SPHERA FRANCHISE GROUP SA

SEPARATE FINANCIAL STATEMENTS

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

31 December 2023

CONTENTS

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

	Note	2023	2022
Revenues			
Dividend revenues	19	73,003	50,502
Revenue from contracts with related parties	19	40,779	35,080
Other income		29	129
Total revenues		**113,811**	**85,711**
Expenses			
Payroll and employee short-term benefits		34,433	29,506
Impairment loss of investments in subsidiaries	10	4,369	4,022
Other expenses	5	7,686	7,096
Total expenses		**46,488**	**40,624**
Profit from operating activities		**67,323**	**45,087**
Finance costs	6.1	4,027	3,046
Finance income	6.2	2,605	1,806
Profit before tax		**65,901**	**43,847**
Income tax expense	7	244	464
Profit		**65,657**	**43,383**
Comprehensive income		**65,657**	**43,383**

These separate financial statements from page 2 to page 39 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

Ernst & Young Assurance Services S.R.L.
27 MAR. 2024
Signed for identification
Semnat pentru identificare

All amounts in RON thousand, unless specified otherwise

	Note	31 December 2023	31 December 2022
Assets			
Non-current assets		**702,814**	**663,901**
Property, plant and equipment	8	1,546	1,757
Right-of-use assets	12	4,552	4,597
Intangible assets	9	651	450
Investments in subsidiaries	10	665,639	656,575
Loan and other receivables	14	30,192	44
Deferred tax asset	7	234	478
Current assets		**42,286**	**100,552**
Trade and other current receivables (including short-term loans)	14	39,233	71,859
Current prepayments		156	160
Cash and cash equivalents	15	2,897	28,533
Total assets		**745,100**	**764,453**
Equity and liabilities			
Equity			
Issued capital	16	581,990	581,990
Treasury shares	19	(2,037)	-
Legal reserve		13,894	10,611
Retained earnings	17	89,933	72,932
Reserves for share-based remuneration	19	3,894	1,502
Total equity		**687,674**	**667,034**
Non-current liabilities		**40,056**	**59,501**
Long-term borrowings	11	36,321	55,643
Non-current lease liabilities	12	3,735	3,859
Current liabilities		**17,370**	**37,917**
Short-term borrowings	11	7,765	8,858
Current lease liabilities	12	1,240	1,165
Trade and other current payables	18	8,060	27,894
Provisions	5	305	-
Total liabilities		**57,426**	**97,419**
Total equity and liabilities		**745,100**	**764,453**

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All amounts in RON thousand, unless specified otherwise

	Issued capital	Treasury shares	Reserves for share based remuneration	Legal reserves	Retained earnings	Total equity
As of 1 January 2023	**581,990**	**-**	**1,502**	**10,611**	**72,932**	**667,034**
Profit	-	-	-	-	65,657	65,657
Total comprehensive income	**-**	**-**	**-**	**-**	**65,657**	**65,657**
Acquisition of treasury shares	-	(2,037)	-	-	-	(2,037)
Share-based remuneration (Note 19)	-	-	2,392	-	-	2,392
Loss related to acquisition of treasury shares		-	-	-	(487)	(487)
Legal reserves	-	-	-	3,283	(3,283)	-
Dividends declared (Note 17)		-	-	-	(44,886)	(44,886)
As of 31 December 2023	**581,990**	**(2,037)**	**3,894**	**13,894**	**89,933**	**687,674**

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

The share capital has not suffered any changes during 2023 and 2022.

These separate financial statements from page 2 to page 39 were approved by the Board of Directors and were authorised for issue on 22 March 2024.

