivatives, and exchange-traded funds.

Inclusion in the FTSE index has been part of Sphera Franchise Group's strategy to increase the visibility of the company on an international arena as well as improve the daily liquidity of the shares.

### JOINING UN GLOBAL COMPACT (UNGC)

On March 21st, 2022, Sphera Franchise Group informed the market about joining UN Global Compact, the largest corporate sustainability initiative in the world. By joining the UN Global Compact, Sphera Franchise Group committed to promoting the 10 principles of the UN Global Compact on human rights, labor standards, the environment, anti-corruption and to contribute to the achievement of the 17 Sustainable Development Goals included in the 2030 Sustainable Development Agenda by the United Nations.

As part of its sustainability strategy, the Group focuses on the most efficient management of ingredients, products, and packaging through measures such as: recycling of used oil in collaboration with companies specializing in biofuel production technology, selective collection of packaging in all restaurants, according to the legislation in force. Moreover, the Group's strategy aims to reduce energy consumption, carbon footprint, and implement internal programs to prevent food waste. Sphera Franchise Group also supports human rights by providing a work environment that promotes diversity and social inclusion, which are fully recognized and respected. The Group is one of the signatories of the Romanian Diversity Charter, upholding its principles to promote diversity, non-discrimination, inclusion, and equal opportunities in the workplace.

### GENERAL MEETINGS OF THE SHAREHOLDERS FROM 28.04.2022

On March 24th, 2022, the Board of Directors of Sphera Franchise Group convened the Ordinary and Extraordinary General Meeting of the Shareholders for April 28th, 2022. The During the OGSM, the shareholders approved the 2021 financial statements as well the 2022 budget. The points on the OGSM agenda related to the remuneration, including the remuneration policy and the remuneration for the Board Members, as well as point on the EGSM agenda related to contracting a credit facility, were rejected.

The OGSM and EGSM were organized for the first time using the eVOTE solution, allowing the shareholders remote participation in the GSM, including option to cast votes beforehand or live, as well as ask questions in real time.

### DIVIDEND PAYMENT

Following the approval in the OGSM that took place on February 4th, 2022, on May 30th, 2022, Sphera Franchise Group paid the dividends amounting to RON 35 million from the undistributed net profit from 2020, to the SFG shareholders from the registration date of May 9th, 2022. The gross dividend per share amounted to RON 0.9021, and the tax was withheld at the statutory rates.

### PUBLISHING THE SUSTAINABILITY REPORT

In 2022, the Group continued its focus on sustainability and consequently, on July 1st, 2022, Sphera published the Group's Sustainability Report for the years 2020-2021. The report is available HERE. Moreover, in Q1 2022, Sphera made its ESG rating public, available at BVB Research Hub.

### GENERAL MEETINGS OF THE SHAREHOLDERS FROM 11.08.2022

On August 11th, 2022, Sphera Franchise Group held the Ordinary and Extraordinary General Meetings of the Shareholders. During the OGSM, the shareholders approved the Remuneration Policy of the Company, the monthly remuneration of the Board Members, as well as ratified the monthly remuneration due to the Members of the Board and Consultative Committees. The EGSM approved the following points related to the financing facilities with Alpha Bank contracted by the Company as well as the Group entities: increase of the amount available for utilization of the uncommitted long term loan facility, the extension of the maturity/validity of the overdraft facility and the facility for issuance of letters of guarantees agreements with maintaining all guarantees previously constituted in the guarantee of the facilities. The OGSM and EGSM were organized using the eVOTE solution.

### GENERAL MEETING OF THE SHAREHOLDERS FROM 20.12.2022

On December 20th, 2022, an Ordinary General Meeting of the Shareholders of Sphera Franchise Group was held. In the OGSM, the shareholders approved the Board of Director's proposal of dividend distribution amounting to RON 20,001,059.77 from the undistributed net profit of 2020, fixing a gross dividend per share at RON 0.5155. The ex-date for the dividend payment is March 10th, 2023, record date is March 13th, 2023, and the payment date is March 31st, 2023. The OGSM and EGSM were organized using the eVOTE solution.

### STOCK EXCHANGE EVOLUTION

After volatile first nine months of 2022, in Q4 2022, the trading activity and the evolution of SFG shares improved. Consequently, in 2022, investors traded a total of 2,774,890 SFG shares (21% of free float), in the total value of RON 41.8 million. The share price evolution in 2022 outperformed the BVB reference index BET with 4pp (SFG -6.7% vs. BET -10.7%). The total return evolution of SFG shares moreover outperformed the BET-TR index with 1.2pp (SFG -0.65% vs. BET-TR -1.85%).

# DIVIDENDS

Data in RON'000

| | 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** |

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

On December 20th, 2022, an Ordinary General Meeting of the Shareholders of Sphera Franchise Group was held. In the OGSM, the shareholders approved the Board of Director's proposal of dividend distribution amounting to RON 20,001,059.77 from the undistributed net profit of 2020, fixing a gross dividend per share at RON 0.5155. The ex-date for the dividend payment is March 10th, 2023, record date is March 13th, 2023, and the payment date is March 31st, 2023.

For the year ended December 31st, 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 December 31st, 2022:

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

As of December 31st, 2022, the value of the retained earnings of Sphera Franchise Group SA has reached the value of RON 72,932, as presented in the separate financial statements.

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

# KEY FACTORS AFFECTING GROUP'S RESULTS

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

**General economic environment in the markets** – The results of the Group can be directly affected by economic conditions, especially employment levels, inflation, real disposable income, consumption, access to consumer credit, consumer confidence, applicable taxes, and consumer's willingness to spend money in the markets and geographic areas in which it operates. In an unfavorable economic environment with a decrease in disposable income, the Group's customers may reduce the frequency with which they dine out or order-in or may choose more inexpensive dining options. This risk continues to be significant for 2023 due to the estimated high inflation as well as growing energy costs, both particularly heightened because of the geopolitical conflict caused by the war in Ukraine. A decrease in disposable income may affect the customer traffic, frequency, average ticket size as well as the Group's ability to pass the cost increases onto its customers. Nonetheless, this trend is offset by the overall affordability of the Groups products, which may also lead to the Group attracting new clients, amongst the customers who may substitute more expensive dining options with Group's products.

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

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

**Lockdowns** – The risk of the lockdown, in the context of COVID-19 pandemic but also other pandemics, continues to be heightened even though there is a consensus that the impact of the COVID-19 pandemic in 2023 will be lower than to that of 2022. Nonetheless, there always exists a chance that lockdowns including the temporary closure of restaurants, hotels, cafes, clubs, shopping malls, gradual closure of borders, limiting or prohibiting the movement of vehicles or people in/to certain areas can be implemented throughout Europe, including in the countries of activity of the Group. The lockdowns can be applied at the national level, impacting all the restaurants of the Group in one country of operation, as well as at a local level, impacting restaurants located in certain municipalities or regions that are subject to restrictions. The rapid change in the strategy of the Group starting 2020 and the reliance on the delivery and take-out services to generate revenues have prepared the Group for another potential lockdown, thus lowering the extent of the negative impact of this risk.

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

**Price risk –** Cost of sales represents the most significant expense of the Group. Gross margin is affected by a number of factors, like movements in the cost of sales (including with respect to the prices of raw materials, or energy prices), the extent to which the Group can negotiate favorable prices and rebates from suppliers as well as the mix of products that it sells from time to time. The Group seeks to procure its principal inputs from multiple suppliers, in the event that the Group's primary suppliers cannot deliver the components in the contracted amounts and specifications, the Group's requirements exceed the Group's minimum contracted amounts, or the Group is subjected to unanticipated price increases. Prices of the Group's raw materials are generally set by market conditions and the Group is not always able to pass these changes along to the Group's customers, particularly in the short term. The Group seeks to manage factors which put pressure on the Group's gross margin. For example, the Group maintains relationships with additional suppliers.

**Payroll –** Cost of labor represents the second most important expense for the Group and was the fastest growing expense item at restaurant level over the past years. It is expected for the personnel costs to grow proportionally with the growth of the number of the restaurants and the restaurant revenue. Factors that influence fluctuations in the labor costs include minimum wage and payroll tax legislation, the frequency and severity of labor-related claims, health care costs, the performance of restaurants, new openings and whether new employees are fixed overhead costs or are restaurant hires. Moreover, COVID-19 pandemic put additional pressure on the HoReCa industry as many employees decided to requalify to other sectors. Consequently, in 2022 the Group continued the project of hiring employees from abroad, particularly Sri Lanka.

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

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

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

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

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

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

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

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

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

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

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

*Investors should consider that the factors presented above are the most significant risks that Sphera Franchise Group is aware of at the time of redacting this report. However, the risks presented in this section do not include all the risks associated with the issuer's activity, and the Group cannot guarantee that it includes all the relevant risks for 2023. There may be other risk factors and uncertainties of which the Group or the companies within the Group is not aware at the time of preparing this report and which may in future modify the actual results, financial conditions, performances, and achievements of the issuer and may lead to a decrease in the price of the Group's shares. Investors should undertake pre-requisite checks to prepare their investment opportunity assessment. The management recommends investors to read a more elaborated list of risks that Sphera Franchise Group is subject to, that was included in the Listing Prospectus, available here, which nonetheless cannot be treated as exhaustive.*

# FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Group's principal financial liabilities comprise loans and borrowings, 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. Changes in interest rates impact primarily loans and borrowings by changing their future cash flows (variable rate debt). Management policy is to resort mainly to variable rate financing. However, at the time of rising new loans or borrowings management uses its judgment to decide whether it believes that fixed or variable rate would be more favorable to the Group over the expected period until maturity. The Group does not hedge its interest rate risk.

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

**Foreign currency risk –** Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's financing activities, as the financing contracted by the Group is Euro based. Most revenues and expenses, trade and other receivables and payables is in RON. The Group monitors the currency risk by following changes in exchange rates in currencies in which its intercompany balances and external debts are denominated. The Group does not have formal arrangements to mitigate its currency risk.

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

**Credit risk –** The Group is not significantly exposed to credit risk as the majority of its sales are on a cash basis. The Group's credit risk is primarily attributed to trade and other receivables and balances with banks, 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 plus cash and cash equivalents, 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% - BB 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.

On a standalone basis, the carrying amount of trade and other receivables, plus balances with banks, plus the loans and receivables from related parties represent the maximum amount exposed to credit risk.

