

SPHERA FRANCHISE GROUP SA
CONSOLIDATED FINANCIAL STATEMENTS

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

31 December 2023

SPHERA FRANCHISE GROUP SA
CONSOLIDATED FINANCIAL STATEMENTS
31 December 2023

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SPHERA FRANCHISE GROUP SA
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023
All amounts in RON thousand, unless specified otherwise

	Note	2023	2022
Restaurant sales	26	1,469,172	1,322,822
Other restaurant income	26	-	1,172
Restaurant expenses			
Food and material expenses		479,405	457,108
Payroll and employee benefits	8.1	325,207	287,056
Rental expenses	14	34,644	32,110
Royalties expenses		87,935	78,803
Advertising expenses		75,351	66,988
Other operating expenses	6	192,503	184,450
Depreciation, amortization and impairment	8.2	103,218	100,551
Restaurant operating profit		170,909	116,928
General and administrative expense	7	61,976	55,572
Profit from operating activities		108,933	61,356
Finance costs	9.1	26,177	23,062
Finance income	9.2	1,239	496
Profit before tax		83,995	38,790
Income tax from continuing operations	10	12,248	(1,725)
Specific tax expense	10	-	2,565
Profit		71,747	37,950
Attributable to:			
Owners of the parent		71,186	37,557
Non-controlling interests		561	393
Other comprehensive income			
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods</i>			
Exchange differences on translation of foreign operations		84	(87)
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods</i>			
Remeasurement (loss)/gain on defined benefit plan	8.1	(168)	199
Total comprehensive income		71,663	38,062
Attributable to:			
Owners of the parent		71,081	37,690
Non-controlling interests		582	372
Earnings per share, basic and diluted (RON/share)	23	1.8397	0.9680

These consolidated financial statements from page 2 to page 49 were approved by the Board of Directors and were authorised for issue on 22 March 2024.

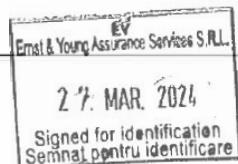
Chief Executive Officer

Calin Ionescu



Chief Financial Officer

Valentin Budes



SPHERA FRANCHISE GROUP SA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023
All amounts in RON thousand, unless specified otherwise

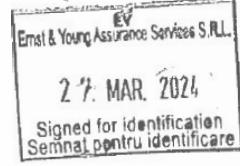
	Note	31 December 2023	31 December 2022
Assets			
Non-current assets		570,152	537,600
Property, plant and equipment	11	239,299	230,557
Right-of-use assets	14	239,537	217,719
Intangible assets and goodwill	12	58,137	57,778
Financial assets (cash collateral)	18	9,340	8,929
Deferred tax assets	10	23,839	22,617
Current assets		131,164	168,282
Inventories	16	14,953	15,907
Trade and other current receivables	17	10,164	21,279
Prepayments		7,900	3,007
Cash and short-term deposits	18	98,147	128,089
Total assets		701,316	705,882
Equity and liabilities			
Equity			
Issued capital	19	581,990	581,990
Share premium	19	(519,998)	(519,998)
Treasury shares	8.1	(2,037)	-
Reserves for share-based remuneration	8.1	3,894	1,502
Other reserves	8.1	(1,283)	(1,115)
Retained earnings	20	79,825	54,012
Reserve of exchange differences on translation		(261)	(324)
Equity attributable to owners of the parent		142,130	116,067
Non-controlling interests		486	297
Total equity		142,616	116,364
Non-current liabilities		309,863	318,323
Long-term borrowings	13	91,455	122,949
Non-current lease liabilities	14	211,844	190,729
Net employee defined benefit liabilities	8.1	4,607	3,861
Trade and other payables LT		330	-
Deferred revenue		660	-
Deferred tax liabilities	10	967	784
Current liabilities		248,837	271,195
Trade and other current payables	21	145,629	150,613
Contract liabilities		394	311
Short-term borrowings	13	42,317	65,086
Current lease liabilities	14	56,043	52,693
Income tax payable		4,149	454
Specific tax payable		-	1,289
Provisions	7	305	749
Total liabilities		558,700	589,518
Total equity and liabilities		701,316	705,882

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SPHERA FRANCHISE GROUP SA
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023
All amounts in RON thousand, unless specified otherwise

	Issued capital	Share premium	Treasury shares	Reserves for share-based remuneration	Other reserves	Retained earnings	Foreign currency translation reserve	Equity attributable to owners of the parent	Non-controlling interest	Total equity
As at 1 January 2023	581,990	(519,998)		1,502	(1,115)	54,012	(324)	116,067	297	116,364
Profit	-	-	-	-	-	71,186	-	71,186	561	71,747
Other comprehensive income										
Losses on remeasurements of defined benefit plan (Note 8.1)	-	-	-	(168)	-	-	-	(168)	-	(168)
Translation differences	-	-	-	-	-	-	63	63	21	84
Total comprehensive income	-	-	-	(168)	71,186	63	71,081	582	71,663	
Acquisition of own shares (Note 8.1)	-	-	(2,037)	-	-	-	-	(2,037)	-	(2,037)
Share based remuneration (Note 8.1)	-	-	-	2,392	-	-	-	2,392	-	2,392
Losses related to acquisition of treasury shares (Note 8.1)	-	-	-	-	(487)	-	(487)	-	(487)	
Dividends declared	-	-	-	-	-	(44,886)	-	(44,886)	(393)	(45,279)
At 31 December 2023	581,990	(519,998)	(2,037)	3,894	(1,283)	79,825	(261)	142,130	486	142,616

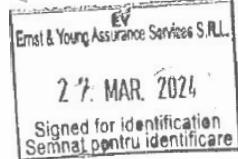
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SPHERA FRANCHISE GROUP SA
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023
All amounts in RON thousand, unless specified otherwise

	Issued capital	Share premium	Treasury shares	Reserves for share-based remuneration	Other reserves	Retained earnings	Foreign currency translation reserve	Equity attributable to owners of the parent	Non-controlling interest	Total equity
As at 1 January 2022	581,990	(519,998)	-	-	(1,314)	71,457	(258)	131,877	175	132,052
Profit	-	-	-	-	-	37,557	-	37,557	393	37,950
Other comprehensive income										
Gains on remeasurements of defined benefit plans (Note 8.1)	-	-	-	-	199	-	-	199	-	199
Exchange differences on translation	-	-	-	-	-	-	(66)	(66)	(21)	(87)
Total comprehensive income	-	-	-	-	199	37,557	(66)	37,690	372	38,062
Share based remuneration (Note 8.1)	-	-	-	-	1,502	-	-	-	1,502	-
Dividends declared	-	-	-	-	-	(55,002)	-	(55,002)	(250)	(55,252)
At 31 December 2022	581,990	(519,998)	-	1,502	(1,115)	54,012	(324)	116,067	297	116,364

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SPHERA FRANCHISE GROUP SA
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023
All amounts in RON thousand, unless specified otherwise

	Note	2023	2022
Operating activities			
Profit before tax from continuing operations		83,995	38,790
<i>Adjustments to reconcile profit before tax to net cash flows:</i>			
Depreciation of right-of-use assets	14	62,013	58,415
Depreciation and impairment of property, plant and equipment	11	42,402	43,471
Amortisation and impairment of intangible assets and goodwill	12	5,820	5,253
Movement in current assets allowance		(11)	128
Adjustments for share-based remuneration		1,856	936
Adjustments for unrealized foreign exchange losses/(gains)		1,574	(1,482)
Adjustments for (gain)/loss on disposals of property, plant and equipment and right-of-use assets		(839)	(152)
Adjustments for finance income	9.2	(1,239)	(496)
Adjustments for finance costs (interest)	9.1	24,197	20,727
Movements in provisions, net		305	746
Working capital adjustments:			
Adjustments for decrease/(increase) in trade and other receivables and prepayments		5,572	7,525
Adjustments for decrease/(increase) in inventories		954	(2,517)
Adjustments for (decrease)/increase in trade and other payables		15,658	6,448
Interest received classified as operating activities		1,239	496
Interest paid classified as operating activities		(23,414)	(19,843)
Income tax paid		(10,560)	(5,019)
Cash flows from operating activities		209,522	153,426
Investing activities			
Proceeds from sales of property, plant, and equipment		722	182
Purchase of intangible assets		(6,909)	(3,259)
Purchase of property, plant and equipment		(51,371)	(51,971)
Cash flows used in investing activities		(57,558)	(55,048)
Financing activities			
Acquisition of treasury shares	8.1	(2,037)	-
Proceeds from borrowings	13	21,633	21,100
Repayment of borrowings	13	(76,933)	(45,680)
Payment of lease liabilities		(60,579)	(56,879)
Net dividends paid to owners of the parent		(63,751)	(34,708)
Net dividends paid to non-controlling interests		(393)	(250)
Cash flows used in financing activities		(182,060)	(116,417)
Net (decrease) / increase in cash and cash equivalents		(30,096)	(18,039)
Net foreign exchange differences		154	12
Net increase of cash and cash equivalents, including net foreign exchange differences		(29,942)	(18,027)
Cash and cash equivalents at 1 January		128,089	146,116
Cash and cash equivalents at 31 December		98,147	128,089

These consolidated financial statements from page 2 to page 49 were approved by the Board of Directors and were authorised for issue on 22 March 2024.

