

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

Statement of comprehensive income	2
Statement of financial position	3
Statement of changes in equity	4
Statement of cash flows	5
Notes to the separate financial statements	6 - 40

SPHERA FRANCHISE GROUP SA
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022
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

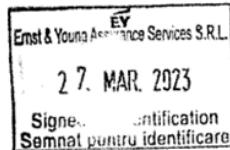
These separate financial statements from page 2 to page 40 were approved by the Board of Directors and were authorised for issue on 23 March 2023.

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

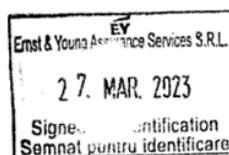
Valentin Budes



SPHERA FRANCHISE GROUP SA
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2022
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.



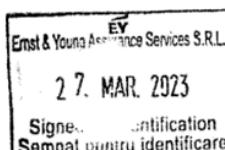
SPHERA FRANCHISE GROUP SA
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

	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.

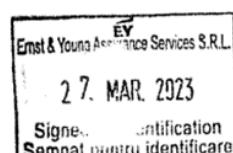
These separate financial statements from page 2 to page 40 were approved by the Board of Directors and were authorised for issue on 23 March 2023.



SPHERA FRANCHISE GROUP SA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

	Note	2022	2021
Operating activities			
Profit before tax		43,847	29,938
<i>Adjustments to reconcile profit before tax to net cash flows:</i>			
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.



SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

1. REPORTING ENTITY

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

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

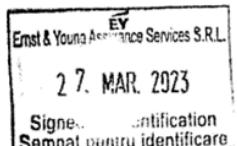
Company name	Brand	Country of incorporation	Field of activity	Share interest %
US Food Network SA	KFC	Romania	Restaurants	99.9997%
American Restaurant System SA	Pizza Hut	Romania	Restaurants	99.9997%
California Fresh Flavors SRL	Taco Bell	Romania	Restaurants	99.9900%
US Food Network SRL	KFC	Moldova	Restaurants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

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

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:

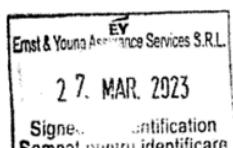
- The Group's and the Company's current and expected profitability
- The timing of repayment of existing financing facilities

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.



SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

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.

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

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

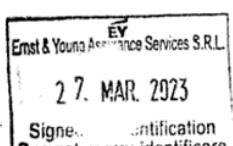
Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is 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.



SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
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

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

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

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

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

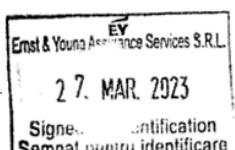
If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

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.



SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

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.

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

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)

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

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.

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

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.

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

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.

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

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.

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

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 discretionary 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.

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

4. CHANGES IN ACCOUNTING POLICIES (continued)

IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. 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)

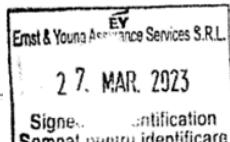
The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related 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.



SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
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


 Ernst & Young Assurance Services S.R.L.
 27. MAR. 2023
 Signe... Identification
 Semnat pentru identificare

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
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:

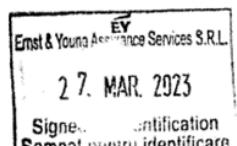
	2022	2021
Accounting profit before income tax	43,847	29,939
At Romanian statutory income tax rate of 16%	7,016	4,790
Dividend income and legal reserves exempted from tax	(8,723)	(6,244)
Non-deductible expenses for tax purposes	1,746	1,593
Reversal of deferred tax assets previously recognised for tax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



SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

8. PROPERTY, PLANT AND EQUIPMENT

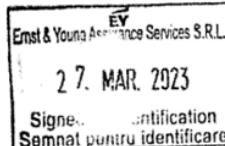
	Leasehold improvements	Plant and machinery	Other equipment	Construction in progress	Total
Cost					
At 1 January 2021	2,172	143	1,129	169	3,613
Additions	9	12	234	164	419
Transfers	-	168	-	-	168
Disposals	-	-	-	9	9
At 31 December 2021	2,181	323	1,363	324	4,191
Additions	30	-	321	32	383
Disposals	-	134	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.



SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 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.