**Liquidity risk –** The Group has adopted a prudent financial liquidity management approach, assuming that sufficient cash and cash equivalents are maintained, and that further financing is available from guaranteed funds from credit lines. As of December 31$^{st}$, 2022, the Group had available RON 60.4 million of undrawn uncommitted borrowing facilities (December 31$^{st}$, 2021: RON 36 million), thus being able to respond to any unforeseen higher cash outflow needs.

On a standalone basis, on December 31st, 2022, the Company had available RON 70.3 million of undrawn borrowing facility from US Food Network SA (December 31st, 2021: RON 70.4 million) , RON 10 million from the bank credit facility with Vista Bank (December 31st, 2021: RON 10 million) and RON 1.2 million from the bank credit facility with Alpha Bank (December 31st, 2021: 0) thus being able to respond to any unforeseen higher cash outflow needs.

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

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

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

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

Calculation of consolidated gearing ratio is presented below:

| Data in RON'000 | 31 December 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% |

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

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

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

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

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

# INTERNAL CONTROL

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# 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.

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 favor of suppliers as at December 31st, 2022 in amount of RON 14.7million (31 December 2020: RON 15.7 million).

## Other contingencies

*Taxation*

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

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

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

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

*Transfer pricing*

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

The Group has prepared transfer pricing files.

*Legal proceedings*

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

In 2019, USFN, alongside the owner of the building where one of the KFC drive-through restaurant is operating, has been sued by a third party acting as plaintiff in connection with utilities pipes (electrical, gas and water) [sub]crossing plaintiff's plot in absence of a pre-agreement. Plaintiff requests from USFN and the landlord, inter alia, payment of liquidated damages in amount of 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.

# ENVIRONMENTAL MATTERS

As of 31 December 2022, the Company incurs no debts relating to anticipated costs relating to environmental aspects. The Company does not consider that costs relating to environmental aspects are significant.

Chairman of the Board of Directors
Lucian Hoanca

L.S.

# CORPORATE GOVERNANCE

SPHERA

# BVB CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

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

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

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| same is to be deemed independent in terms of character and judgment. | | | those laid down in the Companies Act), consisting of an individual assessment conducted by the relevant Board member, followed by an external assessment.<br><br>Moreover, in view of the preparation of the Corporate Governance Report of the Annual Report, the Company reconfirmed with all Board members their independence or non-independence on 31 December 2022.<br><br>This assessment showed that, in 2022, and one Board member met all the criteria of independency set out in the Corporate Governance Code.<br><br>Information on the independence of the Board members is available at the Company's headquarters. |
| **A.5.** Any other relatively permanent professional commitments and obligations of a member of the Board, including executive and non-executive positions in the Board of companies and non-profit institutions, shall be disclosed to the shareholders and prospective investors prior to nomination and during the term of office thereof. | x | | Information on the permanent professional commitments and obligations of the Board members, including executive and non-executive positions within companies and non-profit institutions, can be found in the CVs of the Board members, available at the Company headquarters, as well as are included in this report. |
| **A.6.** Any member of the Board shall present the Board with information on any relation with a shareholder holding, either directly or indirectly, shares representing more than 5% of all voting rights. | x | | The Board members and the Executives have, under the law, duties of care and loyalty to the Company, stipulated in the Articles of Association of the Company and in other internal regulations of the Company. The Company has also implemented internal regulations on the ways to address situations of conflicts of interest. |
| **A.7.** The Company shall appoint a Secretary of the Board to be in charge of supporting the activity of the Board. | x | | The Company has a General Secretary who supports the Board activities. |
| **A.8.** The Corporate Governance Statement shall stipulate whether a Board assessment has taken place under the direction of either the Chairperson or the Nomination Committee and, if so, shall summarize the key measures and the resulting changes. The Company shall have a policy/guide regarding Board assessment, including the purpose, criteria and frequency of the assessment process. | | x | The Company has a Board Self-assessment Guide that stipulates the purpose, criteria and frequency of such an assessment. Based on this guide, the Board conducted a self-assessment process for the financial year of 2022 under the direction of the Chairperson of the Board. |
| **A.9.** The Corporate Governance Statement shall contain information on the number of Board and Committee meetings over the past year, the participation of the directors (in person and in default) and a Report by the Board and Committees on their activities. | x | | The Company executives shall meet at least once a week and the Board shall meet whenever necessary, but at least once every three months. During 2022, 15 Board meetings took place, of which 2 were by electronic means (e-board). Of the 13 with physical presence, 12 were full attendance and only one with partial attendance (4/5). There were additionally 5 meetings of the Audit Committee, all with full attendance, and 3 meetings of the Nomination & Renumeration Committee, all with full attendance. |
| **A.10.** The Corporate Governance Statement shall include information on the exact number of independent members of the Board. | x | | The assessment of the Board members' independence based on the independence criteria set out in the Corporate Governance Code (which are essentially similar to those provided for by the Companies Act) showed that, in 2022, one (1) Board member met all the criteria of independence provided for by the Corporate Governance Code and thus1 Board member of Sphera Franchise Group is independent. |

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| **A.11.** The Board of companies in the Premium Category shall set up a Nomination Committee, consisting of non-executive members, to direct the nomination of any new Board members and to submit recommendations to the Board. Most members of the Nomination Committee shall be independent. | | x | The members of the Board are appointed by the Ordinary General Shareholders' Meeting, on the basis of a transparent proposal procedure and by the majority of the shareholders' votes, as laid down in the Company Articles of Association and the applicable laws. Before holding the Ordinary General Shareholders' Meeting, the candidates' CVs are available for consultation by the shareholders, and the shareholders can supplement the list of candidates for Board membership.<br><br>The Company has a Nomination & Remuneration Committee composed of 3 (three) members, elected by the Board from among its members, and one of the members of the Nomination Committee is elected as the Chair. The main role of the Nomination Committee is to submit recommendations concerning the nomination of candidates for appointment to the Board.<br><br>In the perspective of the Corporate Governance Code, the Nomination Committee does not fully comply with the compliance requirements, which places the company in the area of "partial compliance" as most of the nominating committee members are not independent, but all are non-executive members. |
| **Section B – The risk management and internal control system** | | | |
| **B.1.** The Board shall set up an Audit Committee, in which at least one member shall be independent and non-executive. Most members, including the Chair, shall have proven appropriate qualification relevant to the functions and responsibilities of the Committee.<br><br>At least one member of the Audit Committee shall have proven adequate experience in auditing or accounting. In the case of companies in the Premium Category, the Audit Committee shall consist of at least three members and most members of the Audit Committee shall be independent. | x | | The Board of Sphera Franchise Group has set up an Audit Committee composed of part of its members. Therefore, the members of the Audit Committee are all non-executives.<br><br>In 2022, the Audit Committee was made up of three members of the Board, out of which one member, the Chairman, met all the criteria of independence set out in the Corporate Governance Code.<br><br>The Audit Committee includes members with proper certifications corresponding to the functions and responsibilities held in the Audit Committee, and one member also has the necessary certifications in the financial, auditing and accounting area. |
| **B.2.** The Chair of the Audit Committee shall be an independent non-executive member. | x | | As members of the Board, all members, including the Chair of the Audit Committee, are non-executive. The Chair of the Audit Committee meets the criteria of independence. |
| **B.3**. As part of its responsibilities, the Audit Committee shall carry out an annual assessment of the internal control system. | x | | The Terms of Reference for the Audit Committee detail the role and duties of the Audit Committee, which primarily consist of:<br><br>(i) Reviewing and revising the individual and consolidated annual financial statements and the profit sharing proposal; |
| **B.4.** The assessment shall take into account the effectiveness and scope of the internal audit function, the adequacy of the risk | x | | |

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| management and internal control reports submitted to the Board Audit Committee, the promptness and effectiveness with which the executive management addresses any deficiencies or weaknesses identified as a result of the internal control and the submission of relevant reports to the Board. | | | (ii) Reviewing and submitting recommendationson the appointment, re-appointment or revocation of the external independent financial auditor for approval thereof by the Ordinary General Shareholders' Meeting;<br>(iii) Carrying out an annual assessment of the internal control system, taking into account the effectiveness and purpose of the internal audit function, the adequacy of the risk management and internal control reports submitted to the Audit Committee, the promptness and effectiveness with which the executive management addresses any deficiencies or weaknesses identified as a result of the internal control and the submission of relevant reports to the Board;<br>(iv) Assessing any conflicts of interest in connection with the transactions of the Company and its subsidiaries with related parties;<br>(v) Assessing the effectiveness of the internal control and risk management systems;<br>(vi) Monitoring the application of the legal standards and generally accepted internal audit standards;<br>(vii) Receiving, on a regular basis, a summary of the main findings of the audit reports, as well as other information on the activities of the Internal Audit Department and assessing the reports of the internal audit team;<br>(viii) Reviewing and revising the transactions with related parties that exceed or are expected to exceed 5% of the Company net assets from the previous financial year, prior to their submission to the Board for approval purposes, in accordance with the Policy on Related Party Transactions. |
| **B.5.** The Audit Committee shall assess any conflicts of interest in connection with the transactions of the Company and its subsidiaries with related parties. | **X** | | |
| **B6.** The Audit Committee shall assess the effectiveness of the internal control and risk management systems. | **X** | | |
| **B.7** The Audit Committee shall monitor the application of the legal standards and generally accepted internal audit standards. The Audit Committee shall receive and assess the reports of the internal audit team. | **X** | | |
| **B.8.** Whenever the Code mentions reports or analyses initiated by the Audit Committee, these shall be followed by regular reports (at least annual reports) or ad hoc reports to be subsequently submitted to the Board. | **X** | | The Audit Committee regularly presents the Board with reports on the specific issues that have been assigned to it. |
| **B.9.** No shareholder may be granted preferential treatment over other shareholders in connection with transactions and agreements entered into by the Company with the shareholders and affiliates thereof. | **X** | | The Company grants equal treatment to all its shareholders. Related party transactions are treated objectively, in accordance with the usual industry standards, and the applicable laws and corporate regulations. |
| **B.10.** The Board shall adopt a policy to ensure that any transaction of the Company with any of the companies with which it has close ties, whose value is equal to or greater than 5% of the Company net assets (according to the latest financial report), is approved by the Board following a binding opinion of the Board Audit Committee and is properly | **X** | | The Company has adopted the key principles for reviewing, approving, and publishing transactions with related parties in accordance with the applicable regulations and Company corporate documents, including the fact that Company transactions with related parties that exceed or are expected to exceed, either individually or in aggregate, an annual value of 5% of the Company net assets from the previous financial year, shall be approved by the Board, based on the opinion of the Audit |

