2023 Annual Report

Sphera Franchise Group S.A.

SPHERA

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The individual and consolidated financial statements as of December 31st, 2023, presented on the following pages are audited and are prepared in accordance with Order of the Ministry of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards.

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

ISSUER INFORMATION

INFORMATION ABOUT THIS FINANCIAL REPORT

Type of report	Annual Report
For financial period	01.01.2023 – 31.12.2023
Date of publishing	26.04.2024
According to	Annex 15 of ASF Regulation 5/2018

ISSUER INFORMATION

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

INFORMATION ABOUT FINANCIAL INSTRUMENTS

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

CONTACT DETAILS FOR INVESTORS

Phone / Fax	+40 21 201 17 57 / +40 21 201 17 59
E-mail	investor.relations@spheragroup.com
Website	www.spheragroup.com

LETTER FROM THE CEO

Dear Shareholders,

We have been navigating through volatility, uncertainty, and unprecedented challenges for four years now. But thriving in adverse circumstances shows the true strength of a business. I am thus even more pleased to share our remarkable achievements, with record-high results, for 2023.

Growth is the word that best describes Sphera Group last year. Despite the challenges—high inflation, unexpected tax increases, a tight labor market, and customers' prudent consumption—we ended 2023 with double-digit growth both in terms of top and bottom line, while profitability returned to the pre-pandemic level of 2019. These results consolidate our incontestable leading position in the food service industry.

And, beyond the financial results, we marked a historical milestone for Romania: KFC became the first local chain to reach 100 restaurants.

Once again, thanks to our extraordinary teams in all three markets, we achieved performance. We adapted and found solutions to continue our growth, become more efficient, and improve our profitability.

Our company's good results were possible due to higher sales volumes, effective pricing strategy, and rigorous cost control measures. Despite rising costs and additional fiscal pressures, through proper management, restaurant expenses have increased slower than sales.

As a result, Sphera achieved a 45.7% higher restaurant operating profit in 2023 compared to the previous year. The company closed the year with a comfortable level of profitability and an EBITDA margin of 10.1%.

One notable achievement in 2023 was in terms of expenses. We managed to contain the rise in costs around inflation, at only 8% in 2023.

All cost categories saw small to moderate year-on-year increases, with food and material expenses increasing 4.9%, lower than the inflation rate for food products registered at a national level. As a result, the weight of this category of costs in total sales decreased by 2pp year-on-year, down to 32.6%.

KFC Romania made the biggest contribution to Sphera's outstanding financial results last year, exceeding RON 1 billion in sales in 2023.

Taco Bell also had an exceptional performance, which led to an anticipated break-even and ended 2023 with a profit. KFC Italy became profitable last year, as well, while KFC Moldova, with its two restaurants in Chisinau, performed excellently and had a net profit of RON 2.8 million.

Pizza Hut's network reorganization program formally began in Q3 2023. It focuses on unifying the Pizza Hut and Pizza Hut Delivery brands to optimize costs, increase brand agility, and improve profitability indicators. The reorganization is expected to yield positive effects in the medium term.

The inflation continued to affect our customers, driving them to pay more and more attention to their expenses. Therefore, we crafted marketing campaigns focused on innovation and value perception to generate transactions and sales.

Moreover, our iconic brands are strong. Our customers love them and keep returning to the restaurants for our excellent products and experiences.

The labor market remained tight in 2023, and our colleagues in the human resources and training departments proved creative to drive retention.

We continued to embed sustainability principles in our activities, and it is with great pride that we share that Sphera remains ranked in the low-risk category in terms of ESG risks. This shows our long-term approach to conducting our business.

All these achievements are reflected in the evolution of SFG shares, which surpassed that of the BET index by a large margin. An 83.6% increase in share price is an achievement we are very proud of, and it is due to our continuous focus on a profitable scale-up of our business, the intensification of our investor relations activity, with constant participation of the management team in local and international roadshows and other related events, and, finally, transparency in our communication.

In this context, in November 2023, based on the votes of institutional investors, we were awarded Best CEO, Best CFO, Best IRO, and Best IR program in Romania recognition, for which we are appreciative and grateful.

As our business grows, we will diligently pursue our development strategy, focus on efficient cost management, and maintain profitability as a priority.

2024 is a special year for Sphera – we celebrate 30 years since the opening of our first restaurant in Romania, of expansion, development, loyal customers, and colleagues passionate about their work, some of whom were here at the beginning and are still with us.

We are confident that our extensive experience, hard work, and innovative approaches will help us thrive and continue to place us as the indisputable leader of the food service industry.

Călin Ionescu

KEY FINANCIAL HIGHLIGHTS

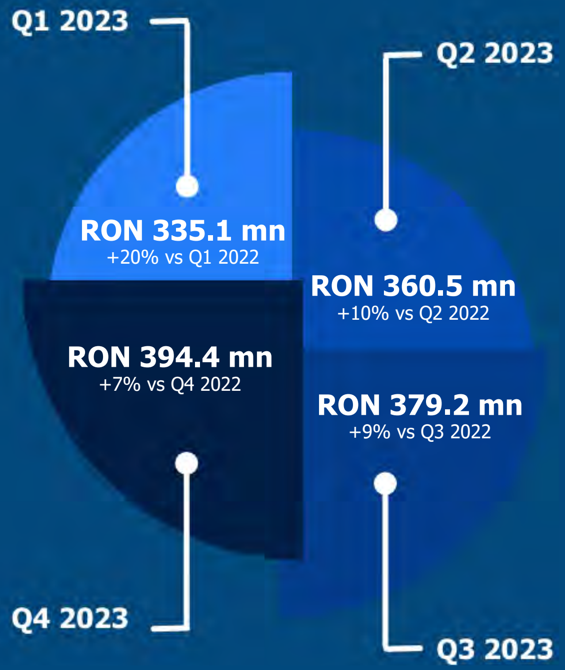
SPHERA

KFC · Pizza Hut · TACO BELL

2023 Consolidated Sales

RON 1,469.2 mn

+11% vs. 2022



RON 1,264.8 mn
+11% vs. 2022

RON 183.8 mn
+11% vs. 2022

RON 20.6 mn
+18% vs. 2022

KFC

RON 1,269.4 mn
+12% vs. 2022

Pizza Hut

RON 115.2 mn
-6% vs. 2022

TACO BELL

RON 84.5 mn
+22% vs. 2022

#1 Q4'23 was the best quarter in history in terms sales, EBITDA and net profit	**RON 159.6 mn** restaurant operating profit in 2023, +46% vs. 2022	**RON 147.9 mn** normalized EBITDA in 2023, +44% vs. 2022
RON 79.7 mn normalized net profit in 2023, +80% vs. 2022	**0.4** net debt / EBITDA ratio	**+95.5%** total return in 2023 for SFG shareholders

DIRECTORS' REPORT

CORPORATE INFORMATION

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

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

Consequently, Sphera Franchise Group SA (the 'legal Parent", 'Sphera" or the „Group') was incorporated on May 16th, 2017, by the shareholders of USFN and ARS as a joint stock company and is registered at no. 239 Dorobanti Avenue, Bucharest, Romania.

GROUP STRUCTURE

Details of the Sphera's investments in controlled companies also representing the Group's consolidated subsidiaries as of December 31st, 2023, and December 31st, 2022, are as follows:

Company name	**Incorporation**	**Field of activity**	**Control as of 31.12.2023**	**Control as of 31.12.2022**
US Food Network SA	Romania	Restaurants	99.9997%	99.9997%
American Restaurant System SA	Romania	Restaurants	99.9997%	99.9997%
California Fresh Flavors SRL	Romania	Restaurants	99.9900%	99.9900%
US Food Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network S.r.l.	Italy	Restaurants	100.0000%	100.0000%

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

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

US Food Network SA (USFN), the subsidiary which operates the KFC franchise in Romania was incorporated in 1994 as a limited liability company and further has changed the organization form as joint stock company with registered office at no. 239 Dorobanti Ave., Bucharest, Romania. The Group owns 99.9% of the company's shares.

American Restaurant System SA (ARS) operating the Pizza Hut franchise was incorporated in 1994 as a joint stock company and is registered at no. 239 Dorobanti Ave., Bucharest, Romania. The Group owns 99.99% of the company's shares.

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

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

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

SCOPE OF BUSINESS

The Group's franchised foodservice business was launched in 1994 with the opening of the first Pizza Hut location, which was followed by the opening in 1997 of the first KFC location, both in Bucharest. The Group operates quick service and takeaway restaurant concepts under the Kentucky Fried Chicken ('KFC'') brand, spread across Romania (101 restaurants as of December 31st, 2023) as well as in the Republic of Moldova (2 restaurants) and in Italy (18 restaurants). The Group also operates a chain of pizza restaurants (34 restaurants as of December 31st, 2023 and one sub-franchise) under the Pizza Hut ('PH') brand, spread across Romania, and a chain of restaurants under the Taco Bell brand (15 restaurants as of December 31st, 2023).

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

- Quick-service restaurants - through KFC restaurants (in Romania, the Republic of Moldova and Italy), Taco Bell restaurants (in Romania) and Pizza Hut Express restaurants (in Romania);
- Full-service restaurants - through Pizza Hut restaurants in Romania.

All restaurants operated by the Group provide delivery, either via own fleet or in partnership with aggregating platforms.

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

As of December 31st, 2023, the Group had 5,152 employees, of which 4,662 were based in Romania, 418 in Italy, and 72 in the Republic of Moldova. All the brands from Sphera Franchise Group's portfolio provide customers with memorable experiences, excellent service and unique products prepared by passionate teams.

ABOUT THE BRANDS

KFC is a global chicken restaurant chain with more than 75 years old history of success and innovation. It all started with Colonel Harland Sanders, the cook, who created the famous recipe of 11 secret herbs and spices. Even today, all KFC restaurants follow it around the world, with real cooks breading and freshly preparing the delicious chicken by hand in more than 27,000 restaurants in over 145 countries and territories around the world.

In Romania, the first KFC restaurant was opened in Bucharest, back in 1997 by the Group. Today, KFC is the leading chicken restaurant chain in Romania in terms of both total sales and number of restaurants. As of December 31st, 2023, there were 101 KFC restaurants in Romania. In 2008, the Group opened the first KFC restaurant in the Republic of Moldova, and as of December 31st, 2023, the Group operated two restaurants (both in Chisinau). In 2017 the Group opened the first two restaurants in Italy.

As of December 31st, 2023, there were 18 KFC restaurants operated by the Group in certain areas of Italy. Of all KFC restaurants operating in Romania, Italy and the Republic of Moldova, as of December 31st, 2023, 69 were food court locations (in malls or commercial centers), 23 were inline (street locations), and another 29 were Drive-Thru locations. In 2018, KFC Romania launched a delivery activity, which is now carried out in collaboration with food aggregator platforms.

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

PIZZA HUT is a global casual dine-in restaurant, founded more than 60 years ago in Wichita, Kansas, by the Carney brothers. Since then, it has grown to become the largest pizza company in the world with more than 19,000 restaurants in over 100 countries. Restaurants serve a diverse menu which includes pizza and pasta, salads as well as side dishes and desserts.