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
All amounts in RON thousand, unless specified otherwise

1. CORPORATE INFORMATION

These consolidated financial statements are prepared by Sphera Franchise Group SA and comprise its activities and those of its subsidiaries, together referred hereinafter as "SFG" or "the Group".

Sphera Franchise Group SA is listed on Bucharest Stock Exchange under the symbol "SFG".

Sphera Franchise Group SA ("the legal Parent", or "Sphera") was incorporated on 16 May 2017 as a joint stock company and is registered at No. 239 Calea Dorobantilor, Bucharest, Romania.

The consolidated financial statements for the year ended 31 December 2023 were authorized for issue in accordance with the resolution of the Board of Directors dated 22 March 2024.

The Group operates quick service and takeaway restaurant concepts under the Kentucky Fried Chicken ("KFC") brand (121 restaurants as at 31 December 2023 and 118 restaurants as at 31 December 2022, spread across Romania, as well as in the Republic of Moldova and in Italy), a chain of pizza restaurants (34 restaurants and one sub-franchise as at 31 December 2023 and 42 own locations and one sub-franchise as at December 2022) under the Pizza Hut ("PH") brand, a chain of 15 restaurants under the "Taco Bell" brand (15 restaurants at 31 December 2022) and 1 restaurant Paul at 31 December 2022.

The Group's total number of employees at 31 December 2023 was 5,152 (31 December 2022: 4,935).

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

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

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

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

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

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
All amounts in RON thousand, unless specified otherwise

2. MATERIAL ACCOUNTING POLICIES

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

2.1 Basis of preparation

Statement of Compliance

The financial statements of the Group have been prepared in accordance with Order of Public Finance Ministry no. 2844/2016 (with subsequent modifications), for approval of accounting regulation in accordance with International Financial Reporting Standards applicable to entities which are listed on stock exchanges.

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

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

During the current year the Group made a profit of RON 71,747 thousand (2022: RON 37,950 thousand) and had a net current liability position of RON 117,673 thousand (31 December 2022: RON 102,913 thousand). The Group holds a cash and cash equivalent balance of RON 98,147 thousand and has undrawn cash facilities of RON 115,877 thousand as at 31 December 2023, thus being able to respond to any unforeseen higher cash outflow needs.

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

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

The management based their assessment on the Group's detailed cash flow projections for the period up to 31 December 2024 that take into account the current available cash resources of the Group as of 31 December 2023, 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.

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 Group 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).

In October 2023, a conflict between Israel and Palestine arose. The Group does not have any significant direct exposure to Israel or Palestine and the management does not expect to have a significant impact over the Group's operations.

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

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
All amounts in RON thousand, unless specified otherwise

2. MATERIAL ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2023.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the elements of control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

2.3 Business combination and goodwill

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

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

Where a business combination is effected primarily by exchanging equity interests, the acquirer is usually the entity that issues the equity. However, when a new entity is set up to issue equity shares to effect a business combination, the new entity has no economic substance and cannot be the acquirer.

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

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

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
All amounts in RON thousand, unless specified otherwise

2. MATERIAL ACCOUNTING POLICIES (continued)

2.4 Summary of material accounting policies

2.4.1 Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

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

2.4.2 Fair value measurement

Fair value related disclosures for financial instruments and non-financial assets that are summarised in the relevant notes.

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

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

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

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

2.4.3 Revenue

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

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

Disaggregation of revenue from contracts with customers by primary geographical market and type of revenues is presented in the Segment information note.

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
All amounts in RON thousand, unless specified otherwise

2. MATERIAL ACCOUNTING POLICIES (continued)

Loyalty points programme - Contract liability

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

2.4.4 Government grants

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

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

2.4.5 Foreign currencies

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

The exchange rates as at 31 December 2023 and 31 December 2022 and the average exchange rates for the years 2023 and 2022 were:

	Closing exchange rates		Average exchange rates	
	31 December 2023	31 December 2022	2023	2022
RON – EUR	4.9746	4.9474	4.9465	4.9316
RON – USD	4.4958	4.6346	4.5743	4.6885
RON – MDL	0.2570	0.2428	0.2520	0.2480

Transactions and balances

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

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

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

SPHERA FRANCHISE GROUP SA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
All amounts in RON thousand, unless specified otherwise

2. MATERIAL ACCOUNTING POLICIES (continued)

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into RON at the rate of exchange prevailing at the reporting date and their revenues and expenses are translated using the average exchange rates of daily exchange rates published by National Bank of Romania (NBR) as detailed above. Equity items are translated into RON at the historical exchange rate.

The exchange differences arising on the translation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in the profit or loss.

2.4.6 Taxes

Current income tax

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

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and it establishes provisions where appropriate.

Starting 2017, the income tax for the restaurant activity in Romania has been replaced by a specific tax, computed based on a minimum fixed amount multiplied by the impact of three criteria: restaurant area, restaurant location and seasonality. Starting 2023, the specific tax for HORECA industry has been replaced by income tax or tax on micro-company income, at the choice of the companies. The specific tax and the tax on micro-company income are presented in accordance with the provisions of the Order no. 2844/2016.

Deferred tax

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

Deferred tax 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
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All amounts in RON thousand, unless specified otherwise

2. MATERIAL 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)

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

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

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

2.4.7 Property, plant and equipment

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

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

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

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

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

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2. MATERIAL ACCOUNTING POLICIES (continued)

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

Freehold buildings	40 years
Leasehold improvements	over the lease contract duration (usually 10 years, including first renewal period)
Equipment and vehicles	2 to 10 years for equipment and 5 years for vehicles
Other equipment and furniture	3 to 10 years for other equipment and 2 to 10 years for furniture

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

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

Start-up expenses for new restaurants

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

2.4.8 Leases

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

Group as a lessee

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

i) Right-of-use assets

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

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

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

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2. MATERIAL ACCOUNTING POLICIES (continued)

ii) Lease liabilities

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

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

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

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

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

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

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

2.4.9 Intangible assets

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

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

Intangible assets with finite useful lives are amortised on a straight-line basis over the useful economic lives from 3 to 5 years (except for the franchise rights with an economic useful life of 10 years, as presented below) and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. Gains or losses arising from de-recognition of an intangible asset are measured as 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.

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2. MATERIAL ACCOUNTING POLICIES (continued)

Franchise rights

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

2.4.10 Impairment of non-financial assets, including goodwill

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

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

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

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

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

Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit (CGU) (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. Further disclosures related to impairment test are also presented in Note 12.

2.4.11 Financial instruments

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

i) Financial assets

Initial recognition and measurement

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

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

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

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2. MATERIAL ACCOUNTING POLICIES (continued)

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

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

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

Subsequent measurement

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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

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

De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when the Group has transferred substantially all the risks and rewards of the asset.

Impairment of financial assets

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

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

Disclosures relating to impairment of financial assets are summarised in Note 17.

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2. MATERIAL ACCOUNTING POLICIES (continued)

ii) Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

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

De-recognition

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

2.4.12 Inventories

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

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

2.4.13 Cash and cash equivalents

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

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

2.4.14 Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year. Prepayments to acquire current assets are transferred to the carrying amount of the asset once the Group

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2. MATERIAL ACCOUNTING POLICIES (continued)

has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Prepayments to acquire property, plant and equipment are classified as fixed assets in progress. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognized in profit or loss.

2.4.15 Equity

Share capital

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

Dividends

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

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, the difference between the purchase price and the fair value at the date of grant being recognized in equity as a gain or loss related to the acquisition of the treasury shares.

2.4.16 Royalties

Royalties in connection to franchise rights are computed based on percentage of the applicable restaurants' sales and are recognised as an expense as restaurants revenue is earned.

2.4.17 Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

Onerous contracts

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

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2. MATERIAL ACCOUNTING POLICIES (continued)

2.4.18 Employee benefits and share-based payments

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

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

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

Defined benefit plans (Italian subsidiary)

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

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

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognizes related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability. The Group recognises the following changes in the net defined benefit obligation under 'restaurant expenses' for operating staff and 'general and administration expenses' for administrative staff:

- Service costs comprising current service costs, past-service costs,
- Gains and losses on curtailments

Net interest expense or income is recognised under 'finance costs' in the consolidated statement of profit or loss.