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| disclosed to the shareholders and prospective investors to the extent that such transactions fall within the category of events subject to reporting requirements. | | | Committee.<br>Sphera Franchise Group submits regular reports on related party transactions to the Financial Supervisory Authority and the Bucharest Stock Exchange. These reports are reviewed by an independent financial auditor in accordance with the relevant legislation in force. |
| **B.11.** Internal audits shall be performed by a structurally separate division (the Internal Audit Department) within the Company or by hiring an independent third party. | x | | The Internal Audit function was established as of September 2022. |
| **B.12.** In order to ensure the fulfilment of the primary functions of the Internal Audit Department, functionally speaking, it shall report to the Board by means of the Audit Committee. For administrative purposes and as part of the responsibilities of the management to monitor and reduce risks, it shall report directly to the Chief Executive Officer. | x | | The Internal Audit function reports functionally to the Board by means of Audit Committee and to the CEO for administrative purposes. |
| **Section C – Fair reward and motivation** | | | |
| **C.1.** The Company shall publish the Remuneration Policy on its website and shall include a statement on the implementation of the Remuneration Policy in the Annual Report during the annual period under review. Any key change in the Remuneration Policy shall be published on the Company website in a timely manner. | x | | The Company has a Remuneration Policy in place adopted by way of OGSM Resolution no. 1 of August 11th, 2022, and consistently applies the remuneration principles with respect to the Company's managers, i.e. (i) to any member of the Board of Directors, as well as to (ii) any executive manager. These basic remuneration principles are listed in the Corporate Governance Report. |
| **Section D – Adding value by way of the investor relations** | | | |
| **D.1.** The Company shall organize an Investor Relations Service - indicating to the general public the officer(s) in charge or the relevant organizational unit. In addition to the information required by law, the Company shall include on its website a section dedicated to Investor Relations, in both Romanian and English, with all the relevant information of interest to investors, including:<br>• The main corporate regulations: Articles of Association, the procedures regarding the General Shareholders' Meetings (GSM);<br>• The professional CVs for the members of the Company management bodies, other professional commitments of the Board members, including executive and non-executive positions in the Boards of Directors of companies or non-profit institutions;<br>• Current and regular reports (quarterly, half-yearly and | x | | All the information as specified by the D1 provision is provided on the issuer's website. |

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| annual);<br>• Information on the General Shareholders' Meetings;<br>• Information on the corporate events;<br>• The name and contact details of a person who can provide relevant information, on request;<br>• Company presentations (e.g., investor presentations, quarterly result presentations, etc.), financial statements (quarterly, half-yearly, annual), Audit Reports, and Annual Reports. | | | |
| **D.2.** The Company shall have a policy on the annual distribution of dividends or other benefits to the shareholders. The principles of the policy of annual distribution to the shareholders shall be published on the Company website. | x | | The Company Dividend Policy is published on the Company website in the Corporate Governance section, the Policy and Documents Subsection. |
| **D.3.** The Company shall adopt a policy regarding forecasts, whether they are made public or not. Forecasts mean quantified conclusions of various studies aimed at determining the overall impact of a number of factors for a future period (the so-called assumptions): by its nature, a forecast has a high level of uncertainty, and the actual results can vary significantly from the original forecasts. The Forecast Policy shall determine the frequency, period considered and content of the forecasts. If published, the forecasts may only be included in the annual, half- yearly or quarterly reports. The Forecast Policy shall be published on the Company website. | x | | The Company has a Forecast Policy, which is published on the Company website in the Corporate Governance section, the Policy and Documents Subsection. |
| **D.4.** The rules of the General Shareholders' Meetings shall not limit the participation of shareholders in the general meetings or the exercise of their rights. Any amendments to these rules take effect, at the earliest, starting with the next Shareholders' Meeting. | x | | Information on the organization of the General Shareholders' Meetings is mentioned in the Company Articles of Association, as well as the Corporate Governance Report, in brief. Since 2017, Sphera Franchise Group has in place a Shareholders Meeting Procedure and publishes detailed convening notices for each GSM, describing in detail the procedure to be followed during each GSM. In order to welcome the exercise of shareholders' rights and to ensure total transparency on corporate events, starting with April 2022 OGSM meeting, Sphera concluded a partnership with e-Vote through which it facilitated shareholders' access to general shareholders meetings through a online platform. Thus, the Company ensures that the General Shareholders' Meetings are properly managed and organized, and the shareholders' rights are respected. |
| **D.5.** Independent financial auditors shall be present at the | x | | The independent financial auditors participate in the Ordinary General Shareholders' |

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| General Shareholders' Meeting when their reports are presented at these meetings. | | | Meetings where the individual and consolidated annual financial statements are subject to approval. |
| **D.6.** The Board should present to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting. | | x | The information about the internal controls and significant risk management system is provided in the Annual Report. Shall the question related to the internal control and significant risk management system be asked during the annual meeting, the question will be addressed by the Board. |
| **D.7.** Any specialist, consultant, expert, or financial analyst may take part in Shareholders' Meetings on the basis of a prior invitation from the Chairperson of the Board. Accredited journalists may also attend General Shareholders' Meetings, unless otherwise decided by the Chairperson of the Board. | x | | The GSM Rules and Procedures provide for the possibility for any specialist, consultant, expert, financial analyst or accredited journalist to participate in the GSM on the basis of a prior invitation from the Chairperson of the Board. |
| **D.8.** The quarterly and half-yearly financial reports shall include information in both Romanian and English on the key factors that influence change in terms of sales levels, operating profit, net profit and other relevant financial indicators, from one quarter to the next, and from one year to the next. | x | | The quarterly and half-yearly financial reports include information in both Romanian and English on the key factors that cause changes in terms of sales levels, operating profit, net profit and other relevant financial indicators, from one quarter to the next, and from one year to the next. |
| **D.9.** A Company shall hold at least two meetings/teleconferences with analysts and investors each year. The information presented on these occasions shall be published in the Investor Relations section of the Company website at the time of the meetings/teleconferences. | x | | Sphera Franchise Group holds individual meetings and teleconferences with financial analysts, investors, brokers, and other market specialists on a quarterly basis to present the financial elements which are relevant to the investment decision. The company holds a total of six results calls during the year – 4 quarterly calls in English, and 2 half-yearly calls in Romanian (on top of same calls in English, to ensure equal access to information and to the management to all the stakeholders). Investor presentations, updated on a quarterly basis, are made available at the time of the meetings/teleconferences and on the Company website, in the Investor Relations section. |
| **D.10.** If a Company supports various forms of artistic and cultural expression, sporting, educational or scientific activities and deems their impact on the Company innovation and competitiveness to be part of its mission and development strategy, it will publish its policy on its activity in this field. | x | | Sphera Franchise Group carries out various activities related to social and environmental responsibility. For further details, please also go to the section of the Annual Report on the Consolidated Non-financial Statement. |

# CONSOLIDATED NON-FINANCIAL STATEMENT

SPHERA

# CONSOLIDATED NON-FINANCIAL STATEMENT[2]

**The Group will issue a 2022 Sustainability Report by June 30th, 2023. The report will provide details on the progress made by the Group in 2022 with regards to ESG aspects. Consequently, this annual report only provides a brief overview of the Group's approach towards non-financial topics.**

## THE GROUP BUSINESS MODEL

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

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

## APPLIED DUTY OF CARE PROCEDURES

In 2022, there were no duty of care procedures specifically formalized and/or taking the form of policies at Group level, and the duty of care issues were pursued on a case-by-case basis and/or for various activities, as reflected in the usual practices of the relevant market in which the Group operates, in the spirit of art. 803 of the Civil Code. In spite of the lack of a duty of care procedure and/or policy at Group level, business (and other) decisions were based on the best strategies and principles for reducing any related risk, as well as the rules of honesty and loyalty.

## SOCIAL RESPONSIBILITY, SOCIAL, ENVIRONMENTAL AND DIVERSITY-RELATED ISSUES

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

Sphera Group has Governance and ESG Reporting Policy, available HERE. For 2022, the company has prepared the Risks and Opportunities of Climate Change report, available HERE.

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

In 2022, there was no formalized diversity policy with respect to the administrative and management bodies of Sphera and/or its subsidiaries on issues such as age, gender or education and professional experience. However, in order to promote equality and diversity, the Group has set up a series of policies which it monitors and assesses using various tools, constantly monitoring their progress. We believe that the most appropriate

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

way to manage equal opportunities and diversity is for these to be present in every process and function. Moreover, they must be considered an integral part of the decision-making in terms of policies and must be present in the Group program planning.

Therefore, the Group activities include developing relations with people from different cultural contexts and promoting equal opportunities through different policies and tools. Moreover, the Code of Conduct (Section 5) of Sphera Franchise Group covers aspects such as equal opportunities, diversity and non-discrimintaiton.

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

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

One of the principles of Sphera Franchise Group's strategy is based on the idea that external relationships with customers, consumers and partners should reflect the standards and behaviors on the basis of which we direct diversity internally. The strategy matches the vision of inclusion and diversity, whereby each individual is able to fulfil his/her potential and to make his/her contribution to the Company.

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

**Equal opportunities** - By means of our Equal Opportunities actions, we make sure that there is no undue discrimination in the recruitment, retention and training of employees based on, but not limited to gender, civil status, sexual identity, religion and belief, political options, ethnicity/race, working time, age, disabilities, social & economic context. **Internal human resources approach** - supports recruitment in order to enhance the diversity of the workforce. The recruitment process actively supports and promotes diversity, for example, by asking applicants to be open, to be able to speak more than one foreign language, to have multicultural experience, as well as an attachment to equal opportunities, etc.

**Training and career development for own employees –** There is a firm commitment to offer employees the chance for a continuous learning opportunity and personal development that will allow them to continue their career development. All our new employees go through a thorough training process covering overall standards, understand the business and operations as well as the job-specific procedures.

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

- Workshops for the managers on the management of the employees' cultural diversity and differences.
- Operationalization and development of "skills" such as: empathy, self-assessment and reflection, openness, flexibility, and emotional stability;
- Identification of stereotypes that can be found in both employees and managers and inclusion of activities addressing them in the training;
- Training programs for the managers teaching them to identify different employee needs and ways to make them feel valued;

- Training for the managers in adequately managing situations in which an employee has different opinions than the manager's with respect to a task or decision;

**Performance evaluation –** Compensation of employees is linked with performance. The performance of each employee is evaluated based on measurables indicators. Allocation of tasks and projects are done objectively without any bias. Human resources processes support these goals. This includes:

- Introducing in the managers' performance evaluation a component of efficient behaviors.
- Identifying the employees' needs (of appreciation, recognition, development) and the extent to which managers manage the work teams taking these needs into consideration.
- Establishing measurable indicators for the evaluation of employees' performance, including them in the pay and reward system;
- Assigning tasks and projects based on objectives, instead of personal preferences or divergences.