All amounts in RON thousand, unless specified otherwise

	Note	2023	2022
Operating activities			
Profit before tax		65,901	43,847
Adjustments to reconcile profit before tax to net cash flows:			
Dividend revenue	19	(73,003)	(50,502)
Depreciation, amortization and impairment	5	1,973	1,946
Impairment loss of investments in subsidiaries	10	4,369	4,022
Adjustments for unrealized foreign exchange losses/(gains)		(28)	(33)
(Gain)/loss on disposal of property, plant and equipment		(18)	(129)
Share-based remuneration		1,856	-
Adjustments for finance income	6.2	(2,605)	(1,807)
Adjustments for finance costs (interest)	6.1	3,941	2,989
Movements in provisions, net		305	-
Working capital adjustments:			
Adjustments for decrease/(increase) in trade and other receivables and prepayments		(7,906)	(6,552)
Adjustments for (decrease)/increase in trade and other payables, including employee benefits		(852)	2,568
Dividends received		71,526	71,980
Interest received classified as operating activities		1,201	443
Interest paid classified as operating activities		(4,100)	(5,763)
Cash flows from/used in operating activities		**62,560**	**63,009**
Investing activities			
Proceeds from sale of property, plant and equipment		29	129
Purchase of property, plant and equipment and intangible assets classified as investing activities		(668)	(546)
Loans to related parties		-	(5,340)
Cash flows from/used in investing activities		**(639)**	**(5,757)**
Financing activities			
Acquisition of treasury shares		(2,037)	-
Repayment of borrowings	11	(20,392)	(5,133)
Payment of lease liabilities	12	(1,377)	(1,224)
Net dividends paid		(63,751)	(34,707)
Cash flows from/used in financing activities		**(87,557)**	**(41,064)**
Net increase in cash and cash equivalents		**(25,636)**	**16,188**
Cash and cash equivalents at 01 January		**28,533**	**12,345**
Cash and cash equivalents at 31 December		**2,897**	**28,533**

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Ernst & Young Assurance Services S.R.L.
27. MAR. 2024
Signed for identification
Semnat pentru identificare

All amounts in RON thousand, unless specified otherwise

1. REPORTING ENTITY

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

As at 31 December 2023 and 31 December 2022, the Company has the following investments in subsidiaries:

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

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

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

As at 31 December 2023, the Company has a total number of 177 employees (2022:176).

The separate 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.

2. MATERIAL ACCOUNTING POLICIES

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

2.1 Statement of Compliance

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

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

2. MATERIAL ACCOUNTING POLICIES (continued)

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

During the current year the Company has a net profit of RON 65,657 thousand and had a net current assets position of RON 24,916 thousand. As at 31 December 2023, the Company holds a cash and cash equivalent balance of RON 2,897 thousand and has available RON 86,181 thousand undrawn bank facilities and RON 69,741 thousand undrawn intercompany borrowing facility from US Food Network SA, thus being able to respond to any unforeseen higher cash outflow needs.

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

During the current year, the Group from which the Company is part of, made a net profit of RON 71,747 thousand and had a net current liability position of RON 117,673 thousand. The Group holds a cash and cash equivalent balance of RON 98,147 thousand and has undrawn bank facilities of RON 115,877 thousand as at 31 December 2023, thus being able to respond to any unforeseen higher cash outflow needs.

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.

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

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

The ongoing war in Ukraine and the related sanctions targeted against the Russian Federation have a continuous impact on the European economies and globally. The entity does not have any significant direct exposure to Ukraine, Russia or Belarus. However, the impact on the general economic situation may require timely revisions of certain assumptions and estimates (cost of energy, cost of raw materials and the overall impact of inflation pressure).

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

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

2.2 Basis of preparation

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

2. MATERIAL ACCOUNTING POLICIES (continued)

2.3 Summary of material accounting policies

2.3.1 Current versus non-current classification

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

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

All other assets are classified as non-current.
A liability is current when:

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

The Company classifies all other liabilities as non-current.

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

2.3.2 Fair value measurement

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

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

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

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

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

2.3.3 Revenue

Rendering of services

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

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

All amounts in RON thousand, unless specified otherwise

2. MATERIAL ACCOUNTING POLICIES (continued)

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

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

Dividend income

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

Interest income

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

2.3.4 Government grants

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

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

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

2.3.5 Foreign currencies

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

Transactions and balances

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

The exchange rates as at 31 December 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

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

2. MATERIAL ACCOUNTING POLICIES (continued)

2.3.6 Taxes

Current income tax

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

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

Deferred tax

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

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

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

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

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

2. MATERIAL ACCOUNTING POLICIES (continued)

Sales tax (VAT and similar taxes)

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

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

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

2.3.7 Property, plant and equipment

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

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

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

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

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

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

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

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

2.3.8 Leases

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

Company as a lessee

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

2. MATERIAL ACCOUNTING POLICIES (continued)

i) Right-of-use assets

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

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

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

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

ii) Lease liabilities

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

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

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

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

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

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

2. MATERIAL ACCOUNTING POLICIES (continued)

term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

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

2.3.9 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. The useful lives of intangible assets are assessed as either finite or indefinite.