Share-based payments

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

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3. MATERIAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

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

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

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

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

The Group's lease contracts terms vary between 5 and 20 years, depending on the location of the restaurants; Drive-Thru and in-line restaurants have an initial lease term greater than mall restaurants which are more exposed to renegotiations for repositioning within the food-court area or other architectural changes initiated by the lessors. Assessment of lease term is performed on a lease-by-lease basis; the lease term includes the non-cancellable period of the lease and the renewal option, when it is reasonably certain the renewal option will be exercised. The renewal periods for leases with longer non-cancellable periods (i.e., more than 10 years) are not included as part of the lease term as these are not reasonably certain to be exercised.

There are no significant economic factors (incentives or penalties) that might enforce the extension of the lease beyond the contractual duration if the restaurant does not reach the expected operating performance. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Estimates and assumptions

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

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

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

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

In particular, regarding the useful lives of property plant and equipment, the Group assesses the leasehold improvements' useful life is of 10 years due to the fact that, generally, significant refurbishment is realised after 10 years of use and that 10 years is also the duration of the related franchise (renewable every 10 years).

Leasehold improvements are depreciated over a ten years period, this estimation of expected useful life taking in consideration the length of time the assets can reasonably be used to generate income and be of benefit to the Group, the economic period of use until major refurbishment (in line with franchise agreements too), the franchise licence period (franchise renewal cycle) - as well as the historical experience regarding the period in which similar assets generated significant economic benefits to the Group.

Regarding the estimation of the useful lives of right-of-use assets the lease term, thus the useful life of right-of-use assets, as determined in accordance with IFRS 16, includes the extension period at the commencement date of the lease, when the Group determined it is reasonably certain to exercise the renewal option (normally for leases with a initial duration no longer than 10 years). However, a different threshold (i.e., the expected usage of the asset) is used for the determination of the useful life of the leasehold improvement, an asset in the scope of IAS 16, as described previous paragraph.

Impairment of goodwill

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

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

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

Deferred for tax losses carried forward

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

4. CHANGES IN ACCOUNTING POLICIES

4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2023

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2023:

- IFRS 17: Insurance Contracts
- IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)
- IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)
- IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)
- IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules (amendments)

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4. CHANGES IN ACCOUNTING POLICIES (continued)

The amendments are effective immediately upon issuance, but certain disclosure requirements are effective later. The Organisation for Economic Co-operation and Development's (OECD) published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum 15% tax rate. On 23 May 2023, the IASB issued International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules and disclosure requirements for affected entities on the potential exposure to Pillar Two income taxes. The Amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023, but are not required for any interim period ending on or before 31 December 2023.

Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions in which the Group operates. However, this legislation does not apply to the Group as its consolidated revenue is lower than €750 million.

These newly adopted IFRS standards and amendments to IFRs did not have a material impact on the Group's accounting policies.

4.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE FINANCIAL YEAR BEGINNING 1 JANUARY 2023 AND NOT EARLY ADOPTED

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

- IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)
- IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)
- IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure - Supplier Finance Arrangements (Amendments)
- IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)
- 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

Management has assessed that application of these amendments will not have any impact on the financial statements of the Company.

5. GROUP INFORMATION

Details of the Group consolidated subsidiaries at 31 December 2023 and 31 December 2022 are as follows:

Company name	Country of incorporation	Field of activity	Control 31 December 2023	Control 31 December 2022
US Food Network SA	Romania	Restaurants	99.9997%	99.9997%
American Restaurant System SA	Romania	Restaurants	99.9997%	99.9997%
California Fresh Flavors SRL	Romania	Restaurants	99.9900%	99.9900%
US Food Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%	100.0000%

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6. OTHER OPERATING EXPENSES

	2023	2022
Third-party services	99,632	90,418
Utilities	41,753	47,597
Maintenance and repairs	16,882	17,720
Cleaning supplies	9,693	9,949
Small-wares	4,506	2,930
Transport	8,565	8,052
Bank charges	5,777	4,506
Closing costs (Note 22)	2,199	-
Telephone and postage	1,227	1,205
Insurance	489	641
Provision for receivables	(11)	128
Net (gain)/loss on disposal of property and equipment and right-of-use assets	(839)	(42)
Miscellaneous expenses and income, net	2,630	1,346
Total	192,503	184,450

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

7. GENERAL AND ADMINISTRATIVE EXPENSES

	2023	2022
Payroll and employee benefits	42,839	36,488
Third-party services	7,201	7,210
Depreciation, amortization and impairment of non-current assets (Note 8.2)	7,017	6,588
Rent	232	264
Banking charges	748	773
Transport	1,397	1,203
Maintenance and repairs	465	483
Small-wares	178	114
Insurance	449	769
Advertising	254	158
Telephone and postage	353	342
Other provisions	305	746
Miscellaneous expenses and income, net	538	434
Total	61,976	55,572

Third party services include mainly consulting services, audit services, IT services, HR services.

For the year 2023, other provisions refer to a legal action by a former non-executive director of the Group whose mandate was terminated before term, not re-elected by the General Assembly of Shareholders (RON 305 thousand). For the year 2022, other provisions include the estimated costs of RON 494 thousand related to the closing of two KFC stores in Italy at the beginning of the year 2023 and a provision for the estimated compensations claimed in court by a former employee of the Group (RON 252 thousand).

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

8.1 Payroll and employee benefits

	2023	2022
Payroll and employee benefits recognized in "Restaurant expenses"	325,207	287,056
Payroll and employee benefits recognized in "General and administrative expenses"	42,839	36,488
Total Payroll and employee benefits	368,046	323,544

Payroll costs of RON 1,732 thousand representing the value of project management and other technical activities performed by the Group's employees for the year ended 31 December 2023 (RON 1,728 thousand for the year ended 31 December 2022) for the construction or refurbishment of restaurants were capitalized in the cost of construction of the non-current assets.

Employee defined benefit liabilities (Italian subsidiary)

In accordance with the local labour regulations, Italian companies have to pay to their employees a leaving-service indemnity ("TFR"). The accrual for the benefits in amount of RON 4,607 thousand (RON 3,861 thousand as at 31 December 2022) was calculated as a career-average lump sum, in accordance with the Italian statutory regulations. The Group performs an actuarial computation of these benefits in line with the IAS 19 "Employee benefits".

The amount of RON 4,607 thousand representing defined benefit liabilities recorded at balance sheet date was determined based on the actuarial valuation performed by an authorised actuary.

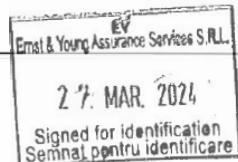
	2023	2022
Net benefit expense (recognized in profit or loss)		
Current service cost - Payroll and employee benefits	2,231	1,082
Current service cost - G&A expenses	246	221
Interest cost on benefit obligation	122	35
Net benefit expense	2,599	1,338

Reconciliation of benefit obligation

	3,861	4,235
Defined benefit obligation as at 1 January		
Interest cost	122	35
Current service cost - Payroll and employee benefits	2,231	1,082
Current service cost - G&A expenses	246	221
Benefits paid	(1,658)	(1,279)
Gross remeasurement (gain)/loss on defined benefit plan	(168)	(285)
Exchange difference	(27)	(149)
Defined benefit obligation as at 31 December	4,607	3,861

Remeasurement loss on defined benefit plan (recognized in other comprehensive income and Other reserves)

	Other reserves	OCI	Other reserves
			31
	1 January 2023	2023	December 2023
Gross remeasurement loss on defined benefit plan	1,471	(221)	1,691
Deferred tax credit	(356)	53	(408)
Net remeasurement loss on defined benefit plan	1,115	(168)	1,283



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

	1 January 2022	2022	31 December 2022
Gross remeasurement gain on defined benefit plan	1,756	286	1,471
Deferred tax credit	(442)	(87)	(356)
Net remeasurement loss on defined benefit plan	1,314	199	1,115

The tax impact on the remeasurement loss on defined benefit plan of RON 408 thousand (31 December 2022: RON 356 thousand) is presented in Note 10.

The principal assumptions used in determining pension and post-employment medical benefit obligations for the Group's plans are shown below:

	2023
Discount rate	3.17%
Inflation rate	2.00%
Annual termination indemnity (TFR) increase rate	3.00%
Annual salary increase rate	1.00%

The demographic assumptions (mortality, inability and retirement age) are based on the national statistical databases.

A quantitative sensitivity analysis for significant assumptions as at 31 December 2023 is as shown below:

Key assumptions and impact on defined benefit obligation	31 December 2023
Withdrawal Annual rate +1.00%	20
Withdrawal Annual rate -1.00%	(24)
Annual Price Inflation +0.25%	131
Annual Price Inflation -0.25%	(125)
Annual Discount rate +0.25%	(151)
Annual Discount rate -0.25%	161
Withdrawal Annual rate +1.00%	20

Share-based remuneration

As of 31 December 2023, the Group has in place a share option plan for senior executives, part of their variable remuneration being granted in shares of the parent company with a vesting period of one year from the date of grant.

As at 31 December 2023, the Group recognized an equity reserve related to the share based remuneration in amount of RON 3,894 thousand (31 December 2022: RON 1,502 thousand) for the qualifying variable remuneration.