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

**Environmental protection –** The Company's philosophy is to minimize the impact on the environment and leave the smallest footprint possible. There is a strong commitment to create a sustainable business, starting from sourcing the raw materials to the design, packaging of the final products and how the restaurants are built. The Company is committed to safety and quality and, in the meantime, to the preservation and protection of the nature and its resources by using only what is necessary, reduce waste and focus each day to enhance the livelihoods of the Company's employees and surrounding communities.

## THE COMPLIANCE POLICY AND THE ANTI- BRIBERY POLICY

As of Q4 2020, Sphera Franchise Group implemented Anti-Money Laundering (AML) Procedures and all suppliers are currently provided with such. In May 2022, a Compliance Manual and an Anti-Bribery Policy were implemented at the level of the Group. Sphera Franchise Group prohibits the involvement of employees in bribery and has a zero-tolerance policy on bribery and corruption. The Group prohibits bribery, offering or offering bribes, as well as soliciting, accepting or receiving bribes so that the Group values are respected and its reputation is protected. There have been no cases of corruption within the organization, and we are very careful in preventing their occurrence.

## KEY PERFORMANCE INDICATORS RELATED TO NON-FINANCIAL STATEMENTS

### Environment

| Objectives | Targets | Progress in 2022 |
|---|---|---|
| **Energy efficiency**<br><br>Reducing the energy consumption and carbon footprint of the organization. | 100% energy efficiency lighting (LED lighting) – by 2024. | Energy efficiency lighting in all Drive Thru and street restaurants. Energy efficiency lighting in all newly opened and renovated restaurants. |
| **Sustainable materials and packaging**<br><br>Increasing sustainable material and packaging purchases. | 100% of consumption packaging made of recoverable or reusable plastic – by 2025. | We have 100% replaced plastic straws with paper ones and we have 100% replaced plastic bags.<br>We replaced all products in the single-use plastics category according to the relevant European Directive. Various items containing plastic are marked with the 'Plastic in product' pictogram – wet wipes and cups. |

### People

| Objectives | Targets | Progress in 2022 |
|---|---|---|
| **Human rights**<br><br>A 'sought-after' employer by ensuring a non-discriminative workplace, diversity and inclusion. | 2% of staff hired from vulnerable communities or from among persons with disabilities, as well as various nationalities, by 2023. | In our recruitment processes, we address vulnerable communities and a diverse range of nationalities and employ people with disabilities, totaling already over 2% of all employees. |
| **Employees' health and safety**<br><br>The ensuring of a safe work environment for the employees. | 50% of the operations training programs should be available on apps/in digital format or using gamification, by 2022. | 90% of operations training programs are available on digital learning platforms. |
| **Employees' satisfaction and well- being**<br><br>Acknowledgment as the most sought-after employer by ensuring a pleasant, stable and safe working environment. | 80% rate of internal promotion for restaurant management positions, by 2025. | In 2020, we launched the 'E-learn@SPHERA' project based on a digital learning platform including 12 major categories of topics and over 600 different courses. We reached 75% in-house promotion rate; we continue implementing skill development programs and closely monitoring the in-house human potential. |

### Governance Responsibility

| Objectives | Targets | Progress in 2022 |
|---|---|---|
| **Responsible suppliers**<br><br>Ensuring that all our requirements are met and we work closely with suppliers to maintain high standards. | Audits of basic product suppliers according to the Code of Ethics and Conduct and the Sustainability Approach, by 2025. | The Code of Conduct is signed by all our suppliers under their own responsibility. We conduct regular audits for our basic products, both internally and externally. |
| **Digitalizing stores**<br><br>Use of new technologies for ordering to improve our customers' and employees' experience. | 100% of restaurants equipped with kiosk ordering systems (where the surface area and design allow it), by 2021. | By the end of 2022, all KFC and Taco Bell restaurants were equipped with kiosk ordering systems, where the surface area and design allowed it. In Italy, the Group reached 100% compliance. Sphera continues to pursue the implementation of these systems in all newly opened restaurants. |

| | | |
|---|---|---|
| **Digital menu boards**<br><br>Digital menu communication to improve our customers' and employees' experience. | 100% of restaurants equipped with digital menu boards, in all KFC and Taco Bell restaurants, by 2022. | All KFC and Taco Bell locations are equipped with digital menu boards. Sphera is committed to continuing equipping all newly opened restaurants with digital menu boards. |

There were no cases of discrimination or child labor in 2022.

We are currently working on our 4th Sustainability Report for 2022, which will be published in the beginning of July 2023 and the progress on each indicator above will be reflected in it.

## RISK MANAGEMENT

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


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

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

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

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

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

All three subsidiaries of Sphera operating in Romania - KFC (US Food Network SA), Pizza Hut & Pizza Hut Delivery (American Restaurant System) and Taco Bell (California Fresh Flavors) brands - are certified in the management food safety ISO 22000:2018.

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

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

# DECLARATION FROM THE MANAGEMENT

According to the best information available we confirm that the individual and consolidated financial information included here offer the real and accurate situation on the company's financial position on 31 December 2022, on the financial performance and cash-flow, according to financial and accounting standards applicable to date, and that the Annual Report for the period of 1 January 2022 to 31 December 2022 transmitted to the market operator, Bucharest Stock Exchange and to the Financial Supervisory Authority presents accurate and complete information about the company.

Chairman of the Board of Directors
Lucian Hoanca

L.S.

# SPHERA FRANCHISE GROUP SA

## CONSOLIDATED FINANCIAL STATEMENTS

Prepared in accordance with 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 | Chief Financial Officer |
| Calin Ionescu | Valentin Budes |

| | 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** |

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.

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** |

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.

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** |

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.

## 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.

## 2. 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.

## 2. 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.

All amounts in RON thousand, unless specified otherwise

## 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).

All amounts in RON thousand, unless specified otherwise

## 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** |

All amounts in RON thousand, unless specified otherwise

## 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)** |

All amounts in RON thousand, unless specified otherwise

**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.

All amounts in RON thousand, unless specified otherwise

## 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).

All amounts in RON thousand, unless specified otherwise

## 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).

All amounts in RON thousand, unless specified otherwise

## 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** |

All amounts in RON thousand, unless specified otherwise

## 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”).

## 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** |

All amounts in RON thousand, unless specified otherwise

## 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.

## 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.

All amounts in RON thousand, unless specified otherwise

## 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** |

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.

All amounts in RON thousand, unless specified otherwise

## 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.

## 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** |

All amounts in RON thousand, unless specified otherwise

## 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 |

All amounts in RON thousand, unless specified otherwise

**26. SEGMENT INFORMATION (continued)**

| 2021 | KFC | Pizza Hut | Taco Bell | Other | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Revenues from external customers | 861,530 | 90,011 | 48,771 | - | - | 1,000,312 |
| Inter-segment revenues | - | - | - | 28,967 | (28,967) | - |
| Other restaurant income* | 1,313 | 1,314 | - | - | - | 2,627 |
| Dividend revenues | - | - | - | 37,525 | (37,525) | - |
| Operating expenses | 820,670 | 99,263 | 50,801 | 35,962 | (41,490) | 965,206 |
| **Segment operating profit / (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.

All amounts in RON thousand, unless specified otherwise

## 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 | Chief Financial Officer |
| Calin Ionescu | Valentin Budes |

## SPHERA FRANCHISE GROUP SA

### SEPARATE FINANCIAL STATEMENTS

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

## 31 December 2022

## CONTENTS

All amounts in RON thousand, unless specified otherwise

| | Note | 2022 | 2021 |
|---|---|---|---|
| **Revenues** | | | |
| Dividend revenues | 19 | 50,502 | 37,525 |
| Revenue from contracts with related parties | 19 | 35,080 | 28,968 |
| Other income | | 129 | - |
| **Total revenues** | | **85,711** | **66,493** |
| **Expenses** | | | |
| Payroll and employee short-term benefits | | 29,506 | 24,417 |
| Impairment loss of investments in subsidiaries | 10 | 4,022 | 5,400 |
| Other expenses | 5 | 7,096 | 6,154 |
| **Total expenses** | | **40,624** | **35,971** |
| **Profit from operating activities** | | **45,087** | **30,522** |
| Finance costs | 6.1 | 3,046 | 2,259 |
| Finance income | 6.2 | 1,806 | 1,675 |
| **Profit before tax** | | **43,847** | **29,938** |
| Income tax expense | 7 | 464 | 139 |
| **Profit** | | **43,383** | **29,799** |
| **Comprehensive income** | | **43,383** | **29,799** |

These separate financial statements from page 2 to page 40 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

All amounts in RON thousand, unless specified otherwise

| | Note | 31 December 2022 | 31 December 2021 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | **663,901** | **666,947** |
| Property, plant and equipment | 8 | 1,757 | 2,252 |
| Right-of-use assets | 12 | 4,597 | 4,324 |
| Intangible assets | 9 | 450 | 116 |
| Investments in subsidiaries | 10 | 656,575 | 624,064 |
| Loan and other receivables | 14 | 44 | 35,248 |
| Deferred tax asset | 7 | 478 | 943 |
| **Current assets** | | **100,552** | **94,270** |
| Trade and other current receivables (including short-term loans) | 14 | 71,859 | 81,605 |
| Current prepayments | | 160 | 320 |
| Cash and cash equivalents | 15 | 28,533 | 12,345 |
| **Total assets** | | **764,453** | **761,217** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Issued capital | 16 | 581,990 | 581,990 |
| Legal reserve | | 10,611 | 8,419 |
| Retained earnings | 16 | 72,932 | 86,743 |
| Reserves for share-based remuneration | 19 | 1,502 | - |
| **Total equity** | | **667,034** | **677,152** |
| **Non-current liabilities** | | **59,501** | **38,963** |
| Long-term borrowings | 11 | 55,643 | 35,147 |
| Non-current lease liabilities | 12 | 3,859 | 3,816 |
| **Current liabilities** | | **37,917** | **45,102** |
| Short-term borrowings | 11 | 8,858 | 37,621 |
| Current lease liabilities | 12 | 1,165 | 946 |
| Trade and other current payables | 18 | 27,894 | 6,535 |
| **Total liabilities** | | **97,419** | **84,065** |
| **Total equity and liabilities** | | **764,453** | **761,217** |

These separate financial statements from page 2 to page 40 were approved by the Board of Directors and were authorised for issue on 23 March 2023.