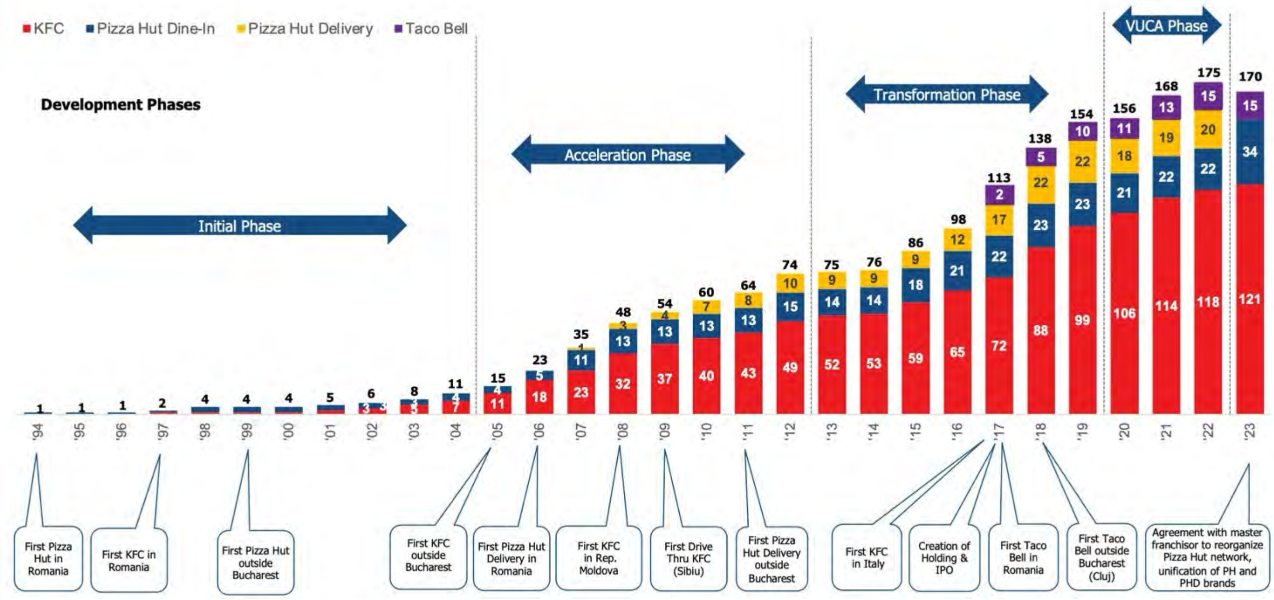
Pizza Hut was the first brand of the Group, to enter the Romanian market 30 years ago, this year, with the opening of its first location on Calea Dorobantilor in Bucharest and today is the largest casual dine-in restaurant chain in Romania in terms of both total sales and number of restaurants. On December 31st, 2023, there were 34 Pizza Hut restaurants across the major cities of Romania and 1 sub-franchised unit, consisting of Dine-In, Delivery and Express units located in malls, commercial centers or inline (street locations).

Pizza Hut restaurants primarily sell pizza (a wide range of classic and iconic recipes for the brand, on a variety of dough types, such as Pan, Classic, Cheesy Bites and Stuffed Crust) and other main-course products (such as burgers and pasta, or salads) as well as beverages (primarily non-alcoholic) and deserts.

TACO BELL

TACO BELL is the world's leading Mexican-inspired quick service restaurant (QSR), founded in California in 1962. Today, it has over 7,200 locations in more than 30 countries worldwide. The restaurants serve a variety of Mexican-inspired foods that include tacos, burritos, quesadillas, nachos, novelty and specialty items and a range of 'value menu' products. Sphera Group opened the first Taco Bell store in Bucharest, Romania, in October 2017. As of December 31st, 2023, the Group operated 15 Taco Bell restaurants, all of them based in commercial centers across big cities of the country.

The historical evolution of the network* rollout since 1994 until 2023 is presented below:



This chart does not include one PHD sub franchise.

In 2023, Sphera Franchise Group begun the process of reorganizing the restaurant network of American Restaurant System, operator of Pizza Hut® and Pizza Hut Delivery® brands in Romania. The process aims to optimize costs, increase agility in the face of high competition, and improve customer experience, which will reflect in improved profitability indicators.

The process includes closing of 13 Pizza Hut restaurants over a period of approximately 6 months, particularly units serving areas with a high degree of overlap resulting from the consolidation under one brand and the alignment of Pizza Hut and Pizza Hut Delivery operations. The Company aims for the process of efficiency increase to have as little impact as possible on employees, who will be relocated within the Sphera Group network, while the customers will benefit from the same products and services in the nearby Pizza Hut restaurants. In 2023, 8 Pizza Hut locations were closed.

All in all, in 2023, Sphera opened 8 new restaurants – all of them being new KFC restaurants in Romania. The new openings were offset by the closing of 2 non-performing KFC units in Italy, 3 KFC units in Romania, 8 Pizza Hut locations due to reorganization process as described above, as well as one Paul unit in Romania. The closing of one KFC restaurant (KFC Leonida) is temporary due to external factors (building restoration). Consequently, as of December 31st, 2023, Sphera Franchise Group operated 171 restaurants: 101 KFC restaurants in Romania, 2 in Moldova and 18 in Italy, as well as 34 Pizza Hut restaurants, 15 Taco Bell restaurants, and one PHD subfranchise.

SHAREHOLDERS AND ISSUED CAPITAL

The share capital of Sphera Franchise Group SA on December 31st, 2023, was RON 581,990,100, divided into 38,799,340 ordinary shares with a nominal value of RON 15 per share (out of which 104,100 shares are owned by the Company). The share capital on, December 31st, 2022, was the same.

The shareholders of Sphera Franchise Group SA as of December 31st, 2023, and December 31st,2022 are as follows:

Shareholder	Percent of shares on 31.12.2023	Percent of shares on 31.12.2022
Tatika Investments Ltd.	29.55%	28.61%
Computerland Romania SRL	20.53%	20.53%
Wellkept Group SA	17.07%	16.88%
Free-float	32.85%	33.98%

On September 4th, 2023, Sphera Franchise Group completed the share buyback program communicated to the market on June 30th, 2023, and initiated on July 3rd, 2023. The buyback was carried out in accordance with EGMS Resolution no. 1 from April 27th, 2023. During the buyback, Sphera Franchise Group bought back 104,100 shares at an average buyback price of RON 19.5715 per share, with the full price paid for the buyback shares repurchased amounting to RON 2,037,392.50. The buyback was carried out to implement the Share Option Plan (SOP) for Directors for the activity related to the years 2021 and 2022. Consequently, as of December 31st, 2023, Sphera Franchise Group held 104,100 of its own shares.

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

ACTIVITY ON BUCHAREST STOCK EXCHANGE

Sphera Franchise Group's shares floated on the Main Market of the Bucharest Stock Exchange on November 9th, 2017, after a successful Initial Public Offering. Sphera Franchise Group is the first and the only foodservice operator listed on the Bucharest Stock Exchange.

Since September 24th, 2018, the shares of Sphera Franchise Group, available under 'SFG' symbol, are included in the main index of Bucharest Stock Exchange, BET, which is the benchmark index for the Romanian capital market. As of March 21st, 2022, SFG shares are included in the FTSE Global Microcap index, and as of August 10th, 2023, in the MSCI Frontier Markets Small Cap and MSCI Romania Small Cap indices.

In 2023, investors traded 2,963,093 SFG shares (22.6% of the free float) with a total value of RON 60.7 million. In 2023, SFG shares were the 3rd top performer from the BET index, appreciating 83.6% and significantly outperforming the BET index, which grew 31.8%. The Total Return on SFG shares in 2023, including the dividends paid on March 31st, 2023, and October 10th, 2023, was 95.5%, versus 39.9% increase for the BET-TR index registered in the same period.

GOVERNANCE

The General Shareholder Meeting (GSM) is the highest governing body of Sphera Franchise Group. In 2023, the Company organized two GSMs:

GENERAL SHAREHOLDER MEETING FROM 27.04.2023

On March 24th, 2023, the Board of Directors of Sphera Franchise Group convened the Ordinary and Extraordinary General Meetings of the Shareholders for April 27th, 2023. During the OGSM, the shareholders approved the 2022 financial statements, the 2022 remuneration report and the 2023 budget. The shareholders moreover elected a new Board of Directors for the 2023-2027 mandate, consisting of Mr. Silviu-Gabriel Carmaciu, Mr. Mihai Ene, Mr. Lucian Hoanca, Mr. Razvan Lefter and Mr. Georgios Repidonis and approved the monthly remuneration granted to the Board Members. The shareholders also voted in the OGSM the Share Option Plan (SOP) for Directors for the activity in 2021 and 2022. In EGSM, the shareholders approved the acquisition of SFG shares for the implementation of SOP.

GENERAL SHAREHOLDER MEETING FROM 04.09.2023

On September 4th, 2023, the Ordinary General Meeting of the Shareholders of Sphera Franchise Group took place. During the OGSM, the shareholders approved of the dividend distribution amounting to RON 45,007,234.40 from the undistributed net profit of financial years 2020-2022, fixing a gross dividend per share at RON 1.16. The ex-date was September 18th, 2023, record date – September 19th, 2023, and payment date – October 10th, 2023.

MANAGEMENT OF THE GROUP

BOARD OF DIRECTORS

Company is managed by the Board of Directors whose members are appointed for a mandate of 4 years. As of December 31st, 2023, the number of the Board Members of the Company is 5 members.

On March 24th, 2023, the Board of Directors of Sphera Franchise Group convened the Ordinary and Extraordinary General Meetings of the Shareholders for April 27th, 2023. During the OGSM, the shareholders elected a new Board of Directors for the 2023-2027 mandate, consisting of Mr. Silviu-Gabriel Carmaciu, Mr. Mihai Ene, Mr. Lucian Hoanca, Mr. Razvan Lefter and Mr. Georgios Repidonis. On May 12th, 2023, the Board appointed Mr. Lucian Hoanca as the Chairman of the Board, and Mr. Georgios Repidonis as the Vice-Chairman of the Board, as well as elected members of the Board Committees.

The structure of the Board of Directors as of December 31st, 2023, was the following:

Name	Date of appointment	Title	Role	Number of SFG shares directly held on 31.12.2023
Lucian Hoanca	April 27th, 2023	Chairman of the BoD	Non-executive member	-
Georgios Vassilios Repidonis	April 27th, 2023	Vice-Chairman of the BoD	Non-executive member	-
Silviu Gabriel Carmaciu	April 27th, 2023	Member of the BoD	Non-executive member	-
Mihai Ene	April 27th, 2023	Member of the BoD	Non-executive member	-
Razvan Stefan Lefter	April 27th, 2023	Member of the BoD	Independent member	100,000 shares

LUCIAN HOANCA

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

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

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

GEORGIOS-VASSILIOS REPIDONIS

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

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

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

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

GABRIEL- SILVIU CARMACIU

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

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

Affiliate companies: Computerland Romania SRL.

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

RAZVAN-STEFAN LEFTER

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

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

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

MIHAI ENE

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

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

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

CONSULTATIVE COMMITTEES

The Board of Directors established an Audit Committee and a Nomination and Remuneration Committee. Both the Audit Committee and the Nomination and Remuneration Committee comprises of three members of the Board, of which one is elected chairman. The latest elections for the members of the Committees took place on May 12th, 2023.

The members of the Audit Committee as of December 31st, 2023, were:

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

The members of the Nomination and Remuneration Committee as of December 31st, 2023, were:

- Lucian Hoanca – Chairman;
- Gabriel-Silviu Carmaciu – member;
- Georgios- Vassillios Repidonis – member.

EXECUTIVE MANAGEMENT

The Board of Directors delegates the management of the Company to managers who fulfil their functions based on mandate contracts. In 2023, the mandates of the CEO, CFO and the CMO were extended for another four-year term by the Board of Directors, as follows:

- Mandate of Mr. Calin Ionescu as CEO was extended for new term effective as of 01.05.2023 until 30.04.2027 in the Board meeting held on April 27th, 2023;

- Mandate of Mr. Valentin Budes as CFO was extended for new term effective as of 09.05.2023 until 08.05.2027 in the Board meeting held on May 8th, 2023;

- Mandate of Mrs. Monica Eftimie as CMO was extended for new term effective as of 01.09.2023 until 01.09.2027 in the Board meeting held on August 29th, 2023.

In the meeting held on August 29th, 2023, the Board of Directors of Sphera Franchise Group noted the legal termination of the mandate of Mr. Cristian Osiac as Development Director of the Company as of September 1st, 2023, decided that the position of Development Director would no longer have executive power at the level of the Company as of the same date, and decided the reorganization of the Company's Development Department under the CEO of the Company.

The biographies of the executive team of Sphera Franchise Group are available below.

CĂLIN IONESCU, CHIEF EXECUTIVE OFFICER

Date of most recent appointment: May 1st, 2023

Born in 1969, Mr. Calin Ionescu has been the Chief Executive Officer (CEO) since October 2020 and the Chief Operating Officer of the Sphera Franchise Group (COO) since August 2017. Mr. Ionescu studied Marketing and Management at the Romanian-American University of Bucharest. His activity in the field of restaurants started in 1994, with the opening of the first Pizza Hut restaurant managed by ARS (Romania).