Following EGMS Resolution no. 1 dated April 27th, 2023, the Group carried out a buyback program for the acquisition of a number of 104,100 own shares (representing 0.268% of the parent company's share capital), during the period July 3rd – September 4th, 2023. The buyback was carried out to implement the Share Option Plan (SOP) for Directors for the activity related to the years 2021 and 2022.

The average buyback price was RON 19.5715 per share, with the full price paid for the buyback shares repurchased amounting to RON 2,037 thousand.

The own equity instruments that were acquired (treasury shares) in amount of RON 2,037 thousand were recognized at cost and deducted from equity. No gain or loss was recognized in profit or loss on the purchase, the difference between the purchase price and the fair value at the date of grant being recognized in equity as a loss related to the acquisition of the treasury shares (RON 487 thousand).

On January 18th, 2024, the Group informed the market about the assignment of 39,300 free shares to the executive directors, representing the SOP for 2021.

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8.2 Depreciation and amortization

	2023	2022
Depreciation of right-of-use assets recognized in "Restaurant expenses" (Note 14)	58,774	55,465
Depreciation, amortization and impairment of other non-current assets recognized in "Restaurant expenses"	44,444	45,086
Depreciation, amortization and impairment recognized in "Restaurant expenses"	103,218	100,551
Depreciation of non-operating right-of-use assets recognized in "General and administrative expenses" (Note 14)	3,239	2,951
Depreciation, amortization and impairment of non-current assets recognized in "General and administrative expenses"	3,778	3,637
Depreciation, amortization and impairment recognized in "General and administrative expenses" (Note 7)	7,017	6,588
Total depreciation, amortization and impairment	110,235	107,139

9. FINANCE COSTS AND INCOME

9.1 Finance costs

	2023	2022
Interest on loans and borrowings and related charges	10,890	10,573
Interest on lease liabilities (Note 14)	13,185	10,119
Interest cost on benefit obligation (Note 8.1)	122	35
Foreign exchange loss, net	1,980	2,335
Total finance costs	26,177	23,062

9.2. Finance income

	2023	2022
Interest income	1,239	496
Total finance income	1,239	496

10. INCOME TAX

The major components of income tax expense for the years ended 31 December 2023 and 31 December 2022 are:

	2023	2022
Current income tax:		
Specific tax expense	-	2,565
Income tax expense	12,248	(1,725)
Current income tax charge	12,898	1,099
Deferred tax:		
Relating to origination and reversal of temporary differences	(650)	(2,824)
Total income tax expense/ (credit) reported in the statement of comprehensive income	12,248	(1,725)

A reconciliation between tax expense and the product of accounting profit multiplied by Romania's domestic tax rate for the years ended 31 December 2023 and 31 December 2022 is as follows:

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10. INCOME TAX (continued)

	2023	2022
Accounting profit before income tax	83,995	38,790
At Romanian statutory income tax rate of 16%	13,439	6,206
Effect of higher tax rates in Italy on tax loss	1,562	(2,471)
Effect of lower tax rates in the Republic of Moldova	(144)	(99)
Other income and legal reserves exempted from tax	(4,106)	(579)
Effect of using 1% tax on revenues income (2023)/specific tax for the restaurant activity (2022)	(5,255)	(5,693)
Non-deductible expenses for tax purposes	8,192	3,476
Utilisation of previous unrecognised tax losses	(1,440)	-
At the effective income tax rate	12,248	840

Variation of the tax impact of the non-deductible expenses and tax exemptions is due to the impairment adjustments and write offs of the non-current assets related to the closed stores.

According to the new tax changes introduced in 2022 by the Government Ordinance no 16/2022, specific tax for HORECA industry was no longer be in place starting January 1st, 2023. This tax was replaced by the profit tax (16%) or tax on micro-company income, at the choice of the companies. The Group's options were: the payment of the tax on micro-company revenue for USFN and profit tax for ARS and CFF. Following the new fiscal changes occurred in 2023, USFN has chosen to pay tax on profit starting 1st of January 2024.

As at 31 December 2023, the Group recognised deferred tax assets in amount of RON 1,864 thousand (31 December 2022: liabilities of RON 784 thousand) for the temporary differences expected to be settled in the future, as a result of the above changes in the tax regulations.

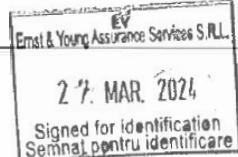
Deferred tax

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

	Statement of financial position		Statement of comprehensive income	
	31 December		31 December	
	2023	2022	2023	2022
Right-of-use assets	(38,275)	(14,143)	24,132	(910)
Property, plant and equipment	(2,123)	(302)	1,821	(192)
Intangible assets	14	45	31	10
Prepayments	342	-	(342)	-
Loans and borrowings	-	661	661	(661)
Lease liabilities	41,204	15,320	(25,884)	1,027
Fiscal losses	21,199	19,830	(1,369)	(2,042)
Deferred revenue	158	-	(158)	-
Provisions	(55)	65	120	(65)
Translation difference	-	-	391	(78)
	(597)	(2,911)		
Deferred tax benefit				
Remeasurement benefit/(loss) on defined benefit plan (Note 8.1) – recognized OCI	408	356	(53)	87
Net deferred tax assets	22,872	21,833	(650)	(2,824)

Reflected in the statement of financial position as follows:

	31 December 2023	31 December 2022
Net deferred tax assets	22,872	21,833
Deferred tax assets	23,839	22,617
Deferred tax liabilities	(967)	(784)



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10. INCOME TAX (continued)

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

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

- RON 21,713 thousand (31 December 2022: RON 19,352 thousand) arising from the tax losses of the Italian subsidiary that are available indefinitely for offsetting against its own future taxable profits;
- RON 234 thousand (31 December 2022: RON thousand 478) arising from the unused carried-forward tax losses of Sphera Franchise Group SA that are available for offsetting against the Company's tax profits within the next two years according to the budget (i.e. seven years from the recognition, according to the Romanian tax law).

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold buildings and leasehold improvements	Equipment and vehicles	Other equipment and furniture	Fixed assets in progress	Total
Cost					
At 1 January 2022	196,256	121,905	56,660	21,854	396,675
Additions	17,418	8,408	5,011	51,964	82,801
Disposals	417	1,444	1,678	-	3,539
Transfers	-	-	-	(30,497)	(30,497)
Exchange differences	(24)	(33)	(5)	-	(62)
At 31 December 2022	213,233	128,836	59,988	43,321	445,378
Additions	45,734	11,078	8,328	50,512	115,652
Disposals	7,935	5,237	1,855	-	15,027
Transfers	-	-	-	(64,302)	(64,302)
Exchange differences	367	241	100	-	708
At 31 December 2023	251,399	134,918	66,561	29,531	482,409
Depreciation and impairment					
At 1 January 2022	78,532	66,004	30,070	-	174,606
Depreciation charge for the year	18,223	12,625	8,080	-	38,928
Impairment charge	3,184	932	621	-	4,737
Disposals	414	1,382	1,627	-	3,423
Exchange differences	(14)	(17)	4	-	(27)
At 31 December 2022	99,511	78,162	37,148	-	214,821
Depreciation charge for the year	18,669	11,756	7,992	-	38,417
Impairment charge	2,705	1,436	204	-	4,345
Disposals	9,787	4,029	1,069	-	14,885
Exchange differences	182	162	68	-	412
At 31 December 2023	111,280	87,487	44,343	-	243,110
Net Book Value					
At 1 January 2022	117,724	55,901	26,590	21,854	222,069
At 31 December 2022	113,722	50,674	22,840	43,321	230,557
At 31 December 2023	140,119	47,431	22,218	29,531	239,299

As at 31 December 2023 and 31 December 2022, the gross book value of fully depreciated property, plant and equipment that were still in use amounted to RON 110,529 thousand and RON 94,003 thousand, respectively.

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11. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group has pledged non-current assets (mostly equipment) in favour of Alpha Bank for the financing received. The net carrying amount of pledged assets as at 31 December 2023 is of RON 56,994 thousand (31 December 2022: RON 54,372 thousand).

The additions during the years ended 31 December 2023 and 31 December 2022 consist mainly in new restaurants' leasehold improvements, as well as restaurants' kitchen equipment and furniture. In 2023, the Group opened 8 new restaurants – all of them being new KFC restaurants in Romania. The new openings were offset by the closing of 2 KFC units in Italy, 3 KFC units in Romania, and 7 Pizza Hut locations as well as the Paul unit in Romania. Fixed assets in progress refers to the restaurants under development or refurbishment at the end of the reporting period.

Disposals of property, plant and equipment refer mainly to the leasehold improvements of the restaurants refurbished or closed during the year and other obsolete equipment and furniture fully depreciated.

Analysis regarding the impairment of property, plant and equipment

The management has assessed property, plant and equipment for impairment indicators as at 31 December 2023. Based on impairment analysis performed at the level of each CGU no additional impairment needs to be recognised. Please see more details in note 12.