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

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

2.3.10 Impairment of non-financial assets

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

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

2.3.11 Investments in subsidiaries

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

2. MATERIAL ACCOUNTING POLICIES (continued)

2.3.12 Financial instruments

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

i) Financial assets

Initial recognition and measurement

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

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

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

Derecognition

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

Impairment of financial assets

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

2. MATERIAL ACCOUNTING POLICIES (continued)

The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

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

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

Subsequent measurement

After initial recognition, interest bearing loans and borrowings and any other long-term payables are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.
Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in profit or loss.

De-recognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.
Trade and other payables with a maturity of 12 months or less are not discounted.

2.3.13 Cash and cash equivalents

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

2.3.14 Prepayments

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

2. MATERIAL ACCOUNTING POLICIES (continued)

2.3.15 Equity

Share capital

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

Dividends

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

Legal reserves

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

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.

2.3.16 Provisions

General

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

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

Onerous contracts

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

2.3.17 Employee benefits and share-based remuneration

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

Food allowances, travel expenses and holiday allowances are also calculated according to the local legislation.

2. MATERIAL ACCOUNTING POLICIES (continued)

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

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

Share-based payments

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

In the process of applying the Company's accounting policies, management has made no judgement with significant effect on the amounts recognised in the financial statements during 2023.

Estimates and assumptions

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

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

Recoverability of investments in subsidiaries and loans to subsidiaries

The Company assesses the recoverability of investments in subsidiaries and loans to subsidiaries at least at each financial year-end. The determination of recoverable amounts of the Company's investments in subsidiaries relies on management's estimates of future cash flows, for which some of the main assumptions were future restaurants opening, growth rates, gross and net operating margins, working capital needs, capital expenditure and discount rates, as well as economic assumptions such as the evolution of salaries in the economy and inflation.

The key assumptions used to determine the recoverable amount for the investment in subsidiaries and loans to subsidiaries, including a sensitivity analysis, are disclosed and further explained in Note 10.

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

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 Company 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)

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. The amendments had no material impact on the financial statements of the Company.

These newly adopted IFRS standards and amendments to IFRs did not have a material impact on the Company'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 Company's financial statements are disclosed below. The Company 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)

All amounts in RON thousand, unless specified otherwise

4. CHANGES IN ACCOUNTING POLICIES (continued)

- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

5. OTHER EXPENSES

	2023	2022
Third-party services	3,902	3,474
Depreciation and amortization	1,973	1,946
Insurance	97	342
Travel expenses	589	535
Office supplies	162	172
Maintenance and repairs	151	187
Other taxes	124	129
Advertising	118	42
Rental expenses	80	98
Banking charges	35	33
Utilities	58	68
Miscellaneous expenses	92	70
Other provisions for risks and charges - expense	305	-
Total	**7,686**	**7,096**

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

For the year 2023, other provisions refer to a legal action by a former non-executive director of the Company whose mandate was terminated before term, not re-elected by the General Assembly of Shareholders (RON 305 thousand).

6. FINANCE COSTS AND INCOME

6.1 Finance costs

	2023	2022
Interest on debts and borrowings	2,128	1,625
Interest on lease liabilities	180	166
Interest on loans from related parties (Note 19)	1,633	1,198
Foreign exchange loss	86	57
Total finance costs	**4,027**	**3,046**

6.2 Finance income

	2023	2022
Interest income from loans to related parties (Note 19)	1,177	1,364
Interest income from banks	1,428	442
Total finance income	**2,605**	**1,806**

All amounts in RON thousand, unless specified otherwise

7. INCOME TAX

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

	2023	2022
Deferred tax:		
Relating to fiscal losses carried forward	244	464
Income tax expense reported in the statement of comprehensive income	**244**	**464**

A reconciliation between tax expense and the accounting profit multiplied by the tax rate for the years ended 31 December 2023 and 31 December 2022 is as follows:

	2023	2022
Accounting profit before income tax	**65,901**	**43,847**
At Romanian statutory income tax rate of 16%	10,544	7,016
Dividend income and legal reserves exempted from tax	(12,279)	(8,723)
Non-deductible expenses for tax purposes	2,024	1,746
Reversal of deferred tax assets previously recognised for tax losses carried forward	(45)	425
At the effective income tax rate	**244**	**464**

Deferred tax

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

	Statement of financial position 31 December 2023	Statement of comprehensive income 2023
Fiscal losses carried forward	234	244
Deferred tax expense		**244**
Net deferred tax assets	**234**	

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

The deferred tax asset of 234 (31 December 2022: 478) arose from the tax losses carried forward in amount of 1,464 (out of the total tax losses of 3,932 of the Company), which are available for offsetting against the Company's future tax profits within the next two years (i.e. seven years from the recognition, according to the Romanian tax law).