Mr. Ionescu held various positions in operations, from Restaurant Manager to General Manager, and in 2012 he was promoted to the position of Group Chief Operating Officer. Throughout this period, he actively participated in the process of expanding KFC and Pizza Hut in Romania and the Republic of Moldova, and in 2016, he laid the foundations for the development of KFC in northeastern and northwestern Italy. Under his supervision, the performance of the KFC and Pizza Hut brands in Romania was consistently in the top three countries according to the operational performance standards of Yum!.

Number of SFG shares held as of 31.12.2023: -

VALENTIN BUDES, CHIEF FINANCIAL OFFICER

Date of most recent appointment: May 9th, 2023

Born in 1983, Mr. Budeș is the Chief Financial Officer (CFO) of Sphera Franchise Group since May 2019. Valentin Budeș attended the Faculty of Economic Studies in Foreign Languages, French section, at the Academy of Economic Studies in Bucharest and holds a master's degree in "International Accounting" from same university.

Mr. Budeș is a senior member of the Association of Chartered and Certified Accountants (ACCA) and holds a certification in risk management issued by the Institute of Internal Auditors of the United States of America. In Romania, Valentin Budes is a CECCAR member, an accounting expert, and an insolvency practitioner, being a UNPIR member.

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

Number of SFG shares held as of 31.12.2023: 40,420 shares

MONICA EFTIMIE, CHIEF MARKETING OFFICER

Date of most recent appointment: September 1st, 2023

Born in 1979, Mrs. Eftimie has been the Group's Director of Marketing (CMO) since August 2017. She is a graduate of Northwestern University and has a master's degree in business administration from Georgetown University.

Since 2013, she has been the Marketing Director of ARS (Romania) and USFN (Romania), and in this capacity she coordinated the marketing activities for the brands KFC, Pizza Hut, Pizza Hut Delivery and developed and implemented local marketing campaigns for these brands. Mrs. Eftimie also held the position of Marketing Director in the company that operates the Paul brand in Romania.

With over 10 years of experience in the food industry, Mrs. Eftimie started her marketing career with internships at Accor Group (France) and Saatchi & Saatchi Advertising. She later developed complex marketing campaigns for some of the most well-known names in the food industry.

Number of SFG shares held as of 31.12.2023: -

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

CONSOLIDATED FINANCIAL RESULTS

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

In 2023, Sphera Franchise Group registered RON 1,469.2 million in restaurant sales, an 11.1% increase compared to RON 1,322.8 million generated in 2022. It is important to underline that, as previously reported, as of Q2 2023, Sphera registers more moderate, single digit YoY growth rates. These rates are reflective of pre-pandemic growth levels and indicate the consolidation of the Group's network across the three markets, with the principal focus of the management being on profit margins.

The restaurant expenses increased at a slower pace than sales, growing 7.8% YoY, from RON 1,214.4 million in 2022 to RON 1,309.6 million in 2023, also reducing their weight in sales with almost 3pp, reaching 89.1% of sales in 2023 versus 91.8% in 2022.

All cost categories saw small to moderate YoY increases, with food and material expenses increasing 4.9% to RON 479.4 million, lower than the inflation rate for food products registered at the national level in 2023. The weight of food and material costs in total sales decreased by 2pp YoY, down to 32.6%. On the other hand, payroll and employee benefits increased 13.3%, to RON 325.2 million, mirroring the labor market evolution.

The rent increased 10.2% YoY in 2023 to RON 104.3 million due to both larger average restaurant footprint throughout the year and the variable structure of rental contracts linked to the sales. Royalties increased 11.6%, reaching RON 87.9 million, while advertising increased by 12.5% to RON 75.4 million. Depreciation and amortization decreased 1.6%, amounting to RON 44.5 million, with the decrease being primarily driven by the impairment of the non-current assets related to the closing of selected stores.

Other operating expenses amounted to RON 192.9 million, a 4.5% YoY increase. The main contribution to this category was brought by the third-party expenses, which increased 10.2% YoY to RON 99.6 million.

Attributable to an effective pricing strategy, internal cost-control measures, and higher sales volumes, the Group reported a restaurant operating profit of RON 159.6 million in 2023, reflecting a 45.7% YoY increase. The G&A increased 11.1% YoY to RON 62.7 million maintaining the same weight in sales as in 2022, of 4.3%. Consequently, the operating profit for the period was RON 96.9 million, an 82.3% YoY increase compared to RON 53.2 million generated in 2022.

The net finance costs decreased 17.8% YoY to RON 10.5 million for 2023 vs. RON 12.8 million for 2022. Consequently, the gross profit for 2023 amounted to RON 86.4 million, more than double versus RON 40.4 million registered in 2022. As the income tax expense amounted to RON 14.4 million in 2023, the bottom-line ended at RON 72 million for 2023, versus RON 39.1 million in 2022, reflecting an 84.3% increase.

Excluding the impact of one-off costs, due primarily to the stores closing, the normalized net profit for the 2023 amounted to RON 79.7 million, an 80% YoY increase. The normalized EBITDA was RON 147.9 million, a 44.1% YoY increase.

Summary of Consolidated Financial Statements for FY (excluding IFRS 16 Impact):						
Data in RON'000	**2023**	**2022**	**Y/Y % 2023/2022**	**% of Sales 2023**	**% of Sales 2022**	**Δ%**
Restaurant sales	**1,469,172**	**1,322,822**	**11.1%**			
Other restaurant income	**-**	**1,172**	**-100.0%**			
Restaurant expenses	**1,309,595**	**1,214,438**	**7.8%**	**89.1%**	**91.8%**	**-2.7%**
Food and material	479,405	457,108	4.9%	32.6%	34.6%	-1.9%
Payroll and employee benefits	325,207	287,056	13.3%	22.1%	21.7%	0.4%
Rent	104,287	94,646	10.2%	7.1%	7.2%	-0.1%
Royalties	87,935	78,803	11.6%	6.0%	6.0%	0.0%
Advertising	75,351	66,988	12%	5.1%	5.1%	0.1%
Other operating expenses	192,872	184,560	4.5%	13.1%	14.0%	-0.8%
Depreciation and amortization	44,537	45,276	-1.6%	3.0%	3.4%	-0.4%
Restaurant operating profit	**159,577**	**109,555**	**45.7%**	**10.9%**	**8.3%**	**2.6%**
General & Admin expenses	62,655	56,389	11.1%	4.3%	4.3%	0.0%
Operating profit	**96,923**	**53,166**	**82.3%**	**6.6%**	**4.0%**	**2.6%**
Normalized operating profit[1]	**104,624**	**53,166**	**96.8%**	**7.1%**	**4.0%**	**3.1%**
Finance costs	11,772	13,307	-11.5%	0.8%	1.0%	-0.2%
Finance income	1,239	496	149.8%	0.1%	0.0%	0.0%
Profit before tax	**86,389**	**40,355**	**114.1%**	**5.9%**	**3.1%**	**2.8%**
Normalized profit before tax[1]	94,090	40,355	133.2%	6.4%	3.1%	3.4%
Income tax expense/ (credit)	14,410	(1,264)	**-**	1.0%	-0.1%	1.1%
Specific Tax	0	2,565	-100.0%	0.0%	0.2%	-0.2%
Profit for the period	71,979	39,054	84.3%	4.9%	3.0%	1.9%
Normalized profit for the period[1]	**79,680**	**44,270**	**80.0%**	**5.4%**	**3.3%**	**2.1%**
EBITDA	145,290	102,161	42.2%	9.9%	7.7%	2.2%
Normalized EBITDA[2]	**147,937**	**102,655**	**44.1%**	**10.1%**	**7.8%**	**2.3%**

[1] *In 2023, net profit was normalized to exclude: the impairment for the closing of 13 Pizza Hut units, in line with the network reorganization plan (RON 4.1m), impairment for the closing of KFC restaurants in Romania (RON 0.9m), closing costs for the selected units as part of the PH network reorganization (RON 2.3m, out of which RON 2.2m YUM costs and RON 0.1m other closing costs), as well as other provisions (litigation with a former non-executive director, RON 0.3m). In 2022, net profit was normalized to exclude the impairment of non-current assets (RON 4,7m) and other costs related to the closing of non-performing stores (RON 0.5m).*

[2] *In 2023, EBITDA was normalized to exclude: closing costs for the selected units as part of the PH network reorganization (RON 2.3m), as well as other provisions (litigation with a former non-executive director, RON 0.3m). In 2022, EBITDA was normalized to exclude the provisions related to the closing of non-performing stores in amount of RON 0.5m.*

Summary of Consolidated Financial Statements for FY – results and evolution presented with and without IFRS 16 impact						
Data in RON'000	2023	2023	2022	2022	Change (%)	
	1	2	1	2	2023/ 2022 (1)	2023/ 2022 (2)
Restaurant sales	**1,469,172**	**1,469,172**	**1,322,822**	**1,322,822**	**11.1%**	**11.1%**
Other restaurant income	**-**	**-**	**1,172**	**1,172**	**-100.0%**	**-100.0%**
Restaurant expenses	**1,298,263**	**1,309,595**	**1,207,065**	**1,214,438**	**7.6%**	**7.8%**
Food and material	479,405	479,405	457,108	457,108	4.9%	4.9%
Payroll and employee benefits	325,207	325,207	287,056	287,056	13.3%	13.3%
Rent	34,644	104,287	32,109	94,646	7.9%	10.2%
Royalties	87,935	87,935	78,803	78,803	11.6%	11.6%
Advertising	75,351	75,351	66,988	66,988	12.5%	12.5%
Other operating expenses	192,503	192,872	184,450	184,560	4.4%	4.5%
Depreciation and amortization	103,218	44,537	100,551	45,276	2.7%	-1.6%
Restaurant operating profit	**170,909**	**159,577**	**116,928**	**109,555**	**46.2%**	**45.7%**
General & Admin expenses	61,976	62,655	55,572	56,389	11.5%	11.1%
Operating profit	**108,933**	**96,923**	**61,356**	**53,166**	**77.5%**	**82.3%**
Normalized operating profit[1]	**116,634**	**104,624**	**61,356**	**53,166**	**90.1%**	**96.8%**
Finance costs	26,177	11,772	23,062	13,307	13.5%	-11.5%
Finance income	1,239	1,239	496	496	149.7%	149.8%
Profit before tax	**83,995**	**86,389**	**38,790**	**40,355**	**116.5%**	**114.1%**
Normalized profit before tax[1]	**91,696**	94,090	**38,790**	**40,355**	**136.4%**	**133.2%**
Income tax expense/ (credit)	12,248	14,410	(1,725)	(1,264)	-	-
Specific Tax	0	0	2,565	2,565	-100.0%	-100.0%
Profit for the period	71,747	71,979	37,950	39,054	89.1%	84.3%
Normalized profit for the period[1]	**79,449**	**79,680**	**43,167**	**44,270**	**84.1%**	**80.0%**
EBITDA	219,168	145,290	168,495	102,161	30.1%	42.2%
Normalized EBITDA[2]	**221,815**	**147,937**	**168,988**	**102,655**	31.3%	44.1%

Notes: (1) Including the impact of the adoption of IFRS 16; (2) Excluding the impact of the adoption of IFRS 16.

[1] In 2023, net profit was normalized to exclude: the impairment for the closing of 13 Pizza Hut units, in line with the network reorganization plan (RON 4.1m), impairment for the closing of KFC restaurants in Romania (RON 0.9m), closing costs for the selected units as part of the PH network reorganization (RON 2.3m, out of which RON 2.2m YUM costs and RON 0.1m other closing costs), as well as other provisions (litigation with a former non-executive director, RON 0.3m).

In 2022, net profit was normalized to exclude the impairment of non-current assets (RON 4,7m) and other costs related to the closing of non-performing stores (RON 0.5m).

[2] In 2023, EBITDA was normalized to exclude: closing costs for the selected units as part of the PH network reorganization (RON 2.3m), as well as other provisions (litigation with a former non-executive director, RON 0.3m).

In 2022, EBITDA was normalized to exclude the provisions related to the closing of non-performing stores in amount of RON 0.5m.

G&A expenses increased by 11.1% compared to 2022, amounting to RON 62.7 million. However, as a percentage of sales, G&A remained stable at 4.2%.