All amounts in RON thousand, unless specified otherwise

| | Issued capital | Reserves for share-based remuneration | Legal reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **As of 1 January 2022** | **581,990** | **-** | **8,419** | **86,743** | **677,152** |
| Profit | - | - | - | 43,383 | 43,383 |
| **Total comprehensive income** | **-** | **-** | **-** | **43,383** | **43,383** |
| Share-based remuneration (Note 19) | - | 1,502 | - | - | 1,502 |
| Legal reserves | - | - | 2,192 | (2,192) | - |
| Dividends declared (Note 17) | - | - | - | (55,002) | (55,002) |
| **As of 31 December 2022** | **581,990** | **1,502** | **10,611** | **72,932** | **667,034** |

| | Issued capital | Legal reserves | Retained earnings | Total equity |
|---|---|---|---|---|
| **As of 1 January 2021** | **581,990** | **6,922** | **93,442** | **682,354** |
| Profit | - | - | 29,799 | 29,799 |
| **Total comprehensive income** | **-** | **-** | **29,799** | **29,799** |
| Legal reserves | - | 1,497 | (1,497) | - |
| Dividends declared (Note 17) | - | - | (35,001) | (35,001) |
| **As of 31 December 2021** | **581,990** | **8,419** | **86,743** | **677,152** |

The share capital has not suffered any changes during 2022 and 2021.

These separate financial statements from page 2 to page 40 were approved by the Board of Directors and were authorised for issue on 23 March 2023.

All amounts in RON thousand, unless specified otherwise

| | Note | 2022 | 2021 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before tax | | 43,847 | 29,938 |
| *Adjustments to reconcile profit before tax to net cash flows:* | | | |
| Dividend revenue | 19 | (50,502) | (37,525) |
| Depreciation, amortization and impairment | 5 | 1,946 | 1,703 |
| Impairment loss of investments in subsidiaries | 10 | 4,022 | 5,400 |
| Adjustments for unrealized foreign exchange losses/(gains) | | (33) | 57 |
| (Gain)/loss on disposal of property, plant and equipment | | (129) | - |
| Adjustments for finance income | 6.2 | (1,807) | (1,675) |
| Adjustments for finance costs (interest) | 6.1 | 2,989 | 2,176 |
| **Working capital adjustments:** | | | |
| Adjustments for decrease/(increase) in trade and other receivables and prepayments | | (6,552) | 1,773 |
| Adjustments for (decrease)/increase in trade and other payables | | 2,568 | (4,608) |
| Dividends received | | 71,980 | 75,607 |
| Interest received classified as operating activities | | 443 | 80 |
| Interest paid classified as operating activities | | (5,763) | (980) |
| **Cash flows from/used in operating activities** | | **63,009** | **71,946** |
| **Investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | 129 | - |
| Purchase of property, plant and equipment and intangible assets classified as investing activities | | (546) | (448) |
| Loans to related parties | | (5,340) | (53,023) |
| **Cash flows from/used in investing activities** | | **(5,757)** | **(53,471)** |
| **Financing activities** | | | |
| Proceeds from borrowings | 11 | - | 24,745 |
| Repayment of borrowings | 11 | (5,133) | - |
| Payment of lease liabilities | 12 | (1,224) | (1,095) |
| Net dividends paid | | (34,707) | (34,663) |
| **Cash flows from/used in financing activities** | | **(41,064)** | **(11,013)** |
| **Net increase in cash and cash equivalents** | | **16,188** | **7,462** |
| **Cash and cash equivalents at 01 January** | | **12,345** | **4,883** |
| **Cash and cash equivalents at 31 December** | | **28,533** | **12,345** |

These separate financial statements from page 2 to page 40 were approved by the Board of Directors and were authorised for issue on 23 March 2023.

All amounts in RON thousand, unless specified otherwise

## 1. REPORTING ENTITY

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

As at 31 December 2022 and 31 December 2021, the Company has the following investments in subsidiaries:

| Company name | Brand | Country of incorporation | Field of activity | Share interest % |
|---|---|---|---|---|
| US Food Network SA | KFC | Romania | Restaurants | 99.9997% |
| American Restaurant System SA | Pizza Hut | Romania | Restaurants | 99.9997% |
| California Fresh Flavors SRL | Taco Bell | Romania | Restaurants | 99.9900% |
| US Food Network SRL | KFC | Moldova | Restaurants | 80.0000% |
| US Food Network SRL | KFC | Italy | Restaurants | 100.0000% |

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

The Group Sphera 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; 22 restaurants as at 31 December 2021) as well as pizza delivery points (21 locations as at 31 December 2022; 20 locations as at 31 December 2021) 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.

As at 31 December 2022, the Company has 176 employees (2021:160).

The separate 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Statement of Compliance

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company also prepares consolidated financial statements 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.

During the current year the Company has a net profit of 43,383 and had a net current assets position of 62,635. As at 31 December 2022, the Company holds a cash and cash equivalent balance of 28,533 and has available 11,237 undrawn bank facilities and 70,271 undrawn intercompany borrowing facility from US Food Network SA, thus being able to respond to any unforeseen higher cash outflow needs.

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

During the current year, the Group from which the Company is part of, made a profit of 37,950 and had a net current liability position of 102,913. The Group holds a cash and cash equivalent balance of 128,089 and has undrawn bank 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 at 31 December 2022, the Group, from which the Company is part of, 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 and the Company'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 Company has sufficient resources to continue to fund ongoing operations and asset development therefore concluded that the going concern basis of preparation is appropriate and no material uncertainties exists.

### 2.2 Basis of preparation

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 Summary of significant accounting policies

#### 2.3.1 Current versus non-current classification

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

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

The Company classifies all other liabilities as non-current.

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

#### 2.3.2 Fair value measurement

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability
  Or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3.3 Revenue

*Rendering of services*

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

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

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

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

*Dividend income*

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

*Interest income*

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

### 2.3.4 Government grants

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

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

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

### 2.3.5 Foreign currencies

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

All amounts in RON thousand, unless specified otherwise

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**
***Transactions and balances***

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

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 |

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

### 2.3.6 Taxes

*Current income tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities, using tax rates enacted or substantively enacted at the reporting date. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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

*Deferred tax*

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

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

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

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

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, no deferred tax is recognized, and

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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 and similar taxes)*

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

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

### 2.3.7 Property, plant and equipment

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

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

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

All repair and maintenance costs are recognised in the profit or loss as incurred. The cost of improvements to leasehold assets is recognised as leasehold improvements and then depreciated as outlined below.

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

| | |
|---|---|
| Leasehold improvements | over the lease contract duration (usually 10 years) |
| Computers and IT equipment | 3 to 5 years |
| Vehicles | 5 years |
| Other property, plant and equipment | 2 to 10 years |

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

### 2.3.8 Leases

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

*Company as a lessee*

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

i) Right-of-use assets

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

| | |
|---|---|
| Right of use of buildings and leasehold improvements | 3 to 10 years |
| Right-of-use assets of plant and machinery (motor vehicles and other equipment) | 3 to 5 years |

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section Impairment of non-financial assets.

ii) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

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

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

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

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

### 2.3.9 Intangible assets

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

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

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

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

### 2.3.10 Impairment of non-financial assets

At each reporting date, management assesses whether there is any indication of impairment for property, plant and equipment or intangible assets. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in the statement of comprehensive income.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 2.3.11 Investments in subsidiaries

In the Company's financial statements, the investment in subsidiaries are accounted for at cost in accordance to IAS 27 "Separate financial statements".
At each reporting date, management assesses whether there is any indication of impairment over investments in subsidiaries. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in profit or loss. An impairment loss recognised in prior years is reversed if there has been a change in the estimates used to determine the investment's recoverable amount. An impairment loss is reversed only to the extent that the investment's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

### 2.3.12 Financial instruments

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

#### i) Financial assets

*Initial recognition and measurement*

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

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

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

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

*Subsequent measurement*

For purposes of subsequent measurement, financial assets are classified in four categories:
• Financial assets at amortised cost (debt instruments)

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

• 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 Company. The Company measures financial assets at amortised cost if both of the following conditions are met:
• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding;
Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

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

*Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:
• The rights to receive cash flows from the asset have expired, or
• The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.
When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

*Impairment of financial assets*

The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.
For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision methodology that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Disclosures relating to impairment of financial assets are summarised in the Note 14 - Trade receivables.

**ii) Financial liabilities**

*Initial recognition and measurement*

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

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

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

*Subsequent measurement*

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

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

*De-recognition*

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

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

**iii) Offsetting of financial instruments**

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

### 2.3.13 Cash and cash equivalents

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

### 2.3.14 Prepayments

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3.15 Equity

*Share capital*

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

*Dividends*

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

*Legal reserves*

The company sets its legal reserves under the Companies Law, which requires that 5% of the annual accounting profit before taxes is transferred to „Legal Reserves" until the balance of this reserve reaches the threshold of 20% of share capital. Legal reserves are not distributable.

### 2.3.16 Provisions

*General*

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

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

*Onerous contracts*

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

### 2.3.17 Employee benefits and share-based remuneration

The Company, in the normal course of business, makes payments on behalf of its employees for pensions (defined contribution plans), health care, employment and personnel tax which are calculated according to the statutory rates in force during the year, based on gross salaries and wages. Food allowances, travel expenses and holiday allowances are also calculated according to the local legislation.
The cost of these payments is charged to the statement of comprehensive income in the same period as the related salary cost. Accruals are created for holiday allowances if there are non-used holidays according to the local legislation.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

*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 (other capital reserves), over the period in which the performance conditions are fulfilled (the vesting period). The expense or credit in the statement of 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 financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of asset or liability affected in future periods.

### Judgements

In the process of applying the Company’s accounting policies, management has made no judgement with significant effect on the amounts recognised in the financial statements during 2022.

### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

*Recoverability of investments in subsidiaries and loans to subsidiaries*

The Company assesses the recoverability of investments in subsidiaries and loans to subsidiaries at least at each financial year-end. The determination of recoverable amounts of the Company’s investments in subsidiaries relies on management’s estimates of future cash flows, for which some of the main assumptions were future restaurants opening, growth rates, gross and net operating margins, working capital needs, capital expenditure and discount rates, as well as economic assumptions such as the evolution of salaries in the economy and inflation.
The key assumptions used to determine the recoverable amount for the investment in subsidiaries and loans to subsidiaries, including a sensitivity analysis, are disclosed and further explained in Note 10.