All amounts in RON thousand, unless specified otherwise

8. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Plant and machinery	Other equipment	Construction in progress	Total
Cost					
At 1 January 2022	**2,181**	**323**	**1,363**	**324**	**4,191**
Additions	30	-	321	32	383
Disposals	-	134	95	337	566
At 31 December 2022	**2,211**	**189**	**1,589**	**19**	**4,008**
Additions	25	17	285	289	616
Disposals	-	17	-	308	325
At 31 December 2023	**2,236**	**189**	**1,874**	**-**	**4,299**
Depreciation					
At 1 January 2022	**718**	**251**	**970**	**-**	**1,939**
Depreciation charge	227	27	287	-	541
Disposals	-	134	95	-	229
At 31 December 2022	**945**	**144**	**1,162**	**-**	**2,251**
Depreciation charge	225	26	268	-	519
Disposals	-	17	-	-	17
At 31 December 2023	**1,170**	**153**	**1,430**	**-**	**2,753**
Net Book Value					
At 1 January 2022	**1,463**	**72**	**393**	**324**	**2,252**
At 31 December 2022	**1,266**	**45**	**427**	**19**	**1,757**
At 31 December 2023	**1,066**	**66**	**414**	**-**	**1,546**

The additions during the year ended 31 December 2023 consisted mainly in office computers and other office equipment.

9. INTANGIBLE ASSETS

	Software, licenses	Total
Cost		
At 1 January 2022	**484**	**484**
Additions	505	505
Disposals	34	34
At 31 December 2022	**955**	**955**
Additions	366	366
At 31 December 2023	**1,321**	**1,321**
Amortisation		
At 1 January 2022	**368**	**368**
Amortisation	171	171
Disposals	34	34
At 31 December 2022	**505**	**505**
Amortisation	165	165
At 31 December 2023	**670**	**670**
Net book value		
At 1 January 2022	**116**	**116**
At 31 December 2022	**450**	**450**
At 31 December 2023	**651**	**651**

All amounts in RON thousand, unless specified otherwise

10. INVESTMENTS IN SUBSIDIARIES

Details of the investments in subsidiaries at 31 December 2023 are as follows:

Company name	Country of incorpora-tion	Field of activity	Share interest percent	Investment at cost	Impairment	Carrying value
US Food Network SA ('USFN')	Romania	Restaurants	99.9997%	519,704	-	519,704
American Restaurant System SA ('ARS')	Romania	Restaurants	99.9997%	114,452	64,679	49,773
California Fresh Flavors SRL ('CFF')	Romania	Restaurants	99.9900%	16,528	-	16,528
US Food Network SRL ('USFN Moldova')	Moldova	Restaurants	80.0000%	1,735	-	1,735
US Food Network SRL ('USFN Italy')	Italy	Restaurants	100.0000%	77,899	-	77,899
Total				**730,318**	**64,679**	**665,639**

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

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

At the beginning of the year 2023, once with the fulfillment of all registration formalities, it was increased the value of the investments in subsidiaries American Restaurant System SA and California Fresh Flavors SRL by conversion of the existing shareholder debts to equity (share capital and share premium) and cash contribution from the minority shareholder. SFG has contributed with RON 9,333 thousand to the increase of ARS equity and with the amount of RON 4,100 thousand to the increase of CFF equity. In 2022, the Company increased the value of the investment in US Food Network SRL Italy with the amount of RON 7,872 thousand, the investment in American Restaurant System SA with RON 16,333 thousand and the investment in California Fresh Flavors with RON 12,328 thousand, by converting a part of the existing shareholder's loan to equity.
The shareholding structure of the subsidiaries remained unchanged.

As of December 31, 2023, the Company assessed whether there are indicators of impairment for its cost of investment in subsidiaries, as follows:

- USFN, USFN Moldova, USFN Italy and CFF's activities in 2023 have registered a very good performance, almost in line with the cash flow projections; all subsidiaries are in a profit position, therefore no impairment indicators were identified.
- Pizza Hut (ARS)'s performance in 2023 was below the cash flow projections, the subsidiary going through a period of transformation aimed to improve the agility of the brand and the

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27. MAR. 2024
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10. INVESTMENTS IN SUBSIDIARIES (continued)

performance indicators. Management estimated the recoverable amount of the investment 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.