	Data in RON '000				Change (%)		Percentage of sales			
	2023	2023	2022	2022			2023	2023	2022	2022
	(1)	(2)	(1)	(2)	2023/ 2022 (1)	2023/ 2022 (2)	(1)	(2)	(1)	(2)
General and administration (G&A) expenses	**61,976**	**62,655**	**55,572**	**56,389**	**11.5%**	**11.1%**	**4.2%**	**4.3%**	**4.2%**	**4.3%**
Payroll and employee benefits	42,839	42,839	36,488	36,488	17.4%	17.4%				
Third-party services	7,201	7,201	7,210	7,210	-0.1%	-0.1%				
Depreciation and amortization	7,017	3,830	6,588	3,720	6.5%	3.0%				
Rent	232	4,098	264	3,949	-12.0%	3.8%				
Banking charges	748	748	773	773	-3.3%	-3.3%				
Transport	1,397	1,397	1,203	1,203	16.1%	16.1%				
Other*	2,541	2,541	3,047	3,047	-16.6%	-16.6%				

Note: (1) Including the impact of the adoption of IFRS 16; (2) Excluding the impact of the adoption of IFRS 16.

**Other expenses include maintenance & repairs, smallware, insurance, advertising, phone & postage, miscellaneous expenses.*

The growth in the restaurant operating profit, from RON 109.6 million in 2022 to RON 159.6 million in 2023, can be attributed to the improved performance of KFC and Taco Bell brands. USFN Romania contributed RON 139 million (+28.2% vs. 2022) to the restaurant operating profit, USFN Italy: RON 19.2 million (vs. restaurant operating loss of RON 1.7 million in 2022), CFF: 6 million (+148.6% vs. 2022), and USFN Moldova: RON 3.8 million (+42.5% vs. 2022). Excluding the one-off costs related to closings, ARS registered normalized restaurant operating loss of RON 2.3 million in line with the previous year.

Similarly, the normalized EBITDA has followed a positive evolution, increasing from RON 102.7 million in 2022 to RON 147.9 million in 2023, a 44.1% increase. This improvement can be mainly attributed to effective cost-control measures taken across the Group, leading to an increase in operating profit. The normalized EBITDA margin varied per brand, with USFN Moldova having the highest margin of 17.8%, followed by USFN Romania: 11.9%, USFN Italy: 9.4%, and CFF: 7.2%. ARS saw negative EBITDA margin of 4.5% since the network is in a turnaround process.

As the normalized net profit for 2023 increased 80% to RON 79.7 million, it is important to underline that four out of five companies generated positive net result, therefore proving the effectiveness of the strategy adopted by the management which aimed to consolidate the presence of KFC Romania and Moldova, while turning KFC Italy and Taco Bell to profit. The biggest contributor to the net result in 2023 was USFN Romania, which generated a normalized profit of RON 86.8 million (+26.5% vs. 2022), USFN Italy with RON 3 million (vs. a net loss of RON 6.4 million for 2022), USFN Moldova with RON 2.8 million (+42.6% vs. 2022), CFF with RON 0.6 million (vs. a net loss of RON 3.8 million for 2022), while ARS saw an improvement of RON 2.1 million versus last year.

Breakdown of the consolidated results by Group companies for FY2023 (excluding IFRS16 impact):

Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons. Adj.	SFG Cons
Restaurant sales	**1,065,024**	**115,211**	**20,589**	**183,814**	**84,544**	**40,779**	**(40,788)**	**1,469,172**
Dividends revenue	**-**	**-**	**-**	**-**	**-**	**73,003**	**(73,003)**	**-**
Restaurant expenses	**926,044**	**123,952**	**16,808**	**164,656**	**78,589**	**-**	**(455)**	**1,309,595**
Food and material	360,398	31,478	8,225	49,943	29,359	-	3	479,405
Payroll and employee benefits	230,034	32,217	3,062	41,692	18,202	-	-	325,207
Rent	70,699	11,490	1,090	14,789	6,219	-	-	104,287
Royalties	63,805	6,810	1,233	11,012	5,075	-	-	87,935
Advertising	52,928	6,405	804	11,359	4,287	-	(432)	75,351
Other operating expenses	124,645	27,411	2,072	26,760	11,990	-	(6)	192,872
Depreciation	23,535	8,140	322	9,101	3,459	-	(20)	44,537
Restaurant operating profit/(loss)	**138,979**	**(8,740)**	**3,781**	**19,158**	**5,954**	**113,782**	**(113,336)**	**159,577**
G&A expenses	37,524	7,858	473	11,153	3,522	46,680	(44,555)	62,655
Operating profit/(loss)	**101,456**	**(16,599)**	**3,308**	**8,005**	**2,432**	**67,101**	**(68,781)**	**96,923**
Normalized operating profit/(loss)[1]	**102,373**	**(10,120)**	**3,308**	**8,005**	**2,432**	**71,776**	**(73,150)**	**104,624**
Finance costs	8,410	1,089	71	3,429	1,623	3,809	(6,659)	11,772
Finance income	5,279	12	-	1	-	2,605	(6,659)	1,239
Profit/(Loss) before tax	**98,324**	**(17,676)**	**3,237**	**4,577**	**809**	**65,898**	**(73,150)**	**86,389**
Normalized profit/ (loss) before tax[1]	**99,242**	**(11,197)**	**3,237**	**4,577**	**809**	**70,572**	**(73,150)**	**94,090**
Income tax expense/ (credit)	12,462	(475)	433	1,572	175	244	-	14,410
Profit/(Loss) for the period	85,863	(17,201)	2,804	3,005	634	65,654	(68,781)	71,979
Normalized profit/(loss) for the period[1]	**86,780**	**(10,722)**	**2,804**	**3,005**	**634**	**70,328**	**(73,150)**	**79,680**
EBITDA	126,925	(7,574)	3,666	17,205	6,097	67,778	(68,808)	145,290
Normalized EBITDA[2]	**126,925**	**(5,232)**	**3,666**	**17,205**	**6,097**	**72,452**	**(73,176)**	**147,937**

[1] In 2023, net profit was normalized to exclude: the impairment for the closing of 13 Pizza Hut units, in line with the network reorganization plan (RON 4.1m), impairment for the closing of KFC restaurants in Romania (RON 0.9m), closing costs for the selected units as part of the PH network reorganization (RON 2.3m, out of which RON 2.2m YUM costs and RON 0.1m other closing costs), as well as other provisions (litigation with a former non-executive director, RON 0.3m).

[2] In 2023, EBITDA was normalized to exclude: closing costs for the selected units as part of the PH network reorganization (RON 2.3m), as well as other provisions (litigation with a former non-executive director, RON 0.3m). At individual level, normalized EBITDA for 2023 excludes the impairment loss for the investment in ARS (4,369) registered in SFG.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In terms of consolidated statement of financial position, out of total assets, 81% represent non-current assets, an increase of 6.0% YoY, mainly as a result of opening new restaurants. Current assets have decreased by 19% YoY, reaching RON 131.2 million, mainly due to the decrease in the cash position, a 23% decrease YoY reaching RON 98 million as the Group tempered bank loan financing in 2023 and financed the opening of new restaurants by means of own financing; also trade and other receivables have decreased by 52% (mainly due to decrease in tax receivables, VAT and medical leave) to RON 10.2 million.

Consolidated total equity increased by 19.9% YoY, to RON 142.6 million, as a result of a 89.1% increase YoY in the net profit registered by the Group.

Consolidated total liabilities decreased by 5.1% YoY to RON 558.7 million, out of which 24% were accounted for interest bearing loans that decreased by RON 54.2 million as a combined effect of lower new loans activated versus prior year and loan principal repayments and short-term loans (overdraft) repaid in 2023. A summary of consolidated financial position as of ended December 31st, 2023 and December 31st, 2022, is presented below:

Data in RON'000	31-Dec-23	31-Dec-22	Δ '23/'22
Non-current assets Total	**570,152**	**537,600**	**6.02%**
Other non-current assets	330,615	319,881	3.48%
Right-of-use assets	239,537	217,719	9.39%
Current assets Total	**131,164**	**168,282**	**-19.19%**
Total assets	**701,316**	**705,882**	**-0.62%**
Total equity	**142,616**	**116,364**	**19.88%**
Total non-current liabilities	**309,863**	**318,323**	**-2.40%**
Other non-current liabilities	98,019	127,594	-19.67%
Lease liabilities (IFRS 16)	211,844	190,729	10.41%
Total current liabilities	**248,837**	**271,195**	**-8.98%**
Other current liabilities	192,794	218,502	-13.19%
Lease liabilities (IFRS 16)	56,043	52,693	6.18%
Total liabilities	**558,700**	**589,518**	**-5.12%**
Total equity and liabilities	**701,316**	**705,882**	**-0.62%**

STANDALONE FINANCIAL RESULTS

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

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

Net profit for 2023 was RON 65.7 million (2022: RON 43.4 million), the increase being mainly determined by the 44.7% increase in revenue from dividends.

Details of the investments in subsidiaries as at December 31st, 2023 and December 31st, 2022, respectively, are as follows:

Data in RON'000

Company	Share interest percent	31 December 2023			31 December 2022		
		Investment at cost	Accumulated impairment loss	Carrying value	Investment at cost	Accumulated impairment loss	Carrying value
US Food Network SA (Romania)	99.9997%	519,704	-	**519,704**	519,704	-	**519,704**
American Restaurant System SA (Romania)	99.9997%	114,452	64,679	**49,773**	105,119	60,310	**44,809**
California Fresh Flavors SRL (Romania)	99.9900%	16,527	-	**16,527**	12,428	-	**12,428**
US Food Network SRL (Moldova)	80.0000%	1,735	-	**1,735**	1,735	-	**1,735**
US Food Network SRL (Italy)	100.0000%	77,899	-	**77,899**	77,899	-	**77,899**
Total		**730,318**	**64,679**	**665,639**	716,885	60,310	**656,575**

In 2023, the Company increased the investment in ARS with RON 9,333 thousand and the investment in CFF with RON 4,100 thousand by converting the existing shareholder's loans to equity.

As of 31 December 2023, the Company assessed whether there are indicators of impairment for its cost of investment in subsidiaries and further to the analysis performed no impairment resulted for investments in US Food Network SA, US Food Network SRL (Moldova), US Food Network SRL (Italy) and California Fresh Flavors SRL. For ARS, there was a decrease of the investment's recoverable amount of additional 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.

In regards the financial position, the main elements of the balance sheet as of 31 December 2023 are detailed below.

FY Standalone Financial Statements

Data in RON'000	**2023**	**2022**	**Δ'22/'21**
Dividend revenues	73,003	50,502	44.6%
Revenue from service contracts with related parties	40,779	35,080	16.2%
Other income	29	129	n/a
Payroll and employee benefits	34,433	29,506	16.7%
Impairment loss of investments in subsidiaries	4,369	4,022	8.6%
Other expenses	7,686	7,096	8.3%
Operating profit	67,323	45,087	49.3%
Financial result	1,422	1,239	14.7%
Profit before tax	65,901	43,847	50.3%
Income tax expense	244	464	-47.5%
Profit for the period	**65,657**	**43,383**	**51.3%**

On the balance sheet, besides cash, current assets refer to dividends to be received RON 21,149 thousand (31 December 2022: RON 19,681 thousand), amounts invoiced to related parties for management and support services of RON 17,804 thousand (31 December 2022: RON 14,122 thousand).

Non-current assets comprise mainly net investments in subsidiaries of RON 665,639 thousand (31 December 2022: RON 656,575 thousand) and loans and related interest granted to the subsidiaries of RON 30,141 thousand. As at 31 December 2023, these loans and related interest granted to the subsidiaries were presented as long term receivables following the prolongation of the contract (31 December 2022: RON 37,593 thousand, included in current receivables).

Other non-current assets refer to property, plant and equipment and intangible assets of RON 2,197 thousand (31 December 2022: RON 2,206 thousand), right-of-use assets of RON 4,552 (31 December 2022: RON 4,597 thousand), deferred tax asset recognized for the fiscal loss carried forward RON 234 thousand (31 December 2021: RON 478 thousand).

Current and non-current liabilities are mainly in relation to the lease liabilities from lease of office premises and administrative vehicles, the bank loan and loan from one of its subsidiaries, US Food Network SA.