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
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:

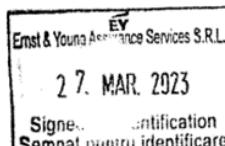
- cost of capital (WACC)
- terminal growth assumptions
- EBITDA margin
- Net working capital (NWC)

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
Cost of capital	12.7%	55,231	(4,022)
	13.2%	52,070	(7,183)
	12.2%	58,741	(512)
EBITDA margin	0.00%	55,231	(4,022)
	-0.50%	52,392	(6,862)
	0.50%	58,071	(1,182)
Perpetuity growth factor	3.00%	55,231	(4,022)
	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 Loan from related parties (including accrued interest) (Note 19)	ROBOR 3M + relevant spread 4% fixed interest rate	1 year from contract date Within 5 years from contract signing date	-	-
Total current borrowings			8,858	32,472
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



SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

11. BORROWINGS (continued)

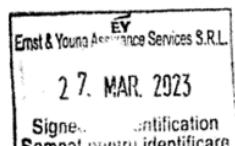
In 2017, the Company has received a multicurrency credit facility from its subsidiary US FOOD NETWORK SA for a 5 year-period, with term extension option, the maximum limit being EUR 20 million. In March 2022, the intercompany loan agreement was extended for another 5-year period. The loan agreement contains 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.



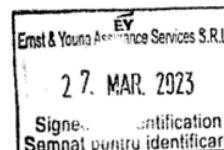
SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

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



SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
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:

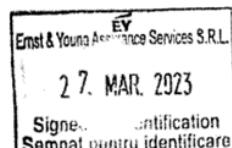
	Freehold buildings	Motor vehicles and other equipment	Total
As at 1 January 2021	4,224	732	4,956
Additions	72	512	584
Depreciation expense	614	471	1,085
Disposals	-	131	131
As at 31 December 2021	3,682	642	4,324
Additions	64	1,449	1,513
Depreciation expense	624	616	1,240
As at 31 December 2022	3,122	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 term leases and leases of low value assets	93	90
Total amount recognized in profit or loss	1,471	1,427



SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

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

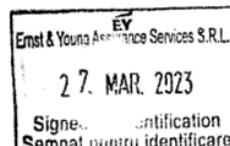
Sphera's income and operating cash flows are substantially independent of changes in market interest rates. Trade and other receivables and payables are non-interest bearing financial assets and liabilities. The borrowings are usually exposed to interest rate risk through market value fluctuations of 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 EUR	1%	(403)

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.

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
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

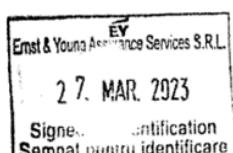
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The carrying amount of trade and other receivables, plus balances with banks, plus the loans and receivables from related parties (Note 19), represent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



SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
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

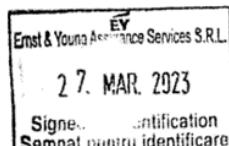
Capital includes the equity attributable to the Company's shareholders.

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).

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
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.

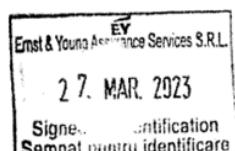
Trade receivables are non-interest bearing and are generally on terms of 15 – 30 days.

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

31 December 2022	Trade receivables					
	Total	Current	Days past due			
			< 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	-	-	-	-	-	-

31 December 2021	Trade receivables					
	Total	Current	Days past due			
			< 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).



SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

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
<i>out of which:</i>		
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.

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
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:

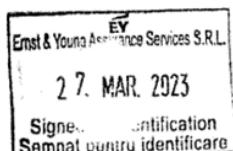
Related party	Nature of the relationship	Country of incorporation	Nature of transactions
US Food Network SA	Subsidiary	Romania	Dividends, loan received, sale of services, acquisition of goods and services
American Restaurant System SA	Subsidiary	Romania	Sale of services, loan provided, acquisition of 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	-

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

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



SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

19. RELATED PARTY DISCLOSURES (continued)

31 December 2021	Revenues		Purchases	Amounts	Amounts
	Dividends	from			
	revenues	service	related	related	related
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.

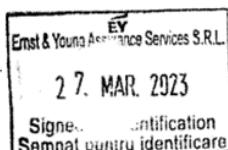
For the year ended 31 December 2022, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

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



SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
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
<hr/>			
	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
<hr/>			
	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.

SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
All amounts in RON thousand, unless specified otherwise

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.

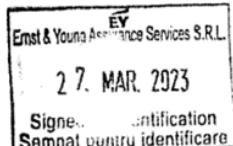
The Romanian tax legislation was subject to significant changes and contradictory interpretations, which may apply retroactively. Moreover, in practice, the tax authorities can take a strong approach and assess additional tax liabilities and related late payment penalties based on their individual interpretations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



SPHERA FRANCHISE GROUP SA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
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

Calin Ionescu



Chief Financial Officer

Valentin Budes