Impairment test for Pizza Hut (ARS)

The key assumptions used in the calculation of the recoverable amounts are sales growth rates, EBITDA margins, discount rates, net working capital and terminal value growth rates. Capital expenditure/restaurant is also a key assumption. The values assigned to these key assumptions reflect past experience and a number of actions already implemented with the purpose to improve the brand performance: 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 Company 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 investment carrying value of RON 114,452 thousand and also considering the other receivables with ARS of RON 4,835 thousand and the accumulated impairment loss already recognized in the financial statements as at and for the year ended 31 December 2022 of RON 60,310 thousand, there was a decrease of the investment's recoverable amount of additional RON 4,369 thousand for which the Company recognized an impairment loss in the financial statements as at and for the year ended 31 December 2023. This impairment loss may be reversed in the future financial years, subject to improving performance of the subsidiary.

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

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

All amounts in RON thousand, unless specified otherwise

10. INVESTMENTS IN SUBSIDIARIES (continued)

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

Key drivers	Key drivers (%)	Fair value less cost to sell	Impairment / Headroom
	12.6%	**54,608**	**(4,369)**
Cost of capital	13.1%	51,320	(7,658)
	12.1%	58,266	(712)
	0.00%	**54,608**	**(4,369)**
EBITDA margin	-0.50%	47,479	(11,499)
	0.50%	61,738	2,761
	3.00%	**54,608**	**(4,369)**
Perpetuity growth factor	2.50%	51,485	(7,493)
	3.50%	58,076	(902)
		54,608	
Net working capital (%/sales)	-0.5pp	55,406	(3,571)
	+0.5pp	53,811	(5,167)

11. BORROWINGS

	Interest rate, %	Maturity	31 December 2023	31 December 2022
Short-term borrowings				
Current portion of the long-term bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	7,765	8,858
Total current borrowings			**7,765**	**8,858**
Long-term borrowings				
Long-term portion of the bank loan	EURIBOR 3M + relevant spread	6 years from each withdrawal	14,156	26,160
Loan from related parties (including accrued interest) (Note 19)	EURIBOR 3M + relevant spread	Within 5 years from contract signing date	22,165	29,483
Total long-term borrowings			**36,321**	**55,643**
Total borrowings			**44,086**	**64,502**

The Company has received a multicurrency long term credit facility from its subsidiary US FOOD NETWORK SA, with term extension option, the maximum limit being EUR 20 million. The credit facility is valid until March 2027 and does not contain covenants or other special terms.

The Company is part of a credit facility from Alpha Bank Romania signed jointly by the Company and its Romanian subsidiaries. The financing facilities with Alpha Bank, which may be used by the Company, consist of an uncommitted long term credit facility in maximum amount of EUR 42,167,000 for the development of new locations and financing of the foreign subsidiaries, with a balance not used as of December 31, 2023 in amount of EUR 15,313,973. 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. 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.

11. BORROWINGS (continued)

Starting with 29 May 2020, the Company entered in a short-term borrowing arrangement with Vista Bank Romania in total amount of RON 10 million. The credit facility is revolving and may be used by the Borrower for financing of working capital needs and of generic company costs, as well as intragroup loans. In 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.

Covenants
The borrowing arrangement of the Group with 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.

All amounts in RON thousand, unless specified otherwise

11. BORROWINGS (continued)

Information related to cash flows from financing

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

	31 December 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	**64,502**	**3,705**	**56**	**-**	**151**	**-**	**(20,392)**	**(3,921)**	**(15)**	**44,086**
Bank loans	35,019	2,072	56	-	102	-	(13,292)	(2,021)	(15)	21,921
Loans from related parties	29,483	1,633	-	-	49	-	(7,100)	(1,900)	-	22,165

	31 December 2021	Non-cash changes				Cash changes				31 December 2022
		Interest accrual	Bank charges related to financing	Deferred bank charges recognized in the period	Foreign exchange gains/losses	Drawings	Repayments	Interest paid	Bank charges paid	
Borrowings	**72,768**	**2,776**	**48**	**(161)**	**(23)**	**-**	**(5,133)**	**(5,763)**	**(10)**	**64,502**
Bank loans	40,296	1,578	48	(161)	(21)	-	(5,133)	(1,577)	(10)	35,019
Loans from related parties	32,472	1,198	-	-	(2)	-	-	(4,186)	-	29,483