In 2023, the Group has recognised an impairment for property, plant and equipment of RON 4,345 thousand for the Pizza Hut and KFC units closed in 2023 and that will be closed in January 2024; Their recoverable amount, determined as fair value less cost of disposal (level 3 of fair value hierarchy), was estimated to be zero. Based on the analysis performed, it was concluded that there is no need of any additional specific impairment for the property, plant and equipment.

12. INTANGIBLE ASSETS AND GOODWILL

	Goodwill	Franchise rights	Other intangible assets	Intangibles in progress	Total
Cost					
At 1 January 2022	50,585	26,815	9,688	2,484	89,572
Additions	-	2,571	2,009	2,200	6,780
Transfers	-	-	-	(3,524)	(3,524)
Disposals	-	30	72	-	102
Exchange differences	-	(5)	(1)	-	(6)
At 31 December 2022	50,585	29,351	11,624	1,160	92,720
Additions	-	2,422	1,989	6,907	11,318
Transfers	-	-	-	(4,409)	(4,409)
Disposals	-	1,304	223	-	1,527
Exchange differences	-	38	13	-	51
At 31 December 2023	50,585	30,507	13,403	3,658	98,153
Amortisation and impairment					
At 1 January 2022	15,138	10,885	3,778	-	29,801
Amortisation	-	2,748	2,489	-	5,237
Accumulated amortisation and impairment of disposals	-	30	65	-	95
Exchange differences	-	(2)	-	-	(2)
At 31 December 2022	15,138	13,601	6,202	-	34,942
Amortisation	-	2,806	2,565	-	5,371
Impairment charge	-	828	100	-	928
Accumulated amortisation and impairment of disposals	-	1,029	229	-	1,258
Exchange differences	-	22	12	-	34
At 31 December 2023	15,138	16,228	8,650	-	40,016

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 Ernst & Young Assurance Services S.P.L.
 27. MAR. 2024
 Signed for identification
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	Goodwill	Franchise rights	Other intangible assets	Intangibles in progress	Total
Net book value					
At 1 January 2022	35,447	15,930	5,910	2,484	59,771
At 31 December 2022	35,447	15,750	5,422	1,160	57,778
At 31 December 2023	35,447	14,279	4,753	3,658	58,137

The additions consisted mainly in franchise operating licenses acquired for newly opened restaurants and renewal franchise licenses for restaurants achieving ten years of operations.

For impairment testing, goodwill acquired through business combinations was allocated to the Pizza Hut restaurant chain CGU, which is also an operating and reportable segment. The Group performed its annual impairment test as of 31 December 2023.

The recoverable amount of the CGU as at 31 December 2023, has been determined at RON 54,608 thousand (2022: RON 55,231 thousand) based on fair value less costs to sell determined using forecasted free cash-flows in RON for a discrete period of 5 years (2024-2028). The terminal value was estimated based on the net cash-flow of the year following the explicit forecast period and using a 3% growth factor. This fair value measurement is on level 3 of the fair value hierarchy. The cashflow projections are based on financial budgets approved by senior management covering the above referred period.

The key assumptions used in the calculation of the recoverable amounts are sales growth rates, EBITDA margins, discount rates, net working capital and terminal value growth rates. Capital expenditure/restaurant is also a key assumption. The values assigned to these key assumptions reflect past experience and a number of actions already implemented with the purpose to improve the performance indicators and the agility of the brand: the streamlining of restaurant network (starting Q3 2023), a tighter control of costs (restaurant payroll, rent, other operating expenses, general and administrative costs), outsourcing of the own delivery fleet, increase of operational efficiency.

Discount rate (post tax) used is 12.6% (2022: 12.7%). 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 measures it has undertaken to support sales, including the level of selling prices and alignment of its sales channels and the recent evolution of Pizza Hut restaurants.

Budget EBITDA margins are based on the following assumptions:

- Improving the current profitability for the existing restaurants as a result of the restaurants network optimization plan started in Q3 2023 and finalized at the beginning of the year 2024, by closing the stores in the same geographical area and routing a major part of sales to the remaining ones.
- Increased effectiveness of the delivery activity by outsourcing the own delivery fleet (starting April 2023) which allowed costs optimization in terms of personnel, other operating expenses (own fleet costs); The rest of the main expense categories trend will be relatively constant as percentage of sales.
- Strengthening the operating performance of the existing network, no new units assumed to be opened or closed for 2024-2028 period (except for the six units included in the reorganization plan with the effective closing date at the beginning of the year 2024).

As a result of the analysis, as compared to the CGU carrying value of RON 29,038 thousand (2022: RON 37,068 thousand), there was no need to recognise an impairment loss in the financial statements as at and for the year ended 31 December 2023 (2022: impairment loss of RON 0).

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12. INTANGIBLE ASSETS (continued)

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

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

EBITDA margin reflects management's estimates regarding the operational profitability of the CGU, in line with historical levels and market evolution.

Key drivers	Key drivers (%)	Fair value less cost to sell	Impairment / Headroom
Cost of capital	12.6%	54,608	25,570
	13.1%	51,320	22,282
	12.1%	58,266	29,228
EBITDA margin	0.00%	54,608	25,570
	-0.50%	47,479	18,441
	0.50%	61,738	32,700
Perpetuity growth factor	3.00%	54,608	25,570
	2.50%	51,485	22,447
	3.50%	58,076	29,037
Net working capital (%/sales)	-0.5pp +0.5pp	55,406 53,811	26,368 24,772

13. BORROWINGS

	Interest rate, %	Maturity	31 December 2023	31 December 2022
Current borrowings				
Current portion of bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	42,317	44,786
Short-term working capital facility	ROBOR 3M + relevant spread	1 year from contract date	-	20,300
Total current borrowings			42,317	65,086
Non-current borrowings				
Non-current portion of bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	91,455	122,949
Total non-current borrowings			91,455	122,949
Total borrowings			133,772	188,035

The Group's financing facilities consist of:

- Financing facilities with Alpha Bank as follows: an uncommitted long term credit facility in maximum amount of EUR 42,167,000, out of which it is used the amount of 26,853,027 EUR, for the development of new locations and financing of the foreign subsidiaries, a credit facility for issuance of bank guarantee letters of EUR 3,500,000, out of which it is used the amount of EUR 3,474,479, as well as a multi-optional short-term facility in a maximum amount of RON 20,297,612 to be used for financing of working capital and guarantee letters, out of which is used the amount of RON 201,933 (for guarantee letters). The loan facilities are secured with property, plant and equipment of restaurant locations for which the credit limited has been utilised, pledge on business goodwill, pledge on current accounts opened with the bank, promissory notes issued, pledge on receivables from and shares owned by the Group in its Moldova and Italia subsidiary. The carrying amount of pledged property, plant and equipment and cash and cash equivalents is disclosed in Notes 11 and 18.

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13. BORROWINGS (continued)

In October 2023, the Group signed the extension of the maturity/validity of the short-term facility and the facility for issuance of letters of guarantees agreements with maintaining all guarantees previously constituted in the guarantee of the facilities and the extension of the availability of the long term facility.

▪ A short-term borrowing arrangement (Sphera Franchise Group – Borrower) with Vista Bank Romania in total amount of RON 10 million. Credit facility is revolving and may be used by the Borrower for financing of working capital needs and of generic company costs, as well as intragroup loans and issuance of letters of guarantees. In June 2023, the term of the loan facility was extended until 30 June 2024. As at 31 December 2023 and 31 December 2022, respectively, the loan balance with Vista Bank is nil.

▪ A short-term credit facility agreement with Intesa Sanpaolo Romania Bank (USFN Romania - Borrower and Sphera Franchise Group SA - Guarantor). The uncommitted credit facility amounting to RON 9.6 million was prolonged until August 2024 is revolving and may be used by the Borrower to finance the working capital needs. As at 31 December 2023, the loan facility balance with Intesa Sanpaolo is nil (31 December 2022: RON 1.4).

Covenants:

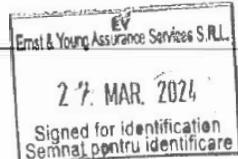
The Group's borrowing arrangement with the Alpha Bank contains several covenants, mainly of quantitative nature, out of which the most important relates to the ratio bank net debt, including non-cash loan utilized for letter of guarantee / EBITDA at a consolidated level, excluding the impact of IFRS 16, which should not exceed at any point in time 2.5. Breaches in meeting the financial covenant at Group consolidated level would permit the bank to call the loan amount needed to meet the financial covenant. There have been no breaches of the consolidated financial covenant for the years ended 31 December 2023 and 31 December 2022.

The Group's short-term borrowing arrangement with the Intesa Sanpaolo contains a financial covenant at standalone level, respectively: the Borrower's ratio Total debt/ EBITDA should not exceed 4.4. Breaches in meeting the financial covenant at individual level would permit the bank to call the loan amount. There have been no breaches of the consolidated financial covenant for the years ended 31 December 2023 and 31 December 2022.