Data in RON'000	**31-Dec 2023**	**%**	**31-Dec 2022**	**%**
Assets				
Non-current assets	702,814	94%	663,901	87%
Current assets	42,286	6%	100,552	13%
Total assets	**745,100**	**100%**	**764,453**	**100%**
Total equity	**687,673**	**92%**	**667,034**	**87%**
Non-current liabilities	40,057	5%	59,502	8%
Current liabilities	17,371	2%	37,917	5%
Total liabilities	**57,427**	**8%**	**97,419**	**13%**
Total equity and liabilities	**745,100**	**100%**	**764,453**	**100%**

MAIN FINANCIAL RATIOS

The main financial ratios of Sphera Franchise Group, based on the audited consolidated result as of December 31st, 2023, are presented below, together with the audited FY 2022 ratios. All the ratios are calculated including IFRS 16 impact.

Financial data in RON '000	**FY 2023 (Audited)**		**FY 2022 (Audited)**	
Current ratio				
Current assets	131,164	**= 0.53**	168,282	**= 0.62**
Current liabilities	248,837		271,195	
Debt to Equity ratio				
Interest-bearing debt (long term)	303,299	**= 213%**	313,678	**= 270%**
Equity	142,616		116,363	
Interest-bearing debt (long term)	303,299	**= 68%**	313,678	**= 73%**
Capital employed	445,915		430,041	
Trade receivables turnover (days)				
Average receivables	15,721	**= 3.85**	25,950	**= 7.06**
Turnover	1,469,172		1,322,822	
Fixed asset turnover				
Turnover	1,469,172	**= 2.74**	1,322,822	**= 2.61**
Net fixed assets	536,973		506,054	

Notes: Annualized values, based on the ASF methodology.

BRAND & SALES PERFORMANCE

MARKET SHARE

KFC holds a strong position in the Romania's quick-service restaurant (QSR) sector. It is the second player in the chained QSR segment with a 20.4% market share in 2023 and leads the QSR, chicken category segment. The brand has 92% brand awareness among Romanian QSR customers as of December 2023, maintaining high levels of customer consideration and recommendation.

KFC is recognized for its superior taste, a key factor in its success. It ranks highest for taste-related attributes, including 'best tasting chicken', 'freshest ingredients', 'high quality food', and 'food is freshly prepared'. Key products include Crispy Strips, Garlic Sauce, Smart Menu, Crispy Sandwich, Hot Wings, and Buckets, which are central to its identity and customer appeal.

The brand has also been the most awarded in the QSR category at the Effie Awards, celebrating effective marketing campaigns. This accolade underscores KFC Romania's effective engagement strategies and its significant contribution to the Sphera Franchise Group's success.

Pizza Hut stands as a leading entity in the Romanian pizza chain segment, holding a dominant position with nearly 1.9% of the market share from the total food service category value in 2023. This accomplishment is supported by its status as the brand with the highest awareness in the pizza category, boasting 77% aided brand awareness among Romanian quick service customers as of December 2023.

Taco Bell has established itself as the largest Mexican food chain in Romania, capturing 1.5% of the market share from the total food service sector in 2023. This position is part of its strategic growth under the Sphera Franchise Group. The brand has seen a significant increase in brand recognition, with aided awareness reaching 55% among Romanian consumers as of December 2023.

Taco Bell stands out in the competitive landscape as the third most distinctive brand in the quick service restaurant (QSR) market, demonstrating its strong brand identity and consumer appeal. Additionally, Taco Bell differentiates itself by actively engaging with its customer base through a loyalty program. This program rewards the chain's most loyal fans and is accessible via a mobile app, enhancing the customer experience.

BRAND & MARKETS PERFROMANCE

Romania contributed RON 1.264,8 million to the 2023 turnover, bringing in 86% of the total sales as the revenues registered an 11% YoY increase. Italy brought RON 183.8 million, 13% of total revenues, with sales registering a 11% YoY increase, while the Republic of Moldova contributed RON 20.6 million, amounting to 1% of revenues and an 18% appreciation in sales.

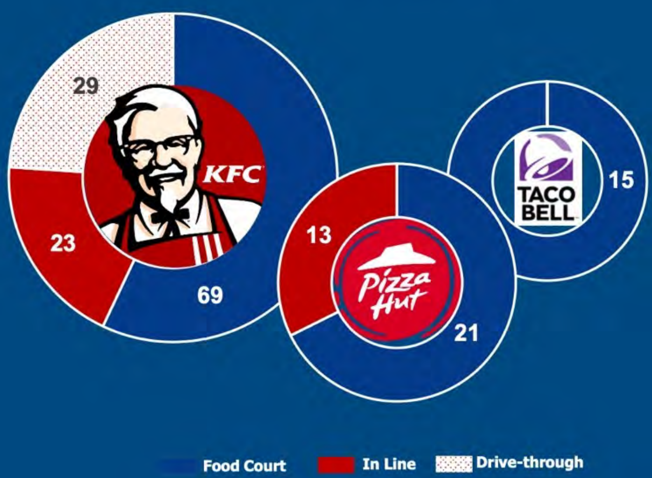
RON 1,264.8 mn	RON 183.8 mn	RON 20.6 mn
+11% vs. 2022	+11% vs. 2022	+18% vs. 2022

At the level of the brands, in 2023, KFC saw a 12% increase in revenues, generating RON 1.27 billion in sales, while Taco Bell grew 22% to RON 84.5 million. Pizza Hut sales declined 6% to RON 115.2 million. Pizza Hut's network reorganization program formally began in Q3 2023 with the aim to optimize costs, increase the agility of the brand and improve profitability indicators, therefore having a moderate impact on the Q4 2023 topline evolution. It is important to underline that four out of five companies generated positive net result, therefore proving the effectiveness of the strategy adopted by the management which aimed to consolidate the presence of KFC Romania and Moldova, while turning KFC Italy and Taco Bell to profit.

KFC	Pizza Hut	TACO BELL
RON 1,269.4 mn	RON 115.2 mn	RON 84.5 mn
+12% vs. 2022	-6% vs. 2022	+22% vs. 2022

In 2023, Sphera opened 8 new restaurants – all of them being new KFC restaurants in Romania. The new openings were offset by the closing of 2 non-performing KFC units in Italy, 3 KFC units in Romania, and 8 Pizza Hut locations as well as one Paul unit in Romania.

Network as of 31.12.2023



NOTE: 1 PHD sub-franchise not included above.

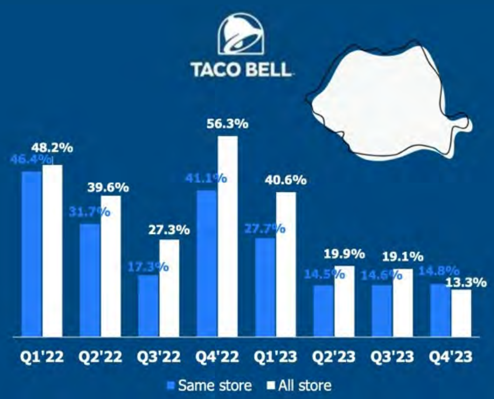
KFC ROMANIA experienced a significant year in terms of expansion and sales performance as the restaurant sales overpassed the RON 1 bn mark for the first time in history, increasing sales 12.5% YoY, to RON 1.07 billion. In 2023, Sphera opened 8 new KFC restaurants exclusively in Romania. This expansion strategy helped offset the impact of closing 3 KFC units in the country. In 2023, USFN Romania generated RON 139 million (+28.2% vs. 2022) in the restaurant operating profit, RON 126.9 million in EBITDA, generating an 11.9% EBITDA margin – second highest within the Group, and a normalized profit of RON 86.8 million (+26.5% vs. 2022)

KFC ITALY saw the closure of 2 non-performing KFC units, which was part of Sphera's network optimization efforts. Despite these closures, USFN Italy managed to grow sales 10.5% in 2023, to RON 183.8 million. This indicates a stable growth in customer demand amidst a competitive and mature market. It is important to mention that the focus in 2023 of the management was on the profitability - a promise delivered to the shareholders as USFN Italy closed 2023 with restaurant operating profit of RON 19.2 million (vs. restaurant operating loss of RON 1.7 million in 2022), EBITDA of RON 17.2 million and an EBITDA margin of 9.4%. In terms of profitability, KFC Italy was the second biggest contributor to the Group's net profit, generating in 2023 a normalized net profit of RON 3 million (vs. a net loss of RON 6.4 million for 2022).

KFC MOLDOVA, with smallest footprint of all the brands, of just 2 units based in Chisinau, showed remarkable growth, with an 18.4% increase in sales YoY, to RON 20.6 million. This performance demonstrates the brand's growing appeal in the Moldovan market, where consumer demand for KFC's offerings is on the continuous rise. USFN Moldova closed 2023 with a restaurant operating profit of RON 3.8 million, a positive normalized EBITDA of RON 3.7 million and a net result of RON 2.8 million. It is relevant to mention that USFN Moldova generated the highest normalized EBITDA margin of all the Group companies, of 17.8%.

PIZZA HUT saw a 6.3% YoY decrease in sales, down to RON 115.2 million. Pizza Hut's network reorganization program formally began in Q3 2023 with the aim to optimize costs, increase the agility of the brand and improve profitability indicators. Pizza Hut closed 2023 with restaurant operating loss excluding the one-off costs related to closings of RON 10.1 million, negative normalized EBITDA of RON 5.2 million and a normalized net loss of RON 10.7 million, a RON 2.1 million improvement in profitability versus 2022.

TACO BELL, the youngest brand in Sphera Franchise Group's portfolio, emerged as the standout performer, increasing sales 22% YoY, to RON 84.5 million. This impressive growth highlights the increasing popularity of Taco Bell's offerings and its successful expansion strategies, which allowed the Company to reach 15 units across Romania. The brand's performance indicates a strong consumer appetite for its unique menu and dining experience. Similar to KFC Italy, Taco Bell had a very good year, turning to profit and registering net profit of RON 0.6 million in 2023, versus a net loss of RON 3.8 million in 2022, and an EBITDA of RON 6.1 million, a 7.2% margin.



DELIVERY

In terms of sales for delivery, those remained at constant levels throughout 2023, reflecting the post-pandemic realities. Peaks in the demand for delivery were recorded in Q1 and Q4 2023, reflecting a general trend that is particularly pronounced during the winter months, reflecting the customers' preference for the comfort and convenience of having their favorite meals delivered right to their doorstep.

The total value of sales for delivery in 2023 reached RON 258.1 million, amounting to 17.6% of total sales. The value of sales for delivery declined 7% versus 2022, therefore reflecting the post-pandemic realities where clients are more inclined to eat in restaurants. Out of that amount, own deliveries – meaning deliveries made by Sphera Franchise Group own KFC and Pizza Hut fleet in Romania, amounted to RON 25.4 million, a 25.6% decline, due to decision taken in 2023 to gradually transfer own sales to aggregators as a part of cost-optimization measures.

The distribution of these delivery sales across the brands remains consistent, with Pizza Hut leading the way, contributing 35% of the delivery orders in 2023, which is a 5pp decrease YoY. On the other end, KFC Italy saw 7% of its orders made for delivery, almost 4pp decrease compared to 2022.

Sales by entity		Q1-22	Q2-22	Q3-22	Q4-22	Q1-23	Q2-23	Q3-23	Q4-23
USFN RO	delivery	27%	20%	16%	16%	18%	16%	16%	17%
	non-delivery	73%	80%	84%	84%	82%	84%	84%	83%
ARS	delivery	49%	40%	38%	39%	36%	34%	35%	36%
	non-delivery	51%	60%	62%	61%	64%	66%	65%	64%
CFF	delivery	41%	32%	26%	27%	30%	28%	23%	24%
	non-delivery	59%	68%	74%	73%	70%	72%	77%	76%
USFN IT	delivery	14%	12%	9%	10%	8%	7%	6%	8%
	non-delivery	86%	88%	91%	90%	92%	93%	94%	92%
USFN MD	delivery	35%	31%	31%	29%	31%	30%	30%	31%
	non-delivery	65%	69%	69%	71%	69%	70%	70%	69%
All	delivery	28%	22%	18%	18%	19%	17%	16%	18%
	non-delivery	72%	78%	82%	82%	81%	83%	84%	82%

Collaboration with local food aggregators, Glovo, Tazz and Bolt in Romania; Glovo, Deliveroo, Just Eat and UBER Eats in Italy; Straus and iFood in the Republic of Moldova continued in 2023. However, to optimize operational costs while still maintaining a high level of service and connection with our customers, Sphera Franchise Group made a strategic decision to gradually outsource our own delivery fleet to trusted partners. This shift allows the Group to focus on what the Group does best – preparing and serving meals to customers – while leveraging the expertise of our partners for delivery logistics. All in all, in 2023, 9.9% of sales for delivery were fulfilled using Sphera's own delivery capabilities, a notable decrease from 12.4% in 2022. These changes are part of our ongoing efforts for the Group adapt and thrive in a dynamic market, ensuring that the portfolio brands continue to meet and exceed our customers' expectations.