All amounts in RON thousand, unless specified otherwise

12. LEASE LIABILITIES

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

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

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

	Freehold buildings	Motor vehicles and other equipment	Total
As at 1 January 2022	**3,682**	**642**	**4,324**
Additions	64	1,449	1,513
Depreciation expense	624	616	1,240
As at 31 December 2022	**3,122**	**1,475**	**4,597**
Additions	158	1,093	1,251
Depreciation expense	650	646	1,296
As at 31 December 2023	**2,630**	**1,922**	**4,552**

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

As at 1 January 2023	**5,024**
Additions	1,251
Accretion of interest	180
Payments	1,557
(Unrealized) forex exchange gain	77
As at 31 December 2023	**4,975**
Current	1,240
Non-current	3,735

As at 1 January 2022	**4,762**
Additions	1,513
Accretion of interest	166
Payments	1,391
(Unrealized) forex exchange gain	(26)
As at 31 December 2022	**5,024**
Current	1,165
Non-current	3,859

The following are the amounts recognized in profit or loss:

	2023	2022
Depreciation expense of right-of-use assets	1,296	1,240
Interest expense on lease liabilities	180	166
Forex exchange differences, net	77	(28)
Expense relating to short term leases and leases of low value assets	80	93
Total amount recognized in profit or loss	**1,633**	**1,471**

13. FINANCIAL INSTRUMENTS RISK MANAGEMENT

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

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

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

Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. Trade and other receivables and payables are non-interest bearing financial assets and liabilities. The borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term and short-term credit facilities. Interest rate on the Company's debt finance from bank and Group companies is variable and mirror, as a natural hedge, the variable interest rate for financing offered to Group companies. In connection to loans granted or obtained from related parties, management policy is to resort mainly to variable rate financing. However, at the time of rising or granting new loans or borrowings management shall use its judgment to decide whether it believes that fixed or variable rate would be more favourable to the Company over the expected period until maturity.

Interest rate sensitivity

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

	Increase in basis points	Effect on profit before tax
31 December 2023		
EUR	1%	(441)
31 December 2022	1%	(350)
EUR		

The Company does not hedge its interest rate risk.

Foreign currency risk

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

All amounts in RON thousand, unless specified otherwise

13. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

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

Foreign currency sensitivity

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

	Increase in EUR rate	Effect on profit before tax
31 December 2023	1%	(261)
31 December 2022	1%	(349)

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

Credit risk

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

The Company collaborates with highly reliable financial institutions. The majority of cash is transacted through and placed with Alpha Bank Romania, member of Alpha Bank Group from Greece, BRD–Groupe Société Générale, a member of Societe Generale Group from France and Vista Bank Romania. The long-term credit rating of Alpha Bank Greece is Ba2 as provided by Moody's rating agency, no credit rating being available for its Romanian subsidiary. The long-term credit rating of BRD is Baa1 provided by Moody's and Vista Bank (Vista Bank Global) has a B+ rating granted by Fitch Agency.

Liquidity risk

The Company has adopted a prudent financial liquidity management approach, assuming that sufficient cash and cash equivalents are maintained, and that further financing is available from guaranteed funds from credit lines. The tables below summarize the maturity profile of the Company's financial liabilities, including principal amounts and interests according to contractual terms, at 31 December 2023 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	52	2,345	6,817	40,909	-	**50,123**
Lease liability	-	324	973	3,866	-	**5,163**
Trade and other payables	179	1,111	-	-	-	**1,290**
Total:	**231**	**3,780**	**7,790**	**44,775**	**-**	**56,576**

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13. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

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

At 31 December 2023, the Company had available 69,741 of undrawn borrowing facility from US Food Network SA (2022: 70,271), 10,000 from the bank credit facility with Vista Bank (2022:10,000) and 76,181 from the bank credit facility with Alpha Bank (2022: 1,237), thus being able to respond to any unforeseen higher cash outflow needs.