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

	31 December 2022				Non-cash changes				Cash changes				31 December 2023	
	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	188,035	10,244	99	-	816	21,633	(76,933)	(10,107)	(15)				133,772	
Bank loans	188,035	10,244	99	-	816	21,633	(76,933)	(10,107)	(15)				133,772	

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



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14. LEASE LIABILITIES

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

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

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

	Restaurant properties – (Land)	Restaurant properties – (Freehold buildings)	Motor vehicles and other equipment	Total
As at 1 January 2022	14,985	215,141	2,267	232,393
Additions	678	44,467	2,691	47,836
Depreciation expense	855	55,718	1,843	58,416
Disposals	-	4,024	2	4,026
Exchange difference	-	(67)	(1)	(68)
As at 31 December 2022	14,808	199,799	3,112	217,719
Additions	513	89,200	2,126	91,839
Depreciation expense	873	59,625	1,515	62,013
Disposals	-	7,803	369	8,172
Exchange difference	-	159	5	164
As at 31 December 2023	14,448	221,730	3,359	239,537

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

As at 1 January 2023	243,422
Additions	91,839
Accretion of interest	13,185
Payments (principal and interest)	73,764
Disposals	8,402
Unrealized forex exchange gain	1,320
Translation difference	287
As at 31 December 2023	267,887
Non-current	211,844
Current	56,043
As at 1 January 2022	257,001
Additions	47,836
Accretion of interest	10,119
Payments (principal and interest)	66,997
Disposals	4,136
Unrealized forex exchange gain	(359)
Translation difference	(42)
As at 31 December 2022	243,422
Non-current	190,729
Current	52,693

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14. LEASE LIABILITIES (continued)

The following are the amounts recognized in profit or loss:

	2023
Depreciation expense of right-of-use assets	62,013
Interest expense on lease liabilities	13,185
Forex exchange differences, net	1,320
Rent presented in restaurant expenses, including:	34,644
• Variable lease payments (included in restaurant expenses - rent)	33,542
• Expense relating to short-term leases and low value assets (included in restaurant expenses)	1,102
Rent presented in "General and administrative expenses"	232
Net (gain)/ loss on disposal	(230)
Total amount recognized in profit or loss	111,164
	2022
Depreciation expense of right-of-use assets	58,416
Interest expense on lease liabilities	10,119
Forex exchange differences, net	(359)
Rent presented in restaurant expenses, including:	32,110
• Variable lease payments (included in restaurant expenses - rent)	30,583
• Expense relating to short-term leases and low value assets (included in restaurant expenses)	1,527
Rent presented in "General and administrative expenses"	252
Net (gain)/ loss on disposal	(111)
Total amount recognized in profit or loss	100,427

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

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT

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

The Group is exposed to several financial risks in connection with its activities, including the market risk (interest rate risk, foreign exchange rate risk), risk related to the financial liquidity, and, to a limited extent to credit risk.

The Group's senior management oversees the management of these risks, setting up the appropriate financial risk governance framework for the Group. The Group's senior management ensures the Group's financial risk activities are performed under appropriate procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives.

The Group's financial policies for managing the main financial risks with the objective to limit the negative impact on the Group's financial results are summarised below:

Interest rate risk

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

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15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Interest rate sensitivity

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

	Increase in basis points	Effect on profit before tax
31 December 2023 EUR	1%	(1,338)
31 December 2022 EUR	1%	(1,880)

The Group does not hedge its interest rate risk.

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

Foreign currency risk

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

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

Foreign currency sensitivity

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

	Increase in EUR rate	Effect on profit before tax	Increase in USD rate	Effect on profit before tax
31 December 2023	1%	(3,490)	1%	(120)
31 December 2022	1%	(3,068)	1%	(172)

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

Credit risk

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

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15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

The Group invests cash and cash equivalents with highly reliable financial institutions. The Group has only plain vanilla deposits with reputable banks, none of which has experienced any difficulties in 2023 or up to the date of these consolidated financial statements. Also, the food aggregating platforms the Group collaborates with, are reputable commercial partners, part of international group of companies. The majority of cash is transacted through and placed with Alpha Bank Romania, member of Alpha Bank Group from Greece and Banca Romana de Dezvoltare (BRD), a member of Societe Generale Group from France, Banca Transilvania, Vista Bank, Unicredit Bank Italy, Banco BPM (Italy), Intesa Sanpaolo Romania S.A., a member of Intesa Sanpaolo Group from Italy, Victoria Bank (Republic of Moldova), Mobiasbanca (Republic of Moldova) – part of OTP Group.

The long-term credit rating of Alpha Bank Greece is Ba1 as provided by Moody's rating agency, no credit rating being available for its Romanian subsidiary. The long-term credit rating of BRD is Baa1, while the one for Unicredit is Baa1, both provided by Moody's. The long-term credit rating of Banco BPM is Baa2 provided by Moody's rating agency. According to Fitch Ratings, the long-term credit rating of Banca Transilvania and Victoria Bank is BB+, for Vista Bank (Vista Bank Global) B+ and for Intesa Sanpaolo S.p.A. is BBB, no credit rating being available for the Romanian subsidiary of Intesa. According to Moody's rating agency, the long-term credit rating of OTP Group in Republic of Moldova is B3, no credit rating being available for Mobiasbanca.

As at 31 December 2023, more than 65% of the Group's cash balance is placed at bank institutions with a stable credit rating (51% - Ba1 and 15% - Baa1).

There is no significant concentration of credit risk in respect of trade and other receivables due to the fact that sales are based mainly on cash and credit card payments.

Liquidity risk

The Group has adopted a prudent financial liquidity management approach, assuming that sufficient cash and cash equivalents are maintained and that further financing is available from guaranteed funds from credit lines. The tables below summarize the maturity profile of the Group's financial liabilities, including principal amounts and interests according to contractual terms, at 31 December 2023 and 31 December 2022 based on contractual undiscounted payments.

31 December 2023	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Borrowings	279	13,135	37,335	94,256	5,955	150,960
Lease liability	-	16,957	50,872	171,660	85,375	324,864
Total trade and other payables	5,646	85,996	2	330	-	91,974
Total:	5,925	116,088	88,209	266,246	91,330	567,798

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

At 31 December 2023, the Group had available RON 115,877 thousand of undrawn uncommitted borrowing facilities (31 December 2022: RON 60,440 thousand), thus being able to respond to any unforeseen higher cash outflow needs.

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15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Capital management

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

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

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

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

	31 December 2023	31 December 2022
Borrowings	133,772	188,035
Leases	267,887	243,422
Financial trade and other payables	91,974	85,190
Less: cash and cash equivalents	98,147	128,089
Net debt	395,486	388,558
Equity	142,616	116,364
Capital and net debt	538,102	504,921
Gearing ratio:	73%	77%

The Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. For the covenants in force as at 31 December 2023 and 31 December 2022 please refer to Note 13.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2023 and 31 December 2022.

Fair values

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

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

Financial instruments which are not carried at fair value on the statement of financial position also include deposits to guarantee rent, trade and other receivables, cash and cash equivalents, and trade and other payables. The carrying amounts of these financial instruments are also considered to approximate their fair values (level 3 measurement).

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16. INVENTORIES

	31 December 2023	31 December 2022
Raw materials	11,322	11,771
Consumables	2,679	3,250
Finished goods	952	886
Total inventories	14,953	15,907

For the year ended 31 December 2023, inventories amounting to RON 493,782 thousand (2022: RON 470,102 thousand) were recognised as an expense in profit or loss, in "Food and materials" as well as in "Other operating expenses" and "General and administrative expenses" ("Small-wares" and "Cleaning supplies").

17. TRADE AND OTHER CURRENT RECEIVABLES

	31 December 2023	31 December 2022
Trade receivables	2,218	4,248
Trade receivables from related parties (Note 25)	7	13
Tax receivables (VAT receivables mainly)	3,276	10,458
Advance to suppliers	11	776
Meal tickets	26	37
Social security – medical leave to be received	3,787	5,262
Other debtors	839	485
Total	10,164	21,279

Terms and conditions relating to related party transactions are described in Note 25.

Trade receivables are non-interest bearing and are generally on terms of 30-90 days.

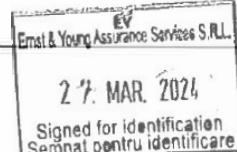
As at 31 December 2023, trade receivables with a value of RON 440 thousand (31 December 2022: RON 451 thousand) and other debtors with a value of RON 170 thousand (31 December 2022: RON 170 thousand) were impaired and fully provided for.