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

DIVIDENDS

Data in RON'000

	2023	2022
Dividends declared during the period:		
To shareholders of Sphera Franchise Group SA	44,886	55,002
To non-controlling interests	393	250
Total dividends declared during the period,	**45,279**	**55,252**
Total dividends declared per share SFG (RON/share)	**1.1600**	**1.4176**
Dividends paid during the period:		
To shareholders of Sphera Franchise Group SA	64,887	35,001
To non-controlling interests	393	250
Total dividends paid during the period	**65,280**	**35,251**

On December 20th, 2022, the Ordinary General Meeting of the Shareholders of Sphera Franchise Group approved the dividend distribution amounting to RON 20,001 thousand from the undistributed net profit of 2020, fixing a gross dividend per share at RON 0.5155. The payment date was March 31st, 2023.

In the Ordinary General Meeting of the Shareholders on September 4th, 2023, the shareholders of Sphera Franchise Group approved of the dividend distribution fixing a gross dividend per share at RON 1.16, representing RON 44,886 thousand. The ex-date was September 18th, 2023, record date – September 19th, 2023, and payment date – October 10th, 2023.

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 of Sphera Franchise Group SA 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 per share of RON 1.05/share from the undistributed profit (2022 and 2023) of Sphera Franchise Group SA.

As of December 31st, 2023, the value of the retained earnings of Sphera Franchise Group SA has reached the value of RON 89,933 thousand, as presented in the separate financial statements.

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

KEY FACTORS AFFECTING GROUP'S RESULTS

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

General economic environment in the markets

The results of the Group can be directly affected by economic conditions, especially employment levels, inflation, real disposable income, consumption, access to consumer credit, consumer confidence, applicable taxes, and consumer's willingness to spend money in the markets and geographic areas in which it operates. In an unfavorable economic environment with a decrease in disposable income, the Group's customers may reduce the frequency with which they dine out or order-in or may choose more inexpensive dining options. This risk continues to be significant for 2024 due to the continued heightened inflation as well as energy costs. A decrease in disposable income may affect the customer traffic, frequency, average ticket size as well as the Group's ability to pass the cost increases onto its customers. Nonetheless, this trend is offset by the overall affordability of the Groups products, which may also lead to the Group attracting new clients, amongst the customers who may substitute more expensive dining options with Group's products.

Competitive landscape

The restaurant industry's competitive nature means that the Group constantly faces the challenge of new entrants with innovative offerings. The Group competes against international chains, as well as many national, regional, and local businesses in the quick-service, casual dine-in and delivery/takeaway restaurant sectors not only for customers, but also for management and store employees, suitable real estate sites and qualified sub-franchisees. This competition can influence product demand, prices, wages, and rental costs, potentially reducing profitability. Maintaining service quality, introducing new menu items, and staying abreast of industry trends are essential to retain and grow the customer base, but might not be sufficient when facing a strong competitor.

Political and military instability in the region

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

Supply chain disruptions

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

Supplier price fluctuations

A critical risk that Sphera Franchise Group faces relates to the fluctuations in the prices of key inputs, including raw materials and energy. These fluctuations can directly impact the Group's gross margin, potentially affecting its financial stability and profitability. Although the Group engages with multiple suppliers to mitigate this risk and ensure a stable supply chain, market conditions such as supply shortages, geopolitical tensions, inflation, or unexpected global events can still lead to significant variations in costs.

The nature of the restaurant industry often makes it challenging to immediately pass on increased costs to consumers without risking customer dissatisfaction or loss of competitive edge. The timing and feasibility of adjusting menu prices in response to supplier cost increases are critical factors. There may be a lag in implementing these changes due to the need to balance maintaining customer loyalty and covering increased costs. In some cases, transferring the full extent of these costs to the end consumer might not be feasible without affecting demand for the Group's services.

Price risk

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

Fiscal regulatory shifts

Sphera Franchise Group operates in a complex regulatory landscape that spans multiple countries, including Romania, Italy, and the Republic of Moldova. This international presence subjects the Group to a variety of fiscal regimes, each with its own set of tax laws and regulatory requirements. The risk associated with sudden and unexpected changes in fiscal codes and regulations represents a significant challenge to the Group's operations.

Unpredictable alterations in tax laws, such as changes in corporate income tax rates, VAT, or payroll taxes, can have a direct impact on Sphera's operational costs and profitability. Additionally, shifts in enforcement practices or the introduction of new fiscal obligations can increase the Group's tax burden. These changes may come with little warning, making it difficult for the Group to adjust its financial planning and pricing strategies in a timely manner.

The variability and unpredictability of fiscal regulatory shifts can disrupt Sphera's business planning processes, compounding the challenge of forecasting future earnings. The ability to reliably predict financial outcomes is crucial for strategic decision-making, investment planning, and maintaining investor confidence. Sudden changes in fiscal policy can erode this predictability, affecting the Group's strategic direction and potentially leading to volatility in its financial performance.

Labor costs

Cost of labor represents the second most important expense for the Group and was the fastest growing expense item at restaurant level over the past years. It is expected for the personnel costs to grow proportionally with the growth of the number of the restaurants and the restaurant revenue. Factors that influence fluctuations in the labor costs include minimum wage and payroll tax legislation, the frequency and severity of labor-related claims, health care costs, the performance of restaurants, new openings and whether new employees are fixed overhead costs or are restaurant hires.

Labor shortages

The hospitality and restaurant industry (HoReCa sector) are inherently labor-intensive, making Sphera Franchise Group heavily reliant on a consistent supply of manpower to operate efficiently. Labor shortages pose a significant risk to the Group's ability to maintain high levels of service quality. Insufficient staffing can lead to decreased customer satisfaction and potentially reduce sales. To combat labor shortages and attract necessary talent, the Group may be compelled to offer higher wages, which can further inflate operational costs and impact profitability.

One of the strategies the Group has adopted to mitigate this risk involves recruiting employees from abroad, such as from Sri Lanka. While this approach can provide a temporary relief to labor shortages, it also introduces additional challenges and costs, including but not limited to, visa processing, accommodation, and adaptation to local labor laws and practices.

Consumer preferences

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

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

Marketing and advertising activities

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

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

Product liability claims and health pandemics

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

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

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

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

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

Product safety and public perception

The integrity of Sphera's offerings is paramount. Potential risks such as food-borne illnesses, product liability claims, and health pandemics pose significant threats to consumer trust. The Group's dependence on third-party suppliers for ingredients amplifies these risks, as any negative event, even indirectly linked to the Group, can swiftly alter public perception. Media reports play a pivotal role in shaping these perceptions, and adverse coverage can lead to long-lasting damage to the Group's reputation.

Dependency on the franchisor

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

Sustainability concerns

As global attention increasingly turns towards sustainability, the expectations from consumers and stakeholders for restaurants to adopt sustainable practices have intensified. Sphera actively evaluates its supply chain, operational methodologies, and waste management procedures to align with sustainable business practices. However, these efforts may still fall short of stakeholder expectations, potentially leading to criticism or backlash. The evolving nature of what is considered "sustainable" necessitates ongoing adjustments and improvements, which may challenge the Group's resources and commitment.

New technologies

The integration of advanced technology solutions is transforming the dining experience and operational efficiencies within the food service industry. Sphera faces the risk of falling behind its competitors if it fails to adapt to these changes promptly. Late adoption of technology not only diminishes competitiveness but can also lead to increased operational costs in the long run. Moreover, the rise of automation and digital solutions may displace jobs, potentially causing employee dissatisfaction and affecting the Group's brand image and employee relations.

Cybersecurity threats

With the expansion of digital operations, including online ordering and digital payment systems, the Group is increasingly exposed to cybersecurity risks. Cyberattacks, data breaches, and technological failures can severely impact the Group's reputation, leading to a loss of consumer trust and financial losses. The potential inadequacy of cybersecurity measures could leave the Group vulnerable to these threats, emphasizing the need for robust and proactive cybersecurity strategies.

Fake news

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

Lockdowns

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

Financial risks

The Group is exposed to several financial risks in connection with its activities, including market risk (interest rate risk, foreign exchange rate risk), risk related to financial liquidity, and, to a limited extent to credit risk. The Group’s senior management oversees the management of these risks, setting up the appropriate financial risk governance framework for the Group and ensures the Group’s financial risk activities are performed under appropriate procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives.

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term and short-term credit facilities. Interest rates on the Group's debt finance are variable. Changes in interest rates impact primarily loans and borrowings by changing their future cash flows (variable rate debt). Management policy is to resort mainly to variable rate financing. However, at the time of rising new loans or borrowings management uses its judgment to decide whether it believes that fixed or variable rate would be more favorable to the Group over the expected period until maturity. The Group does not hedge its interest rate risk.

Foreign currency risk

The Group’s exposure to the risk of changes in foreign exchange rates relates primarily to the Group’s financing activities, as the financing contracted by the Group is Euro based. Most revenues and expenses, trade and other receivables and payables is in RON. The Group monitors the currency risk by following changes in exchange rates and, if needed, revises the structure of the debt financing. The Group does not have formal arrangements to mitigate its currency risk.

Credit risk

The Group is not significantly exposed to credit risk as most of its sales are on a cash basis. The Group's credit risk is primarily attributed to trade and other receivables and balances with banks, including the cash in transit with the banks or in transit with food aggregating platforms.

The Group invests cash and cash equivalents with highly reliable financial institutions. The Group has only plain vanilla deposits with reputable banks, none of which has experienced any difficulties in 2023 or up to the date of the financial statements. Also, the food aggregating platforms the Group collaborates with are reputable commercial partners, part of international group of companies.

Liquidity risk

The Group has adopted a prudent financial liquidity management approach, assuming that sufficient cash and cash equivalents are maintained, and that further financing is available from guaranteed funds from credit lines.

INTERNAL CONTROL

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

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

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

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

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

- Ensures a commitment to integrity and ethical values by demonstrating through the Board of Directors’ and management’s directives, actions and behavior the importance of integrity and ethical values to support the functioning of the system of internal control;
- The Board of Directors demonstrates independence from management and exercises oversight for the development and performance of internal control;
- Establishes, with Board of Directors oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of the objectives by maintaining job descriptions, defining roles and reporting lines, defining the role of internal audit;
- Ensures and demonstrates a commitment to attract, develop and retain competent individuals in alignment with the objectives of the Group by establishing required knowledge, skills and expertise, selecting appropriate outsourced service providers when needed, evaluating competence and behavior, evaluating the capacity of finance personnel;
- Holds individuals accountable for their responsibilities in the pursuit of the objectives of the Group by developing balanced performance measures, incentives and rewards and linking compensation and other rewards to performance;

- Specifies objectives with clarity to enable the identification and assessment of risks related to objectives by identifying financial statement accounts, disclosures and assertions, reviewing and updating understanding of applicable standards, considering the range of Group's activities;
- Identifies risks to the achievement of the Group's objectives and analyzes risks as a basis for determining how the risks should be managed;
- Considers the potential for fraud in assessing risks to the achievement of objectives by considering fraud risk in the internal audit plan;
- Identifies and assesses changes that could significantly impact the system of internal control by assessing change in the external environment, CEO and senior executive changes;
- Selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives at acceptable levels by considering processes, risks and controls in the internal audit plan, identifying incompatible functions, considering alternative control activities to the segregation of duties;
- Selects and develops general control activities over technology to support the achievement of objectives by the means of recently implemented ERP, administering security and access, configuring IT to support the complete, accurate and valid processing of transactions and data;
- Develops control activities through policies and procedures that establish what is expected by developing and documenting policies and procedures;
- Obtains or generates and uses relevant, quality information to support the functioning of internal control.