### Deferred for tax losses carried forward

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

## 4. CHANGES IN ACCOUNTING POLICIES

### 4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 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 Company 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 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 Company.

### 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 Company's financial statements are disclosed below. The Company 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 Company does not issue contracts in scope of IFRS 17, therefore its application does not have an impact on the Company's financial position, 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 financial statements of the Company.

## 4. CHANGES IN ACCOUNTING POLICIES (continued)

**IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**
The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. Management has assessed that application of this amendment will have no significant impact on the financial statements of the Company.

**IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**
The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. 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 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 financial statements of the company, as the Company 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 Company.

**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 separate financial statements of the Company.

All amounts in RON thousand, unless specified otherwise

## 4. CHANGES IN ACCOUNTING POLICIES (continued)

**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 Company's financial statements.

## 5. OTHER EXPENSES

| | 2022 | 2021 |
|---|---|---|
| Third-party services | 3,474 | 2,590 |
| Depreciation and amortization | 1,946 | 1,703 |
| Insurance | 342 | 298 |
| Travel expenses | 535 | 337 |
| Office supplies | 172 | 235 |
| Maintenance and repairs | 187 | 175 |
| Other taxes | 129 | 250 |
| Advertising | 42 | 243 |
| Rental expenses | 98 | 106 |
| Banking charges | 33 | 65 |
| Utilities | 68 | 47 |
| Miscellaneous expenses | 70 | 105 |
| **Total** | **7,096** | **6,154** |

## 6. FINANCE COSTS AND INCOME

### 6.1 Finance costs

| | 2022 | 2021 |
|---|---|---|
| Interest on debts and borrowings | 1,625 | 805 |
| Interest on lease liabilities | 166 | 175 |
| Interest on loans from related parties (Note 19) | 1,198 | 1,196 |
| Foreign exchange loss | 57 | 83 |
| **Total finance costs** | **3,046** | **2,259** |

### 6.2 Finance income

| | 2022 | 2021 |
|---|---|---|
| Interest income from loans to related parties (Note 19) | 1,364 | 1,595 |
| Interest income from banks | 442 | 80 |
| **Total finance income** | **1,806** | **1,675** |

All amounts in RON thousand, unless specified otherwise

## 7. INCOME TAX

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

| | 2022 | 2021 |
|---|---|---|
| **Deferred tax:** | | |
| Relating to fiscal losses carried forward | 464 | 139 |
| **Income tax expense reported in the statement of comprehensive income** | **464** | **139** |

A reconciliation between tax expense and the accounting profit multiplied by the tax rate for the years ended 31 December 2022 and 31 December 2021 is as follows:

| | 2022 | 2021 |
|---|---|---|
| **Accounting profit before income tax** | **43,847** | **29,939** |
| At Romanian statutory income tax rate of 16% | 7,016 | 4,790 |
| Dividend income and legal reserves exempted from tax | (8,723) | (6,244) |
| Non-deductible expenses for tax purposes | 1,746 | 1,593 |
| Reversal of deferred tax assets previously recognised for tax losses carried forward | 425 | - |
| At the effective income tax rate | **464** | **139** |

### Deferred tax

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

| | Statement of financial position 31 December 2022 | Statement of comprehensive income 2022 |
|---|---|---|
| Fiscal losses carried forward | 478 | 464 |
| **Deferred tax expense** | | **464** |
| **Net deferred tax assets** | **478** | |

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

The deferred tax asset of 478 (31 December 2021: 943) arose from the tax losses carried forward in amount of 2,989 (out of the total tax losses of 5,585 of the Company), which are available for offsetting against the Company’s future tax profits within the next three years (i.e. seven years from the recognition, according to the Romanian tax law).

All amounts in RON thousand, unless specified otherwise

## 8. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements | Plant and machinery | Other equipment | Construction in progress | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At 1 January 2021** | **2,172** | **143** | **1,129** | **169** | **3,613** |
| Additions | 9 | 12 | 234 | 164 | 419 |
| Transfers | - | 168 | - | - | 168 |
| Disposals | - | - | - | 9 | 9 |
| **At 31 December 2021** | **2,181** | **323** | **1,363** | **324** | **4,191** |
| Additions | 30 | - | 321 | 32 | 383 |
| Disposals | - | 134 | 95 | 337 | 566 |
| **At 31 December 2022** | **2,211** | **189** | **1,589** | **19** | **4,008** |
| | | | | | |
| **Depreciation** | | | | | |
| **At 1 January 2021** | **493** | **54** | **724** | **-** | **1,271** |
| Depreciation charge | 225 | 29 | 246 | - | 500 |
| Depreciation of assets transferred from ROUA | - | 168 | - | - | 168 |
| **At 31 December 2021** | **718** | **251** | **970** | **-** | **1,939** |
| | | | | | |
| Depreciation charge | 227 | 27 | 287 | - | 541 |
| Disposals | - | 134 | 95 | - | 168 |
| **At 31 December 2022** | **945** | **144** | **1,162** | **-** | **2,251** |
| | | | | | |
| **Net Book Value** | | | | | |
| **At 1 January 2021** | **1,679** | **89** | **405** | **169** | **2,342** |
| **At 31 December 2021** | **1,463** | **72** | **393** | **324** | **2,252** |
| **At 31 December 2022** | **1,266** | **45** | **427** | **19** | **1,757** |

The additions during the year ended 31 December 2022 consisted mainly in office computers and other office equipment.

## 9. INTANGIBLE ASSETS

| | Software, licenses | Total |
|---|---|---|
| **Cost** | | |
| **At 1 January 2021** | **415** | **415** |
| Additions | 69 | **69** |
| **At 31 December 2021** | **484** | **484** |
| Additions | 505 | 505 |
| Disposals | 34 | 34 |
| **At 31 December 2022** | **955** | **955** |
| | | |
| **Amortisation** | | |
| **At 1 January 2021** | **245** | **245** |
| Amortisation | 123 | 123 |
| **At 31 December 2021** | **368** | **368** |
| Amortisation | 171 | 171 |
| Disposals | 34 | 34 |
| **At 31 December 2022** | **505** | **505** |
| | | |
| **Net book value** | | |
| **At 1 January 2021** | **170** | **170** |
| **At 31 December 2021** | **116** | **116** |
| **At 31 December 2022** | **450** | **450** |

The additions consisted mainly of the new ERP platform put in function at the beginning of the year 2022.

All amounts in RON thousand, unless specified otherwise

## 10. INVESTMENTS IN SUBSIDIARIES

Details of the investments in subsidiaries at 31 December 2022 are as follows:

| Company name | Country of incorporation | Field of activity | Share interest percent | Investment at cost | Impairment | Carrying value |
|---|---|---|---|---|---|---|
| US Food Network SA ('USFN') | Romania | Restaurants | 99.9997% | 519,704 | - | 519,704 |
| American Restaurant System SA ('ARS') | Romania | Restaurants | 99.9997% | 105,119 | 60,310 | 44,809 |
| California Fresh Flavors SRL ('CFF') | Romania | Restaurants | 99.9900% | 12,428 | - | 12,428 |
| US Food Network SRL ('USFN') | Moldova | Restaurants | 80.0000% | 1,735 | - | 1,735 |
| US Food Network SRL ('USFN') | Italy | Restaurants | 100.0000% | 77,899 | - | 77,899 |
| **Total** | | | | **716,885** | **60,310** | **656,575** |

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

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

In 2022, the Company increased the value of the investment in US Food Network SRL Italy with the amount of 7,872 (2021: 13,610) by converting a part of the existing shareholder's loan to equity.

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

As of 31 December 2022, the Company assessed whether there are indicators of impairment for its cost of investment in subsidiaries, as follows:

- Despite of the prolongation of the COVID-19 pandemic in the first quarter, USFN and USFN Moldova's activities in 2022 have registered a good performance, in line with the cash flow projections; both subsidiaries are in a profit position, therefore no impairment indicator was identified;
- USFN Italy, that started activity during 2017, was affected by the COVID-19 outbreak due to the severe impact of the pandemic. The result of the year 2022 was impacted by the effect of the COVID-19 restrictions from the first semester of 2022, paired with a still relatively smaller scale of activity and the fact that part of the stores has not yet reached maturity. In the second semester of the year 2022, USFN Italy started to recover its operating performance and achieved a positive EBITDA.

## 10. INVESTMENTS IN SUBSIDIARIES (continued)

Management has performed an impairment analysis as at 31 December 2022 and estimated the recoverable amount of the investment based on fair value less costs of disposal ('FVLCD') 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). Consequently, the FVLCD versus carrying amount analysis shows that there is enough headroom and no impairment needs to be recorded.

- Taco Bell (CFF investment) has registered a good operating performance in 2022 and, at the same time, it has continued the network expansion and opened 2 new restaurants (in addition to the 13 already opened as at 31.12.2021). Following the impairment analysis performed as at 31 December 2022 no impairment resulted.
- Pizza Hut (ARS)'s performance in 2022 was below the cash flow projections, the subsidiary continuing to be affected by the pandemic due to the restrictions on indoor dining in the first quarter. Management estimated the recoverable amount of the investment 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.

*Impairment test for Pizza Hut (ARS)*

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, such as: the new types of stores (Express/ Fast Casual Delivery) which was implemented starting 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 investment carrying value of 105,119 and also considering the loan and other receivables with ARS of 10,022 and the accumulated impairment loss already recognized in the financial statements as at and for the year ended 31 December 2021 of 56,288, there was a decrease of the investment's recoverable amount of additional 4,022 for which the Company recognized an impairment loss in the financial statements as at and for the year ended 31 December 2022. This impairment loss may be reversed in the future financial years, subject to improving performance of the subsidiary.