As at 31 December 2023 and 31 December 2022, the ageing analysis of trade receivables and trade receivables from related parties, net of allowances, is as follows:

31 December 2023	Trade receivables					
	Total	Current	< 30 days	30-60 days	61-90 days	>91 days
Expected credit loss rate		0%	0%	0%	0%	66%
Estimated total gross carrying amount at default	2,658	1,389	-	544	61	664
Expected credit loss	440	-	-	-	-	440
Net value	2,218	1,389	-	544	61	224

31 December 2022	Trade receivables					
	Total	Current	< 30 days	30-60 days	61-90 days	>91 days
Expected credit loss rate		0%	0%	0%	0%	26%
Estimated total gross carrying amount at default	4,699	1,898	48	84	442	2,226
Expected credit loss	451	-	-	-	-	451
Net value	4,248	1,898	48	84	442	1,775

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



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18. CASH AND CASH EQUIVALENTS

	31 December 2023	31 December 2022
Cash at banks and on hand	76,339	90,741
Cash in transit	8,221	4,399
Cash in transit – food aggregating platforms	13,587	7,949
Short-term deposits	-	25,000
Total	98,147	128,089

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

As part of the financing agreement with banks the Group has pledged the cash available in the accounts opened with the banks. The balance of the pledged bank accounts as at 31 December 2023 is of RON 49,705 thousand (31 December 2022: RON 77,440 thousand).

Financial assets (cash collateral)

As at 31 December 2023, financial assets (cash collateral) include the amount of RON 9,339 thousand (31 December 2022: RON 7,909 thousand) representing bank deposits set up as collateral guarantees based on contracts with various suppliers (landlords, utilities, supply etc.).

19. ISSUED CAPITAL

	31 December 2023	31 December 2022
Authorised shares		
Ordinary shares of 15 RON each	38,799,340	38,799,340
Share capital (RON thousand)	581,990	581,990

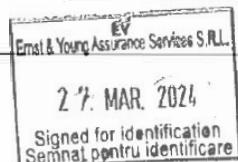
Out of the total number of the ordinary shares, the number of own shares held by the Company as at 31 December 2023 is 104,100 (31 December 2023: 0) (Note 8.1).

The shareholders of Sphera Franchise Group SA as at 31 December 2023 are: Tatika Investments Ltd. (29.5466%), Computerland Romania SRL (20.5327%), Wellkept Group SA (17.0739%) and free float – own shares included (32.8468%).

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

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



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19. ISSUED CAPITAL (continuare)

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

The share capital and share premium have not suffered any changes in 2023 and 2022.

20. PROFIT DISTRIBUTION

	2023	2022
Dividends declared during the period:		
To shareholders of Sphera Franchise Group SA	44,886	55,002
To non-controlling interests	393	250
Total dividends declared during the period	45,279	55,252
 Total dividends declared per share SFG (RON/share)	 1.16	 1.4176
 Dividends paid during the period:		
To shareholders of Sphera Franchise Group SA	64,887	35,001
To non-controlling interests	393	250
Total dividends declared and paid during the period	65,280	35,251

On December 20th, 2022, the General Shareholders Meeting approved a distribution of dividends in amount of RON 20,001 thousand from the undistributed profit from 2020, with a gross dividend per share of RON 0.5155. The payment date was on 31 March 2023.

On September 4th, 2023, the Ordinary General Meeting of the Shareholders of Sphera Franchise Group approved a dividend distribution in amount of RON 45,007 thousand, fixing a gross dividend per share at RON 1.16.

Considering the 104.100 shares acquired by Sphera Franchise Group SA during the SOP program which were not eligible for dividends, the amount of RON 120 thousand was withheld from the distribution. Based on the gross dividend per share of RON 1.16, the value of distribution was of RON 44,886 thousand.

For the year ended 31 December 2023, the Board of Directors has proposed to the shareholders' approval, the following allocation of the net profit of Sphera Franchise Group SA as presented in its separate financial statements as at and for the year ended 31 December 2023:

- Setting up the legal reserves in accordance with the statutory regulations in amount of RON 3,283 thousand.
- Covering the loss related to the acquisition of treasury shares of RON 487 thousand.
- Allocation of undistributed profit of RON 61,887 thousand to retained earnings.

Also, the Board of Directors has proposed to the shareholders' approval the distribution of a gross dividend of RON 1.05/share from the undistributed profit (2022 and 2023) of Sphera Franchise Group SA.

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

As at 31 December 2023, the consolidated legal reserves balance, included into Retained earnings, is in amount of RON 14,079 thousand (2022: RON 10,748 thousand).

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21. TRADE AND OTHER CURRENT PAYABLES

	31 December 2023	31 December 2022
Trade payables	90,051	81,609
Other payables to related parties (Note 25)	653	673
Other payables	1,270	2,598
Salary liability	37,947	33,774
Social contribution liability	10,193	9,433
Other employee related liabilities	2,531	1,745
VAT payable	2,902	381
Other taxes	386	540
Dividends payable	26	19,860
Total	145,959	150,613
Less: non-current portion of other payables	330	-
Trade and other payables, current	145,629	150,613

Terms and conditions of the above financial liabilities:

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

As of December 31, 2023, the income tax liabilities and contract liabilities were presented distinctly on the face of the financial statements, in the statement of the financial position, together with their comparative values. As of December 31, 2022, these liabilities (contract liabilities, income and specific tax payables) had been included within Trade and other liabilities and disclosed in the related note.

22. EBITDA

	2023	2022
Operating profit	108,933	61,356
Adjustments to bridge operating profit to EBITDA:		
Depreciation, amortization and impairment of non-current assets included in restaurant expenses	103,218	100,551
Depreciation, amortization and impairment of non-current assets included in general and administration expenses	7,017	6,588
EBITDA	219,168	168,495
Normalization adjustments	2,647	494
Normalized EBITDA	221,815	168,988

EBITDA is not a financial indicator defined by IFRS, but one of the key performance measures relevant for the business operations and monitored by the Group senior management.

For the year ended 31 December 2023, EBITDA was normalized to exclude the one-off costs: closing costs of RON 2,342 thousand for thirteen Pizza Hut units, as part of the network reorganization (out of which RON 2,199 thousand representing YUM! costs (Note 6) and RON 143 thousand other closing costs) and other provisions of RON 305 thousand (Note 7). For the year ended 31 December 2022, EBITDA was normalized to exclude the impact of provision for estimated costs related to the closing of two non-performing KFC stores in Italy (Note 6).

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23. EARNINGS PER SHARE (EPS)

	31 December 2023	31 December 2022
Profit attributable to ordinary equity holders of the parent	71,186	37,557
Weighted average number of ordinary shares (without own shares, Note 19)	38,695,240	38,799,340
Earnings per share, basic and diluted (RON/share)	1.8397	0.9680

There are no dilutive instruments to be considered.

24. COMMITMENTS AND CONTINGENCIES

Lease commitments

The Group has entered into several lease agreements for restaurants that are going to be opened in the next period. The estimated value of the future lease payments for right-of-use assets is of RON 10,346 thousand for a 10-year contractual period.

Other commitments

The Group restaurants are operating under franchise agreements with YUM! and its subsidiaries. In accordance with these agreements, the Group is committed to maintain the identity, reputation, and high-quality standards of each brand, and to develop the restaurants network. For the year 2024, the Group has no development agreements in place. Nevertheless, the Group will continue the network development, with plans to open in 2024 around six new KFC units, in Romania.

In 2023, the Group has terminated the rollout development plan for Pizza Hut brand by negotiating with the franchisor a reorganization program of the local restaurant network, with the aim to optimize costs, increase the agility of the brand and improve profitability indicators.

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.

The Group has started the process of implementing the TCFD (taskforce climate-related financial disclosures) recommendations to improve risk identification process, assessment, mitigation, management and reporting procedures on climate changes. Currently, the plastic consumption, energy and carbon footprint management are the main climate related objectives monitored by the Group.

Bank letter of guarantees

The Group has issued bank letters of guarantee in favour of suppliers as at 31 December 2023 in amount of RON 17,728 thousand (31 December 2022: RON 14,736 thousand).

Other contingencies

Taxation

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

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

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24. COMMITMENTS AND CONTINGENCIES (continued)

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

Transfer pricing

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

The Group has prepared transfer pricing files.

Legal proceedings

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

In 2019, USFN, alongside the owner of the building where one of the KFC drive-through restaurant is operating, has been sued by a third party acting as plaintiff in connection with utilities pipes (electrical, gas and water) [sub]crossing plaintiff's plot in absence of a pre-agreement. Plaintiff requests from USFN and the landlord, *inter alia*, payment of liquidated damages in amount of approx. RON 705 thousand. To date, the court file is in progress. However, US Food Network SA submitted a call for guarantee against the landlord and, therefore, in case USFN will be held primarily accountable by the Court with regards to the liquidated damages, then USFN will be able to claim the payments from the landlord. The call for guarantee has been admitted in principle. Further, the evidence is still analysed by the Court and the Group cannot anticipate on the manner the Court may rule. Based on lawyer confirmation it is more probable than not to have a favourable decision and no provisions have been recorded for this matter.