Capital management

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

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

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

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

	31 December 2023	31 December 2022
Borrowings	44,086	64,502
Lease liabilities	4,975	5,024
Trade and other payables	8,060	27,894
Less: cash and cash equivalents	2,897	28,533
Net debt	**54,224**	**68,886**
Equity	687,674	667,034
Capital and net debt	**741,898**	**735,920**
Gearing ratio:	7.3%	9.4%

Fair values

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

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

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14. TRADE AND OTHER RECEIVABLES

	31 December 2023	31 December 2022
Trade receivables from related parties (Note 19)	17,804	14,122
Dividends to be received (Note 19)	21,149	19,681
Loans to related parties (Note 19)	24,260	29,520
Interest accrual from loans to related parties (Note 19)	5,881	8,073
Other receivables	331	509
Total	**69,425**	**71,905**
Less non-current portion:		
Loans to related parties	24,260	-
Interest accrual from loans to related parties	5,881	-
Other receivables	51	44
Total	**30,192**	**44**
Trade and other receivables, current	**39,233**	**71,859**

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

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

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

31 December 2023	**Trade receivables**					
			Days past due			
	Total	Current	< 30 days	30-60 days	61-90 days	>91 days
Expected credit loss rate		0%	0%	0%	0%	0%
Estimated total gross carrying amount at default	**17,804**	10,300	-	3,561	573	3,370
Expected credit loss	-	-	-	-	-	-

31 December 2022	**Trade receivables**					
			Days past due			
	Total	Current	< 30 days	30-60 days	61-90 days	>91 days
Expected credit loss rate		0%	0%	0%	0%	0%
Estimated total gross carrying amount at default	**14,122**	5,183	-	1,037	1,034	6,868
Expected credit loss	-	-	-	-	-	-

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

15. CASH AND CASH EQUIVALENTS

	31 December 2023	31 December 2022
Cash at banks and on hand	2,897	3,533
Short-term deposits	-	25,000
Total	**2,897**	**28,533**

As part of the financing agreement with Alpha Bank and Vista Bank, the Company 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 2,552 thousand (31 December 2022: RON 3,274 thousand).

16. 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 19).

The shareholders of the Company 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 the Company 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%).

17. PROFIT DISTRIBUTION

	2023	2022
Total dividends declared during the period	44,886	55,002
Total dividends declared per share SFG (RON/share)	1.16	1.4176
Gross Dividends paid during the period to shareholders	64.887	35,001

The General Shareholders Meeting held on December 20th, 2022 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 the Company 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 the Group 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 in amount of RON 65,657 thousand:

- 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 the Company.

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

All amounts in RON thousand, unless specified otherwise

18. TRADE AND OTHER PAYABLES

	31 December 2023	31 December 2022
Trade payables	1,241	334
Trade and other payables to related parties (Nota 19)	34	1,350
Salary liability	5,113	4,615
Social contribution liability	891	1,001
Other employee related liabilities	173	189
Other payables	14	14
VAT payable	583	381
Other taxes	-	159
Dividends payables	11	19,851
Total	**8,060**	**27,894**

Trade payables are non-interest bearing and are normally settled on 15-day terms. For terms and conditions relating to related parties, refer to Note 19.

19. RELATED PARTY DISCLOSURES

During the year ended 31 December 2023 and 31 December 2022, respectively, the Company has carried out transactions with the following related parties:

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

Related party	Nature of the relationship	Country of incorporation	Nature of transactions
Moulin D'Or SRL	Entity affiliated to shareholders of the parent	Romania	Acquisition of goods
Grand Plaza Hotel SA	Entity affiliated to a shareholder of the parent	Romania	Acquisition of services
Parc Hotels SA	Entity affiliated to a shareholder of the parent	Romania	Accommodation services
Elicom SRL	Entity affiliated to a shareholder of the parent	Romania	Call-center services

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

31 December 2023	Dividends revenues	Revenues from service contracts to related parties	Purchases (without VAT) from related parties	Amounts owed by related parties	Amounts owed to related parties
Related party					
US Food Network SA	71,469	31,927	4	33,379	3
US Food Network SRL (Moldova)	1,534	-	-	3	-
American Restaurant System SA	-	4,815	3	4,963	-
California Fresh Flavors SRL	-	2,395	1	473	-
US Food Network SRL (Italy)	-	1,642	-	135	-
Computerland Romania SRL	-	-	10	-	9
Moulin D'Or SRL	-	-	1	-	-
Midi Development SRL	-	-	70	-	-
Wellkept Group SA	-	-	494	-	19
Arggo Software Development and Consulting SRL	-	-	208	-	-
Elicom SRL	-	-	20	-	3
Loans and interest from related parties	-	-	1,633	-	22,165
Loans and interest to related parties (please see below)	-	1,428	-	30,141	-
	73,003	**42,207**	**2,444**	**69,094**	**22,199**