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

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

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

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

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

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

- Risks relating to the achievement of the Group's strategic objectives and also the risks related to day-to-day operations are appropriately identified and managed;

- The actions of the Group’s directors, employees, and contractors are in compliance with the Group’s policies, procedures, and applicable laws, regulations, and governance standards;
- The results of operations are consistent with established goals;
- Operations are being carried out efficiently;
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Group;
- Resources and assets are acquired economically, used efficiently, and protected adequately.

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

COMMITMENTS AND CONTINGENCIES

Lease commitments

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

Other commitments

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

Climate change

In the current context, all companies face risks and opportunities derived from the climate and are having to make strategic decisions in this area adapted to the nature of their business, as well as to their footprint on the environment.

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

Bank letter of guarantees

The Group has issued bank letters of guarantee in favor of suppliers as at December 31st, 2023 in amount of RON 17.7 million (31 December 2022: RON 14.7 million).

Other contingencies

Taxation

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

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

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

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

Transfer pricing

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

The Group has prepared transfer pricing files.

Legal proceedings

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

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

ENVIRONMENTAL MATTERS

As of December 31st, 2023, the Company incurs no debts relating to anticipated costs relating to environmental aspects. The Company does not consider that costs relating to environmental aspects are significant.

Chairman of the Board of Directors
Lucian Hoanca

L.S.

CORPORATE GOVERNANCE

SPHERA

BVB CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

PROVISION OF THE BUCHAREST STOCK EXCHANGE CORPORATE GOVERNANCE CODE[1]	COMPLIANT	PARTIALLY COMPLIANT	COMMENT
Section A - Responsibilities			
A.1. All companies shall have Internal Rules for the Board of Directors (the 'Board'), which shall include the terms of reference/responsibilities of the Board and the key management functions of the Company, and which shall apply, inter alia, the General Principles of this Section.	X		As of May of 2017 (since its establishment), Sphera Franchise Group has been managed as a unitary system by a Board of Directors, which has delegated the management of the day-to-day activity of the Company to the Chief Executive Officer and the Executives. The structure and principles of corporate governance of the Company, as well as the powers and responsibilities of the General Shareholders' Meeting, of the Board of Directors, of the Chief Executive Officer, and of the Executives, are described in the Articles of Association of the Company, the Rules and Procedures of the General Shareholders' Meeting (GSM), the Internal Rules of operation of the Board of Directors, as well as other relevant documents.
A.2. Provisions for the management of conflicts of interest shall be included in the Rules of the Board. In any event, Board members shall notify the Board of any conflicts of interest that have arisen or may arise and shall refrain from taking part in the discussions (including by non-attendance, unless the failure to attend prevents the establishment of the quorum) and from voting for passing a resolution on the issue giving rise to the relevant conflict of interest.	X		Board members have, under the law, duties of care and loyalty to the Company, stipulated not only in the Articles of Association of the Company, but also in other internal regulations of the Company. The Company has also implemented internal regulations on the ways to address situations of conflicts of interest.
A.3. The Board shall consist of at least 5 (five) members.	X		The Board consists of 5 (five) members elected by the Ordinary General Shareholders' Meeting (OGSM), in accordance with the provisions of the Companies Act and the Articles of Association of the Company.
A.4. Most Board members shall not have an executive function. In the case of companies in the Premium		X	The governance of Sphera Franchise Group is achieved through a unitary system in which the Board ensures the Company management, and the day-

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

Category, no less than two non-executive members of the Board shall be independent. Each independent Board member shall issue a statement at the time of nomination thereof for election or re-election, and whenever any change arises in the status thereof, indicating the elements on the basis of which the same is to be deemed independent in terms of character and judgment.			to-day management is delegated to the Chief Executive Officer and the Executives. The Board consists of 5 (five) members, out of which all of them are non-executive members. On the occasion of each (re)appointment of a Board member, the Company performs an assessment of the independence of its members on the basis of the independence criteria set out in the Corporate Governance Code (which are essentially similar to those laid down in the Companies Act), consisting of an individual assessment conducted by the relevant Board member, followed by an external assessment. Moreover, in view of the preparation of the Corporate Governance Report of the Annual Report, the Company reconfirmed with all Board members their independence or non-independence on December 31st, 2023. This assessment showed that, in 2023 one Board member met all the criteria of independency set out in the Corporate Governance Code. Information on the independence of the Board members is available at the Company's headquarters.
A.5. Any other relatively permanent professional commitments and obligations of a member of the Board, including executive and non-executive positions in the Board of companies and non-profit institutions, shall be disclosed to the shareholders and prospective investors prior to nomination and during the term of office thereof.	X		Information on the permanent professional commitments and obligations of the Board members, including executive and non-executive positions within companies and non-profit institutions, can be found in the CVs of the Board members, available at the Company headquarters, as well as are included in this report.
A.6. Any member of the Board shall present the Board with information on any relation with a shareholder holding, either directly or indirectly, shares representing more than 5% of all voting rights.	X		The Board members and the Executives have, under the law, duties of care and loyalty to the Company, stipulated in the Articles of Association of the Company and in other internal regulations of the Company. The Company has also implemented internal regulations on the ways to address situations of conflicts of interest.
A.7. The Company shall appoint a Secretary of the Board to be in charge of supporting the activity of the Board.	X		The Company has a General Secretary who supports the Board activities.
A.8. The Corporate Governance Statement shall stipulate whether a Board assessment has taken place		X	The Company has a Board Self-assessment Guide that stipulates the purpose, criteria and frequency of such an assessment. Based on this guide, the Board

under the direction of either the Chairperson or the Nomination Committee and, if so, shall summarize the key measures and the resulting changes. The Company shall have a policy/guide regarding Board assessment, including the purpose, criteria and frequency of the assessment process.			conducted a self-assessment process for the financial year of 2023 under the direction of the Chairperson of the Board.
A.9. The Corporate Governance Statement shall contain information on the number of Board and Committee meetings over the past year, the participation of the directors (in person and in default) and a Report by the Board and Committees on their activities.	X		The Company executives shall meet at least once a week and the Board shall meet whenever necessary, but at least once every three months. During 2023, 21 Board meetings took place, of which 2 were by electronic means (e-board). Of the 19 with physical presence, 17 were full attendance and 2 with partial attendance (4/5). There were additionally 6 meetings of the Audit Committee, all with full attendance, and 4 meetings of the Nomination & Renumeration Committee, all with full attendance.
A.10. The Corporate Governance Statement shall include information on the exact number of independent members of the Board.	X		The assessment of the Board members' independence based on the independence criteria set out in the Corporate Governance Code (which are essentially similar to those provided for by the Companies Act) showed that, in 2023, one (1) Board member met all the criteria of independence provided for by the Corporate Governance Code and thus one Board member of Sphera Franchise Group is independent.
A.11. The Board of companies in the Premium Category shall set up a Nomination Committee, consisting of non-executive members, to direct the nomination of any new Board members and to submit recommendations to the Board. Most members of the Nomination Committee shall be independent.		X	The members of the Board are appointed by the Ordinary General Shareholders' Meeting, on the basis of a transparent proposal procedure and by the majority of the shareholders' votes, as laid down in the Company Articles of Association and the applicable laws. Before holding the Ordinary General Shareholders' Meeting, the candidates' CVs are available for consultation by the shareholders, and the shareholders can supplement the list of candidates for Board membership. The Company has a Nomination & Remuneration Committee composed of 3 (three) members, elected by the Board from among its members, and one of the members of the Nomination Committee is elected as the Chair. The main role of the Nomination Committee is to submit recommendations concerning the nomination of candidates for appointment to the Board.

			In the perspective of the Corporate Governance Code, the Nomination Committee does not fully comply with the compliance requirements, which places the company in the area of "partial compliance" as most of the nominating committee members are not independent, but all are non-executive members.
Section B – The risk management and internal control system			
B.1. The Board shall set up an Audit Committee, in which at least one member shall be independent and non-executive. Most members, including the Chair, shall have proven appropriate qualification relevant to the functions and responsibilities of the Committee. At least one member of the Audit Committee shall have proven adequate experience in auditing or accounting. In the case of companies in the Premium Category, the Audit Committee shall consist of at least three members and most members of the Audit Committee shall be independent.	x		The Board of Sphera Franchise Group has set up an Audit Committee composed of part of its members. Therefore, the members of the Audit Committee are all non-executives. In 2023, the Audit Committee was made up of three members of the Board, out of which one member, the Chairman, met all the criteria of independence set out in the Corporate Governance Code. The Audit Committee includes members with proper certifications corresponding to the functions and responsibilities held in the Audit Committee, and one member also has the necessary certifications in the financial, auditing and accounting area.
B.2. The Chair of the Audit Committee shall be an independent non-executive member.	x		As members of the Board, all members, including the Chair of the Audit Committee, are non-executive. The Chair of the Audit Committee is independent.
B.3. As part of its responsibilities, the Audit Committee shall carry out an annual assessment of the internal control system.	x		The Terms of Reference for the Audit Committee detail the role and duties of the Audit Committee, which primarily consist of: (i) Reviewing and revising the individual and consolidated annual financial statements and the profit sharing proposal; (ii) Reviewing and submitting recommendations on the appointment, re-appointment or revocation of the external independent financial auditor for approval thereof by the Ordinary General Shareholders' Meeting; (iii) Carrying out an annual assessment of the internal control system, taking into account the effectiveness and purpose of the internal audit
B.4. The assessment shall take into account the effectiveness and scope of the internal audit function, the adequacy of the risk management and internal control reports submitted to the Board Audit Committee, the promptness and effectiveness with which the executive management addresses any deficiencies or weaknesses identified as	x		

a result of the internal control and the submission of relevant reports to the Board.			function, the adequacy of the risk management and internal control reports submitted to the Audit Committee, the promptness and effectiveness with which the executive management addresses any deficiencies or weaknesses identified as a result of the internal control and the submission of relevant reports to the Board; (iv) Assessing any conflicts of interest in connection with the transactions of the Company and its subsidiaries with related parties; (v) Assessing the effectiveness of the internal control and risk management systems; (vi) Monitoring the application of the legal standards and generally accepted internal audit standards; (vii) Receiving, on a regular basis, a summary of the main findings of the audit reports, as well as other information on the activities of the Internal Audit Department and assessing the reports of the internal audit team; (viii) Reviewing and revising the transactions with related parties that exceed or are expected to exceed 5% of the Company net assets from the previous financial year, prior to their submission to the Board for approval purposes, in accordance with the Policy on Related Party Transactions.
B.5. The Audit Committee shall assess any conflicts of interest in connection with the transactions of the Company and its subsidiaries with related parties.	X		
B6. The Audit Committee shall assess the effectiveness of the internal control and risk management systems.	X		
B.7 The Audit Committee shall monitor the application of the legal standards and generally accepted internal audit standards. The Audit Committee shall receive and assess the reports of the internal audit team.	X		
B.8. Whenever the Code mentions reports or analyses initiated by the Audit Committee, these shall be followed by regular reports (at least annual reports) or ad hoc reports to be subsequently submitted to the Board.	X		The Audit Committee regularly presents the Board with reports on the specific issues that have been assigned to it.
B.9. No shareholder may be granted preferential treatment over other shareholders in connection with transactions and agreements entered into by the Company with the shareholders and affiliates thereof.	X		The Company grants equal treatment to all its shareholders. Related party transactions are treated objectively, in accordance with the usual industry standards, and the applicable laws and corporate regulations. Sphera Franchise Group submits regular reports on related party transactions to the Financial Supervisory Authority and the Bucharest Stock Exchange. These reports are reviewed by an independent financial auditor in accordance with the relevant legislation in force.