All amounts in RON thousand, unless specified otherwise

## 10. INVESTMENTS IN SUBSIDIARIES (continued)

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

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

EBITDA margin reflects management's estimates regarding the operational profitability of ARS, in line with historical levels and market evolution (and is not disclosed due to the strategic nature of this information).

| Key drivers | Key drivers (%) | Fair value less cost to sell | Impairment / Headroom |
|---|---|---|---|
| | **12.7%** | **55,231** | **(4,022)** |
| **Cost of capital** | 13.2% | 52,070 | (7,183) |
| | 12.2% | 58,741 | (512) |
| | **0.00%** | **55,231** | **(4,022)** |
| **EBITDA margin** | -0.50% | 52,392 | (6,862) |
| | 0.50% | 58,071 | (1,182) |
| | **3.00%** | **55,231** | **(4,022)** |
| **Perpetuity growth factor** | 2.50% | 52,537 | (6,716) |
| | 3.50% | 58,218 | (1,035) |
| **Net working capital (%/sales)** | -0.5pp | 59,174 | (79) |
| | +0.5pp | 52,035 | (7,218) |

## 11. BORROWINGS

| | Interest rate, % | Maturity | 31 December 2022 | 31 December 2021 |
|---|---|---|---|---|
| **Short-term borrowings** | | | | |
| Current portion of the long-term bank loan | EURIBOR 3M + relevant spread | 6 years from each withdrawal | 8,858 | 5,149 |
| Short-term working capital facility | ROBOR 3M + relevant spread | 1 year from contract date | - | - |
| Loan from related parties (including accrued interest) (Note 19) | 4% fixed interest rate | Within 5 years from contract signing date | - | 32,472 |
| **Total current borrowings** | | | **8,858** | **37,621** |
| **Long-term borrowings** | | | | |
| Long-term portion of the bank loan | EURIBOR 3M + relevant spread | 6 years from each withdrawal | 26,160 | 35,147 |
| Loan from related parties (including accrued interest) (Note 19) | 4% fixed interest rate | Within 5 years from contract signing date | 29,483 | - |
| **Total long-term borrowings** | | | **55,643** | **35,147** |
| **Total borrowings** | | | **64,502** | **72,768** |

**11. BORROWINGS (continued)**

In 2017, the Company has received a multicurrency credit facility from its subsidiary US FOOD NETWORK SA for a 5 year-period, with term extension option, the maximum limit being EUR 20 million. In March 2022, the intercompany loan agreement was extended for another 5-year period. The loan agreement contains no covenants or other special terms.

The Company is part of a credit facility from Alpha Bank Romania signed jointly by the Company and its Romanian subsidiaries. As at 31 December 2022, the Company may, jointly with other companies from Sphera Group, draw from one sub-limit dedicated to financing the Italian subsidiary. The loan is secured with pledge on current accounts opened with the bank, promissory notes issued, pledge on receivables from and shares owned by the Company in its Moldova and Italia subsidiary as well as on future dividends from these subsidiaries. In August 2022, the Extraordinary General Shareholders Meeting approved the increase of the amount available for utilization of the uncommitted long term loan facility for the Group, as well as the extension of the maturity/validity of the short-term facility and the facility for issuance of letters of guarantees agreements of the Group companies with maintaining all guarantees previously constituted in the guarantee of the facilities.

Starting with 29 May 2020, Sphera entered in a short-term borrowing arrangement with Vista Bank Romania in total amount of RON 10 million. The 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.

*Covenants*
The borrowing arrangement of the Group 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.

All amounts in RON thousand, unless specified otherwise

## 11. BORROWINGS (continued)

### Information related to cash flows from financing

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** | **72,768** | **2,776** | **48** | **(161)** | **(23)** | **-** | **(5,133)** | **(5,763)** | **(10)** | **64,502** |
| Bank loans | 40,296 | 1,578 | 48 | (161) | (21) | - | (5,133) | (1,577) | (10) | 35,019 |
| Loans from related parties | 32,472 | 1,198 | - | - | (2) | - | - | (4,186) | - | 29,483 |

| | **31 December 2020** | **Non-cash changes** | | **Cash changes** | | | **31 December 2021** |
|---|---|---|---|---|---|---|---|
| | | Interest accrual | Foreign exchange gains/losses | Drawings | Repayments | Interest paid | |
| **Borrowings** | **46,419** | **2,121** | **215** | **24,745** | **-** | **(732)** | **72,768** |
| Bank loans | 15,308 | 732 | 243 | 24,745 | - | (732) | 40,296 |
| Loans from related parties | 31,111 | 1,389 | (28) | - | - | - | 32,472 |

All amounts in RON thousand, unless specified otherwise

## 12. LEASE LIABILITIES

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

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

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

| | Freehold buildings | Motor vehicles and other equipment | Total |
|---|---|---|---|
| **As at 1 January 2021** | **4,224** | **732** | **4,956** |
| Additions | 72 | 512 | 584 |
| Depreciation expense | 614 | 471 | 1,085 |
| Disposals | - | 131 | 131 |
| **As at 31 December 2021** | **3,682** | **642** | **4,324** |
| Additions | 64 | 1,449 | 1,513 |
| Depreciation expense | 624 | 616 | 1,240 |
| **As at 31 December 2022** | **3,122** | **1,475** | **4,597** |

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

| | |
|---|---|
| **As at 1 January 2022** | **4,762** |
| Additions | 1,513 |
| Accretion of interest | 166 |
| Payments | 1,391 |
| (Unrealized) forex exchange gain | (26) |
| **As at 31 December 2022** | **5,024** |
| Current | 1,165 |
| Non-current | 3,859 |
| | |
| **As at 1 January 2021** | **5,327** |
| Additions | 584 |
| Accretion of interest | 175 |
| Payments | 1,270 |
| Disposals | 131 |
| (Unrealized) forex exchange loss | 77 |
| **As at 31 December 2021** | **4,762** |
| Current | 946 |
| Non-current | 3,816 |

The following are the amounts recognized in profit or loss:

| | 2022 | 2021 |
|---|---|---|
| Depreciation expense of right-of-use assets | 1,240 | 1,085 |
| Interest expense on lease liabilities | 166 | 175 |
| Forex exchange differences, net | (28) | 77 |
| Expense relating to short erm leases and leases of low value assets | 93 | 90 |
| **Total amount recognized in profit or loss** | **1,471** | **1,427** |

## 13. FINANCIAL INSTRUMENTS RISK MANAGEMENT

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

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

Sphera is exposed to interest rate risk, foreign exchange rate risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks, setting up the appropriate financial risk governance framework for the Company. The Company's senior management ensures the Company's financial risk activities are performed under appropriate procedures and that financial risks are identified, measured and managed in accordance with the Company's policies and risk objectives.
The Company's financial policies for managing the main financial risks with the objective to limit the negative impact on the Company's financial results are summarised below:

### Interest rate risk

Sphera's income and operating cash flows are substantially independent of changes in market interest rates. Trade and other receivables and payables are non-interest bearing financial assets and liabilities. The borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term and short-term credit facilities. Interest rate on the Company's debt finance from bank is variable. Interest rates on the Company's debt finance from Group companies are fixed, as disclosed in Note 11. Changes in interest rate do not impact loans and borrowings to third parties since future cash flows are not affected by such changes in interest rates. In connection to loans granted or obtained from related parties, management policy is to resort mainly to fixed rate financing. However, at the time of rising or granting new loans or borrowings management shall use its judgment to decide whether it believes that fixed or variable rate would be more favourable to the Company over the expected period until maturity.

### Interest rate sensitivity

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

| | Increase in basis points | Effect on profit before tax |
|---|---|---|
| **31 December 2022** | | |
| EUR | 1% | (350) |
| **31 December 2021** | 1% | (403) |
| EUR | | |

The Company does not hedge its interest rate risk.

### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's financing activities, as the financing contracted by the Company is Euro based. The vast majority of revenues and expenses, trade and other receivables and payables is in RON. Part of the loans granted to related parties are denominated in EUR. Natural hedging occurs from the Company's financing activities, as the Company grants loans to its subsidiaries in the same currencies in which the funds are obtained from the bank.

All amounts in RON thousand, unless specified otherwise

## 13. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

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

### Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the EUR exchange rate. The Company's exposure to foreign currency changes for all other currencies is not material. With all other variables held constant the Company's loss before tax and equity are affected as follows:

| | Increase in EUR rate | Effect on profit before tax |
|---|---|---|
| 31 December 2022 | 1% | (349) |
| 31 December 2021 | 1% | (423) |

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

### Credit risk

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

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

### Liquidity risk

The Company has adopted a prudent financial liquidity management approach, assuming that sufficient cash and cash equivalents are maintained, and that further financing is available from guaranteed funds from credit lines. The tables below summarize the maturity profile of the Company's financial liabilities, including principal amounts and interests according to contractual terms, at 31 December 2022 based on contractual undiscounted payments.

| **31 December 2022** | **On demand** | **Less than 3 months** | **3 to 12 months** | **1 to 5 years** | **> 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Borrowings | - | 2,721 | 8,024 | 61,297 | 2,519 | **74,561** |
| Lease liability | - | 328 | 983 | 4,046 | 104 | **5,461** |
| Trade and other payables | 20 | 536 | - | - | - | **556** |
| **Total:** | **20** | **3,584** | **9,008** | **65,343** | **2,623** | **80,578** |

All amounts in RON thousand, unless specified otherwise

**13. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)**

| 31 December 2021 | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| Borrowings | - | 1,363 | 37,745 | 32,501 | 6,352 | **77,960** |
| Lease liabilities | - | 296 | 889 | 3,408 | 747 | **5,341** |
| Trade and other payables | 382 | 257 | 9 | - | - | **648** |
| **Total:** | **382** | **1,916** | **38,643** | **35,909** | **7,099** | **83,949** |

At 31 December 2022, the Company had available 70,271 of undrawn borrowing facility from US Food Network SA (2021: 70,402), 10,000 from the bank credit facility with Vista Bank (2021:10,000) and 1,237 from the bank credit facility with Alpha Bank (2021: nil), thus being able to respond to any unforeseen higher cash outflow needs.

**Capital management**

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

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

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

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

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Borrowings | 64,502 | 72,768 |
| Lease liabilities | 5,024 | 4,762 |
| Trade and other payables | 27,894 | 6,535 |
| Less: cash and cash equivalents | 28,533 | 12,345 |
| **Net debt** | **68,886** | **71,720** |
| Equity | 667,034 | 677,152 |
| **Capital and net debt** | **735,920** | **748,872** |
| Gearing ratio: | 9.4% | 10% |

**Fair values**

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

The carrying amount of the interest bearing loans and borrowings and receivables from loans granted to related parties approximates their fair value (level 3 measurement).
Financial instruments which are not carried at fair value on the statement of financial position also include trade and other receivables, cash and cash equivalents, and trade and other payables. The carrying amounts of these financial instruments are considered to approximate their fair values (level 3 measurement).