25. RELATED PARTY DISCLOSURES

During the years ended 31 December 2023 and 31 December 2022, the Group has carried out transactions with the following related parties:

Related party	Nature of the relationship	Country of incorporation	Nature of transactions
Moulin D'Or SRL	Entity affiliated to shareholders of the parent	Romania	Goods and services
Midi Development SRL	Entity affiliated to shareholders of the parent	Romania	Services
Grand Plaza Hotel SA	Entity affiliated to a shareholder of the parent	Romania	Rent and utilities store PH Dorobanti, services
Arggo Software Development and Consulting SRL	Entity affiliated to a shareholder of the parent	Romania	IT services
Wellkept Group SA	Shareholder and entity under common control of Radu Dimofte, ultimate controlling party of the Group	Romania	Rent training center and payment of dividends

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Related party	Nature of the relationship	Country of incorporation	Nature of transactions
Tatika Investments Ltd.	Shareholder and entity under common control of Radu Dimofte, ultimate controlling party of the Group	Cyprus	Payment of dividends
Computerland Romania SRL	Shareholder with significant influence	Romania	Payment of dividends, acquisition of IT equipment, licenses
Cinnamon Bake&Roll SRL	Entity affiliated to a shareholder of the parent	Romania	Sale of goods and services
Radu Dimofte	Beneficial owner of Wellkept Group SA, Tatika Investments Ltd and ultimate controlling party of the Group	Romania	Rent store KFC Mosilor
Elicom SRL	Entity affiliated to a shareholder of the parent	Romania	Call-centre services
Elicom Connect SRL	Entity affiliated to a shareholder of the parent	Romania	Marketing services
Dorobanti 239 Imobiliare SRL	Entity affiliated to a shareholder of the parent	Romania	Rent and utilities for restaurant and administrative area
Baneasa Developments SRL	Entity affiliated to a shareholder of the parent	Romania	Restaurant rent
Baneasa Investments SA	Entity affiliated to a shareholder of the parent	Romania	Restaurant rent
Parc Hotels SA	Entity affiliated to a shareholder of the parent	Romania	Accommodation services
Casa Doina SRL	Entity affiliated to a shareholder of the parent	Romania	Acquisition of services

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

Related party	2023	31 December 2023	
	Sales to related parties	Purchases (without VAT) from related parties	Amounts owed by related parties
Moulin D'Or SRL	4	4	-
Radu Dimofte	-	93	-
Wellkept Group SA	-	494	-
Midi Development SRL	-	154	-
Grand Plaza Hotel SA	-	1,182	66
Arggo Software Development and Consulting SRL	-	1,225	-
Elicom SRL	-	721	-
Elicom Connect SRL	-	-	-
Dorobanti 239 Imobiliare SRL	-	3,709	-
Baneasa Developments SRL	-	4,566	-
Baneasa Investments SA	-	669	128
Computerland Romania SRL	20	10	7
Casa Doina SA	-	13	-
	24	12,840	201
			653

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25. RELATED PARTY DISCLOSURES (continued)

Related party	2022		31 December 2022	
	Sales to related parties	Purchases (without VAT) from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL	6	2	7	-
Moulin D'Or SRL	-	2	-	-
Lucian Vlad	-	224	-	-
Radu Dimofte	-	93	-	-
Wellkept Group SA	-	499	-	10
Midi Development SRL	-	129	-	-
Grand Plaza Hotel SA	-	1,077	66	28
Arggo Software Development and Consulting SRL	-	1,144	-	13
Elicom SRL	-	589	-	54
Elicom Connect SRL	-	11	-	2
Dorobanti 239 Imobiliare SRL	-	3,376	-	69
Baneasa Developments SRL	-	4,581	-	270
Baneasa Investments SA	-	615	128	11
Computerland Romania SRL	23	243	6	213
Parc Hotels SA	-	18	-	3
	29	12,603	207	673

As at 31 December 2023, of the total amount owed by related parties of RON 201 thousand, RON 194 thousand represent long term deposits for rent guarantees (31 December 2022: RON 194 thousand out of RON 207 thousand) and the remaining RON 7 thousand represent trade receivables from related parties (31 December 2022: RON 13 thousand).

Terms and conditions of transactions with related parties

Outstanding balances at the period end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables, except for the amounts presented above as security deposits for rent agreements.

For the years ended 31 December 2023 and 31 December 2022, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group:

	2023	2022
Short-term employee benefits	10,961	9,713
Total compensation paid to key management personnel	10,961	9,713

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

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26. SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on the restaurants' brands, as follows:

- KFC restaurants
- Pizza Hut restaurants.
- Taco Bell restaurants

Until October 2023, the Group also had an immaterial operating segment, one Paul restaurant managed by USFN, and which was aggregated into the KFC segment.

Inter-segment revenues are eliminated and reflected in the "Eliminations" column.

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

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

2023	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	1,269,417	115,211	84,544	-	-	1,469,172
Inter-segment revenues	2	-	-	40,782	(40,784)	-
Dividend revenues	-	-	-	73,003	(73,003)	-
Operating expenses	1,148,376	129,321	81,093	46,459	(45,010)	1,360,239
Segment operating profit	121,043	(14,110)	3,451	67,326	(68,777)	108,933
Finance costs	22,033	2,569	2,360	4,027	(4,812)	26,177
Finance income	3,434	12	-	2,605	(4,812)	1,239
Income taxes	11,785	-	220	243	-	12,248
Net profit/(loss)	90,659	(16,667)	871	65,661	(68,777)	71,747
Total assets	604,684	43,104	41,240	79,461	(67,173)	701,316
Total liabilities	520,617	62,364	43,275	57,427	(124,983)	558,700
Capital expenditure, including right-of-use additions	131,373	9,272	7,731	1,927	(173)	150,130
Depreciation of right-of-use assets	47,681	9,166	3,870	1,296	-	62,013
Depreciation, amortization and impairment	34,883	9,025	3,665	677	(28)	48,222

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26. SEGMENT INFORMATION (continued)

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

*For the year ended 31 December 2022, Other restaurant income refers to the incentives received from Yum.

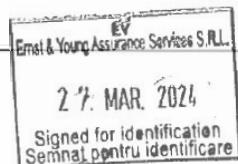
Geographic information:

Revenue from external customers	2023	2022
Romania	1,264,769	1,139,094
Italy	183,814	166,335
Republic of Moldova	20,589	17,393
Total restaurant revenue	1,469,172	1,322,822

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

Non-current assets (other than financial assets and deferred tax assets)	31 December 2023	31 December 2022
Romania	441,114	396,374
Italy	93,802	106,691
Republic of Moldova	2,057	2,989
Total	536,973	506,054

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



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27. AUDITOR'S FEES

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

The fee for the statutory audit of the consolidated and standalone financial statements as of 31 December 2023 of Sphera Franchise Group SA prepared in accordance with MOF 2844/2016 and of the statutory audit of the financial statements as of 31 December 2023 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 RON 771 thousand (excluding VAT).

Other non-assurance services amounted RON 37 thousand (excluding VAT) in connection with the procedures performed by the audit company for the Group's year-end related parties' reports, prepared in accordance with the stock exchange regulations.

28. EVENTS AFTER THE REPORTING PERIOD

Proposed profit allocation for the financial year 2023

For the year ended 31 December 2023, the Board of Directors has proposed to the shareholders' approval, the following allocation of the net profit of Sphera Franchise Group SA in amount of RON 65,657 thousand, as presented in its separate financial statements as at and for the year ended 31 December 2023:

- Setting up the legal reserves in accordance with the statutory regulations in amount of RON 3,283 thousand.
- Covering the loss related to the acquisition of treasury shares of RON 487 thousand.
- Allocation of undistributed profit of RON 61,887 thousand to retained earnings.

Also, the Board of Directors has proposed to the shareholders' approval the distribution of a gross dividend per share of RON 1.05 from the undistributed profit (2022 and 2023) of Sphera Franchise Group SA.

New loan facility

In March 2024, the Board of Directors approved the contracting of a new loan facility by the Sphera Franchise Group SA (acting as the borrower), in conjunction with its subsidiary, US Food Network SA, from Citibank Europe plc, Dublin – Romania Branch. The facility has a maximum amount of EUR 3,500,000. Its purpose is to issue letters of guarantee for the entities within the Group. This arrangement will be subject to approval at the Extraordinary General Meeting of Shareholders.

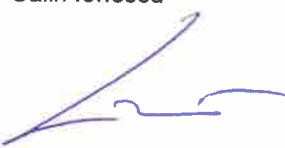
Shares buy back for reduction of the share capital

In March 2024, the Board of Directors decided to propose to the next shareholders meeting the reduction of the share capital of Sphera Franchise Group SA through a buy back procedure for a maximum of 600,000 of its own shares.

These consolidated financial statements from page 2 to page 49 were approved by the Board of Directors and were authorised for issue on 22 March 2024.

Chief Executive Officer

Calin Ionescu



Chief Financial Officer

Valentin Budes