All amounts in RON thousand, unless specified otherwise

31 December 2022	**Dividends revenues**	**Revenues from service contracts to related parties**	**Purchases (without VAT) from related parties**	**Amounts owed by related parties**	**Amounts owed to related parties**
Related party					
US Food Network SA	49,493	26,592	4	27,369	4
US Food Network SRL (Moldova)	1,009	-	-	-	-
American Restaurant System SA	-	4,815	13	4,958	1,128
California Fresh Flavors SRL	-	2,157	-	1,047	-
US Food Network SRL (Italy)	-	1,516	-	429	-
Computerland Romania SRL	-	-	239	-	208
Moulin D'Or SRL	-	-	1	-	-
Midi Development SRL	-	-	59	-	-
Wellkept Group SA	-	-	499	-	10
Grand Plaza Hotel SA	-	-	4	-	-
Arggo Software Development and Consulting SRL	-	-	206	-	-
Parc Hotels SA	-	-	0	-	-
Loans and interest from related parties	-	-	1,198	-	29,483
Loans and interest to related parties (please see below)	-	1,364	-	37,593	-
	50,502	**36,444**	**2,223**	**71,396**	**30,833**

Terms and conditions of transactions with related parties

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

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

Starting 1 July 2019, the Company and American Restaurant System have registered as a tax group for VAT purpose. As at 31 December 2023, VAT due by American Restaurant System SA to the Company amounts to RON 128 thousand (31 December 2022: VAT receivable of RON 1,128 thousand).

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

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

	Interest expense 2023	**Interest payable 31 December 2023**	**Loan payable 31 December 2023**
Related party			
US Food Network SA	1,633	548	21,617
Total	**1,633**	**548**	**21,617**

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	Interest income 2023	**Interest receivable 31 December 2023**	**Loan receivable 31 December 2023**
US Food Network SRL (Italy)	1,428	5,881	24,260
Total	**1,428**	**5,881**	**24,260**

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

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

In 2023, the Company increased the investment in ARS with the amount of RON 9,333 thousand and the investment in CFF with the amount of RON 4,100 thousand by converting the existing shareholder's debts to equity (Note 10).

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

The intercompany loans granted by the Company to California Fresh Flavors, US Food Network Srl (Italy), and American Restaurant System are payable within a period of five years, all loans duration being prolonged in 2023 until 2028. All intercompany loans bear a variable rate of EURIBOR 3m+ margin.

As at 31 December 2022, the loan receivables balances with ARS and CFF that were used for the increase of the subsidiaries' equity, following the decision of the general shareholders meetings of the subsidiaries from December 2022, were presented as current receivables in the statement of the financial position. (Note 22).

Total gross dividends paid in 2023 were of RON 64,887 thousand, including the dividends declared and approved by the General Shareholders Meeting in December 2022 and paid in March 2023 of RON 0.5155/ ordinary share amounting to RON 20,001 thousand and the dividends declared in 2023 of RON 1.16/ordinary share, representing RON 44,886 thousand.

Compensation of key management personnel of the Company:

	2023	**2022**
Short-term employee benefits	8,156	7,313
Total compensation paid to key management personnel	**8,156**	**7,313**

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

19. RELATED PARTY DISCLOSURES (continued)

Share-based remuneration

As of 31 December 2023, the Company 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 Company 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 Company 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 gain or loss related to the acquisition of the treasury shares (RON 487 thousand).

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

20. COMMITMENTS AND CONTINGENCIES

Borrowing facilities granted to related parties

At 31 December 2023, the value of the undrawn borrowing facilities granted to related parties was of RON 74,286 thousand (31 December 2022: RON 73,891 thousand) (Note 19).

Climate change

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

Contingencies

Taxation

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

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

20. 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.

Transfer pricing

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

The Company has prepared transfer pricing files.

21. AUDITOR'S FEES

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

The fee for the statutory audit of the consolidated and standalone financial statements as of 31 December 2023 of the Company 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.

22. 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 the Company in amount of RON 65,657 thousand:

- 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 the Company.

New loan facility

In March 2024, the Board of Directors approved the contracting of a new loan facility by the Company (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 Sphera Group. This arrangement will be subject to approval at the Extraordinary General Meeting of Shareholders of the Company.

22. EVENTS AFTER THE REPORTING PERIOD (continued)

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 separate financial statements from page 2 to page 39 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