All amounts in RON thousand, unless specified otherwise

## 14. TRADE AND OTHER RECEIVABLES

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Trade receivables from related parties (Note 19) | 14,122 | 7,361 |
| Dividends to be received (Note 19) | 19,681 | 41,188 |
| Loans to related parties (Note 19) | 29,520 | 60,763 |
| Interest accrual from loans to related parties (Note 19) | 8,073 | 6,706 |
| Tax receivables (VAT) | - | 546 |
| Advance to suppliers | 2 | 10 |
| Other receivables | 507 | 279 |
| **Total** | **71,905** | **116,853** |
| **Less non-current portion:** | | |
| Loans to related parties | - | 32,048 |
| Interest accrual from loans to related parties | - | 3,156 |
| Other receivables | 44 | 44 |
| **Total** | **44** | **35,248** |
| **Trade and other receivables, current** | **71,859** | **81,605** |

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

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

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

As at 31 December 2022 and 31 December 2021, the ageing analysis of 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% | 0% |
| Estimated total gross carrying amount at default | **14,122** | 5,183 | - | 1,037 | 1,034 | 6,868 |
| Expected credit loss | **-** | - | - | - | - | - |

| | 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% | 0% |
| Estimated total gross carrying amount at default | **7,365** | 5,548 | - | 804 | 870 | 143 |
| Expected credit loss | **-** | - | - | - | - | - |

For the receivables above, as well as for the loans attributed to related parties, the Group's considers the probability of losses being remote (Note 19).

## 15. CASH AND CASH EQUIVALENTS

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Cash at banks and on hand | 3,533 | 12,345 |
| Short-term deposits | 25,000 | - |
| **Total** | **28,533** | **12,345** |

As part of the financing agreement with Alpha Bank the Company has pledged the cash available in the accounts opened with the bank. The balance of the pledged bank accounts as at 31 December 2022 is of 3,274 (31 December 2021: 11,842).

## 16. 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%).

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

## 17. PROFIT DISTRIBUTION

| | 2022 | 2021 |
|---|---|---|
| Total dividends declared during the period | 55,002 | 35,001 |
| *out of which:* | | |
| Dividends paid during the period to shareholders | 35,001 | 35,001 |
| | | |
| 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:

- 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.

All amounts in RON thousand, unless specified otherwise

## 18. TRADE AND OTHER PAYABLES

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Trade payables | 334 | 589 |
| Trade and other payables to related parties (Nota 19) | 1,350 | 1,004 |
| Salary liability | 4,615 | 4,086 |
| Social contribution liability | 1,001 | 702 |
| Other employee related liabilities | 189 | 136 |
| Other payables | 14 | 10 |
| VAT payable | 381 | - |
| Other taxes | 159 | - |
| Dividends payables | 19,851 | 8 |
| **Total** | **27,894** | **6,535** |

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 15-day terms

For terms and conditions relating to related parties, refer to Note 19.

## 19. RELATED PARTY DISCLOSURES

During the year ended 31 December 2022 and 31 December 2021, respectively, the Company has carried out transactions with the following related parties:

| Related party | Nature of the relationship | Country of incorporation | Nature of transactions |
|---|---|---|---|
| US Food Network SA | Subsidiary | Romania | Dividends, loan received, sale of services, acquisition of goods and services |
| American Restaurant System SA | Subsidiary | Romania | Sale of services, loan provided, acquisition of goods and services, VAT tax group |
| California Fresh Flavors SRL | Subsidiary | Romania | Loan provided, sale of services |
| US Food Network SRL | Subsidiary | Republic of Moldova | Dividends |
| US Food Network SRL | Subsidiary | Italy | Sale of services |
| Arggo Software Development and Consulting SRL | Entity affiliated to a shareholder of the parent | Romania | IT services |
| Wellkept Group SA | Shareholder and entity under common control of Radu Dimofte, ultimate controlling party of Sphera | Romania | Rent training center and payment of dividends |
| Tatika Investments Ltd. | Shareholder and entity under common control of Radu Dimofte, ultimate controlling party of Sphera | Cyprus | Payment of dividends |
| Radu Dimofte | Beneficial owner of Wellkept Group SA, Tatika Investments Ltd and ultimate controlling party of Sphera | Romania | - |

| Related party | Nature of the relationship | Country of incorporation | Nature of transactions |
|---|---|---|---|
| Computerland Romania SRL | Shareholder with significant influence | Romania | Payment of dividends, acquisition of IT equipment, licenses |
| Lunic Franchising and Consulting Ltd. | Shareholder until January 2022 | Cyprus | Payment of dividends |
| Midi Development SRL | Entity affiliated to shareholders of the parent | Romania | Services |
| Moulin D'Or SRL | Entity affiliated to shareholders of the parent | Romania | Acquisition of goods |
| Grand Plaza Hotel SA | Entity affiliated to a shareholder of the parent | Romania | Acquisition of services |
| 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:

| **31 December 2022** | **Dividends revenues** | **Revenues from service contracts to related parties** | **Purchases from related parties** | **Amounts owed by related parties** | **Amounts owed to related parties** |
|---|---|---|---|---|---|
| **Related party** | | | | | |
| US Food Network SA | 49,493 | 26,592 | 4 | 27,369 | 4 |
| US Food Network SRL (Moldova) | 1,009 | - | - | - | - |
| American Restaurant System SA | - | 4,815 | 13 | 4,958 | 1,128 |
| California Fresh Flavors SRL | - | 2,157 | - | 1,047 | - |
| US Food Network SRL (Italy) | - | 1,516 | - | 429 | - |
| Computerland Romania SRL | - | - | 239 | - | 208 |
| Moulin D'Or SRL | - | - | 1 | - | - |
| Midi Development SRL | - | - | 59 | - | - |
| Wellkept Group SA | - | - | 499 | - | 10 |
| Grand Plaza Hotel SA | - | - | 4 | - | - |
| Arggo Software Development and Consulting SRL | - | - | 206 | - | - |
| Parc Hotels SA | - | - | 0 | - | - |
| Loans and interest from related parties | - | - | 1,198 | - | 29,483 |
| Loans and interest to related parties (please see below) | - | 1,364 | - | 37,593 | - |
| | **50,502** | **36,444** | **2,223** | **71,396** | **30,833** |

All amounts in RON thousand, unless specified otherwise

## 19. RELATED PARTY DISCLOSURES (continued)

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

**Terms and conditions of transactions with related parties**

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

For the year ended 31 December 2022, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Starting 1 July 2019, Sphera Franchise Group SA and American Restaurant System have registered as a tax group for VAT purpose. The amounts owed to American Restaurant System SA as at 31 December 2022 and 31 December 2021, respectively are mainly in relation with the VAT receivables taken over from ARS that are going to be settled in the future periods (Note 14).

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

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

| | Interest expense 2022 | Interest payable 31 December 2022 | Loan payable 31 December 2022 |
|---|---|---|---|
| **Related party** | | | |
| US Food Network SA | 1,198 | 807 | 28,677 |
| **Total** | **1,198** | **807** | **28,677** |

All amounts in RON thousand, unless specified otherwise

## 19. RELATED PARTY DISCLOSURES (continued)

| | **Interest income 2022** | **Interest receivable 31 December 2022** | **Loan receivable 31 December 2022** |
|---|---|---|---|
| California Fresh Flavors SRL | 25 | 1,134 | 2,412 |
| US Food Network SRL (Italy) | 1,265 | 4,424 | 24,128 |
| American Restaurant System SA | 74 | 2,515 | 2,981 |
| **Total** | **1,364** | **8,073** | **29,521** |

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

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

In 2022, the Company increased the investment in US Food Network SRL Italy with the amount of 7,872, the investment in ARS with the amount of 16,333 and the investment in CFF with the amount of 12,328 by converting a part of the existing shareholder's loans to equity (Note 10).

The intercompany loans granted by the Company to California Fresh Flavors and US Food Network Srl (Italy) are payable within a period of two years from the contract date including subsequent amendments and the loan granted to American Restaurant System is payable within five-year period. All intercompany loans bear a 4% fixed interest rate.
In March 2022, the loan granted to American Restaurant System SA was extended for a period of five years starting June 2022 and the credit limit was supplemented with EUR 5 million.
As at 31 December 2022, the loan receivables balances with ARS and CFF that will be used for the increase of the subsidiaries' equity, following the decision of the general shareholders meetings of the subsidiaries from December 2022, are presented as current receivables in the statement of the financial position. (Note 22).

In 2022, the shareholders of Sphera Franchise Group SA paid dividends in amount of 35,001, representing 0.9021 RON/ordinary share (2021: 35,001, representing 0.9021 RON/ordinary share). In December 2022, General Shareholders Meeting approved a new payment 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, the dividends payable being recognised as a liability as at 31 December 2022 in the statement of the financial position.

**Compensation of key management personnel of the Company:**

| | **2022** | **2021** |
|---|---|---|
| Short-term employee benefits | 7,313 | 6,656 |
| **Total compensation paid to key management personnel** | **7,313** | **6,656** |

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

## 19. RELATED PARTY DISCLOSURES (continued)

*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 company with a vesting period of one year from the date of grant.
As at 31 December 2022, the Company recognized an equity reserve related to the share based remuneration in amount of 1,502 for the qualifying variable remuneration.

## 20. COMMITMENTS AND CONTINGENCIES

**Borrowing facilities granted to related parties**

At 31 December 2022, the value of the undrawn borrowing facilities granted to related parties was of 73,891 (31 December 2021: 54,592) (Note 19).

**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.

**Contingencies**

*Taxation*

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

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

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.

*Transfer pricing*

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

The Company has prepared transfer pricing files.

All amounts in RON thousand, unless specified otherwise

## 21. AUDITOR'S FEES

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

The fee for the statutory audit of the consolidated and standalone financial statements as of 31 December 2022 of Sphera Franchise Group SA prepared in accordance with MOF 2844/2016 and respectively IFRS as adopted by EU and of the statutory audit of the financial statements as of 31 December 2022 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.

## 22. 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 of 43,383 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.

*Investments in subsidiaries*

At the beginning of the year 2023, once with the fulfillment of all registration formalities, it was increased the value of the investments in subsidiaries American Restaurant System SA and California Fresh Flavors SRL by conversion of the existing shareholder debts to equity (share capital and share premium) and cash contribution from the minority shareholder. SFG contributed with 9,333 to the increase of ARS equity and with the amount of 4,100 to the increase of CFF equity.

| | |
|---|---|
| Chief Executive Officer | Chief Financial Officer |
| Calin Ionescu | Valentin Budes |