B.10. The Board shall adopt a policy to ensure that any transaction of the Company with any of the companies with which it has close ties, whose value is equal to or greater than 5% of the Company net assets (according to the latest financial report), is approved by the Board following a binding opinion of the Board Audit Committee and is properly disclosed to the shareholders and prospective investors to the extent that such transactions fall within the category of events subject to reporting requirements.	X		The Company has adopted the key principles for reviewing, approving, and publishing transactions with related parties in accordance with the applicable regulations and Company corporate documents, including the fact that Company transactions with related parties that exceed or are expected to exceed, either individually or in aggregate, an annual value of 5% of the Company net assets from the previous financial year, shall be approved by the Board, based on the opinion of the Audit Committee.
B.11. Internal audits shall be performed by a structurally separate division (the Internal Audit Department) within the Company or by hiring an independent third party.	X		The Internal Audit function is established within the Company.
B.12. In order to ensure the fulfilment of the primary functions of the Internal Audit Department, functionally speaking, it shall report to the Board by means of the Audit Committee. For administrative purposes and as part of the responsibilities of the management to monitor and reduce risks, it shall report directly to the Chief Executive Officer.	X		The Internal Audit function reports functionally to the Board by means of Audit Committee and to the CEO for administrative purposes.
Section C – Fair reward and motivation			
C.1. The Company shall publish the Remuneration Policy on its website and shall include a statement on the implementation of the Remuneration Policy in the Annual Report during the annual period under review. Any key change in the Remuneration Policy shall be published on the Company website in a timely manner.	X		The Company has a Remuneration Policy in place adopted by way of OGSM Resolution no. 1 of August 11th, 2022, and consistently applies the remuneration principles with respect to the Company's managers, i.e. (i) to any member of the Board of Directors, as well as to (ii) any executive manager. These basic remuneration principles are listed in the Corporate Governance Report.
Section D – Adding value by way of the investor relations			
D.1. The Company shall organize an Investor Relations Service - indicating to the general public the officer(s) in charge or the relevant organizational unit. In addition to the information required by law, the Company shall	X		All the information as specified by the D1 provision is provided on the issuer's website.

include on its website a section dedicated to Investor Relations, in both Romanian and English, with all the relevant information of interest to investors, including: • The main corporate regulations: Articles of Association, the procedures regarding the General Shareholders' Meetings (GSM); • The professional CVs for the members of the Company management bodies, other professional commitments of the Board members, including executive and non-executive positions in the Boards of Directors of companies or non-profit institutions; • Current and regular reports (quarterly, half-yearly and annual); • Information on the General Shareholders' Meetings; • Information on the corporate events; • The name and contact details of a person who can provide relevant information, on request; • Company presentations (e.g., investor presentations, quarterly result presentations, etc.), financial statements (quarterly, half-yearly, annual), Audit Reports, and Annual Reports.			
D.2. The Company shall have a policy on the annual distribution of dividends or other benefits to the shareholders. The principles of the policy of annual distribution to the shareholders shall be published on the Company website.	x		The Company Dividend Policy is published on the Company website in the Corporate Governance section, Policies and Documents subsection.
D.3. The Company shall adopt a policy regarding forecasts, whether they are made public or not.	x		The Company has a Forecast Policy, which is published on the Company website in the Corporate Governance section, Policies and Documents

Forecasts mean quantified conclusions of various studies aimed at determining the overall impact of a number of factors for a future period (the so-called assumptions): by its nature, a forecast has a high level of uncertainty, and the actual results can vary significantly from the original forecasts. The Forecast Policy shall determine the frequency, period considered and content of the forecasts. If published, the forecasts may only be included in the annual, half-yearly or quarterly reports. The Forecast Policy shall be published on the Company website.			subsection.
D.4. The rules of the General Shareholders' Meetings shall not limit the participation of shareholders in the general meetings or the exercise of their rights. Any amendments to these rules take effect, at the earliest, starting with the next Shareholders' Meeting.	x		Information on the organization of the General Shareholders' Meetings is mentioned in the Company Articles of Association, as well as the Corporate Governance Report, in brief. Since 2017, Sphera Franchise Group has in place a Shareholders Meeting Procedure and publishes detailed convening notices for each GSM, describing in detail the procedure to be followed during each GSM. In order to welcome the exercise of shareholders' rights and to ensure total transparency on corporate events, starting with April 2022 OGSM meeting, Sphera concluded a partnership with eVote through which it facilitated shareholders' access to general shareholders meetings through a online platform. Thus, the Company ensures that the General Shareholders' Meetings are properly managed and organized, and the shareholders' rights are respected.
D.5. Independent financial auditors shall be present at the General Shareholders' Meeting when their reports are presented at these meetings.	x		The independent financial auditors participate in the Ordinary General Shareholders' Meetings where the individual and consolidated annual financial statements are subject to approval.
D.6. The Board should present to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.		x	The information about the internal controls and significant risk management system is provided in the Annual Report. Shall the question related to the internal control and significant risk management system be asked during the annual meeting, the question will be addressed by the Board.
D.7. Any specialist, consultant, expert, or financial analyst may take part in Shareholders' Meetings on the basis of a prior invitation from the Chairperson of the	x		The GSM Rules and Procedures provide for the possibility for any specialist, consultant, expert, financial analyst or accredited journalist to participate in the GSM on the basis of a prior invitation from the Chairperson of the Board.

Board. Accredited journalists may also attend General Shareholders' Meetings, unless otherwise decided by the Chairperson of the Board.			
D.8. The quarterly and half-yearly financial reports shall include information in both Romanian and English on the key factors that influence change in terms of sales levels, operating profit, net profit and other relevant financial indicators, from one quarter to the next, and from one year to the next.	X		The quarterly and half-yearly financial reports include information in both Romanian and English on the key factors that cause changes in terms of sales levels, operating profit, net profit and other relevant financial indicators, from one quarter to the next, and from one year to the next.
D.9. A Company shall hold at least two meetings/teleconferences with analysts and investors each year. The information presented on these occasions shall be published in the Investor Relations section of the Company website at the time of the meetings/teleconferences.	X		Sphera Franchise Group holds individual meetings and teleconferences with financial analysts, investors, brokers, and other market specialists on a quarterly basis to present the financial elements which are relevant to the investment decision. The company holds a total of six results calls during the year – 4 quarterly calls in English, and 2 half-yearly calls in Romanian (on top of same calls in English, to ensure equal access to information and to the management to all the stakeholders). Investor presentations, updated on a quarterly basis, are made available at the time of the meetings/teleconferences and on the Company website, in the Investor Relations section.
D.10. If a Company supports various forms of artistic and cultural expression, sporting, educational or scientific activities and deems their impact on the Company innovation and competitiveness to be part of its mission and development strategy, it will publish its policy on its activity in this field.	X		Sphera Franchise Group carries out various activities related to social and environmental responsibility. For further details, please also go to the section of the Annual Report on the Consolidated Non-financial Statement.

CONSOLIDATED NON-FINANCIAL STATEMENT

SPHERA

CONSOLIDATED NON-FINANCIAL STATEMENT[2]

The Group will issue a 2023 Sustainability Report by June 30th, 2024. The report will provide details on the progress made by the Group in 2023 with regards to ESG aspects. Consequently, this annual report only provides a brief overview of the Group's approach towards non-financial topics.

THE GROUP BUSINESS MODEL

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

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

APPLIED DUTY OF CARE PROCEDURES

In 2023, there was no duty of care procedures specifically formalized and/or taking the form of policies at the Group level, and the duty of care issues were pursued on a case-by-case basis and/or for various activities, as reflected in the usual practices of the relevant market in which the Group operates, in the spirit of art. 803 of the Civil Code. Despite the lack of a duty of care procedure and/or policy at the Group level, business (and other) decisions were based on the best strategies and principles for reducing any related risk, as well as the rules of honesty and loyalty.

SOCIAL RESPONSIBILITY, SOCIAL, ENVIRONMENTAL AND DIVERSITY-RELATED ISSUES

Sphera Group constantly engages in social responsibility activities. Since 2008, before the establishment of Sphera, through its subsidiaries, every year, either directly or through specialized foundations/associations, people coming from the disadvantaged communities where the Group activates, have been supported. Furthermore, Sphera and/or its subsidiaries have been involved and contributed to supporting educational and environmental actions.

Sphera conducts its activities with integrity and respect for society based on a transparent and structured framework. Governance and ESG Reporting Policy is available HERE.

At Sphera Group, we believe that the impact we have on people and communities is just as important as the products we provide our customers. One of the four pillars underpinning our sustainability strategy is represented by People and the Community, which is why our mission is to provide customers with a memorable experience, supported by excellent service and unique products prepared by passionate teams. Through the objectives and targets we have set, we contribute to the well-being of the people who are part of our team, as they are the most important element in our mission to create a sustainable future both for our Company and the industry in which we activate.

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

The Group activities include developing relations with people from different cultural contexts and promoting equal opportunities through different policies and tools.

Moreover, the Code of Conduct of Sphera Franchise Group covers aspects such as equal opportunities, diversity, and non-discrimination.

Diversity – Sphera Group values diversity among its employees and does not discriminate in terms of employment on grounds of race, citizenship, language, religion, social origin, genetic features, age, gender, nationality, disability, educational level etc. We are committed to maintaining a working environment that respects, supports and promotes human rights for all employees.

We maintain a well-developed culture of integrity, based on ethical and compliance standards, to preserve our status of a reliable employer.

We offer employees the possibility to report any deviation through two direct communication channels, facilitated by a third-party partner, which ensures anonymity and confidentiality, such as The Employee Helpline and Speak UP Integrity Line.

We are constantly striving to create an organizational culture where each employee can express themselves authentically and have a sense of belonging to the team and to the Company. We ensure equal opportunities for promotion and professional development for all employees, regardless of their origin or social background.

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

Equal opportunities - Sphera recruits, hires, trains, pays, develops, and promotes individuals based on merit and without regard to race, color, creed, religion, sex (including pregnancy, childbirth and medical conditions related to pregnancy, childbirth and breastfeeding), age, mental or physical disability, protected medical condition, physical impairment, genetic information, sexual orientation, sexual stereotypes, national origin, ancestry, nationality, social or ethnic origin, military or veteran status, medical condition civil status, citizenship status, political affiliation or another legally protected status of individuals.

Internal human resources approach - supports recruitment to enhance the diversity of the workforce. The recruitment process actively supports and promotes diversity, for example, by asking applicants to be open, to be able to speak more than one foreign language, to have multicultural experience, as well as an attachment to equal opportunities, etc.

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

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

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

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

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

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

Corporate Social Responsibility – Sphera Group through its subsidiaries has been actively involved in social-related activities since 2008 and, on the back of sustained growth and profitability there is a firm commitment to continue the Group's involvement in such activities, and starting from 2023 under the Tomorrow's Menu platform. The strategic pillars that we focus on through the new platform cover the food and educational needs of children coming from disadvantaged communities.

Environmental protection – The Company's philosophy is to minimize the impact on the environment and leave the smallest footprint possible. There is a strong commitment to creating a sustainable business, in all aspects, starting from the selection of the raw materials suppliers to the design, the way the packaging is used, and how the restaurants are built. The Company is committed to safety and quality and, in the meantime, to the preservation and protection of nature and its resources by using only what is necessary, reducing waste and focus to enhance the livelihoods of the Company's employees and the communities we activate in.

THE COMPLIANCE POLICY AND THE ANTI-BRIBERY POLICY

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

KEY PERFORMANCE INDICATORS REGARDING NON-FINANCIAL STATEMENTS

Environment

Objective	Targets	Progress in 2023
Energetic efficiency Reducing the organization's energy consumption and carbon footprint.	100% energy efficient lighting (LED lighting) - until 2024.	Energy efficient lighting in all restaurants, including the newly opened restaurants.
Sustainable materials and packaging Increasing purchases of sustainable materials and packaging.	100% consumer packaging based on recoverable or reusable plastic - until 2025.	We have 100% replaced plastic straws with paper straws and 100% replaced plastic bags. We have replaced all products in the category of single-use plastics in accordance with the applicable European directive. Various products containing plastic are marked with the "Plastic in product" icon - wet wipes and glasses.

People

Objective	Targets	Progress in 2023
Human rights "Employer of choice" by ensuring a non-discriminatory workplace, diversity and inclusion.	2% employed staff from vulnerable communities or people with disabilities, as well as diverse nationalities, by 2023.	In 2023, over 2% of all employees came from vulnerable communities, diverse nationalities or people with disabilities.
Employee health and safety Ensuring a safe working environment for employees.	50% of operations training programs to be available on applications / digital format or using the game method (gamification), by 2022.	90% of operations training programs are available on digital learning platforms.
Employee satisfaction and well-being Recognition as "the most desired employer" by ensuring a pleasant, stable, and safe work environment.	80% internal promotion rate for restaurant management roles by 2025.	In 2023, we achieved an 80% internal promotion rate for restaurant management roles. We continue to run skills development programs and closely monitor internal human potential.

Governance

Objective	Targets	Progress in 2023
Responsible suppliers We ensure that all our requirements are met and work closely with suppliers to maintain high standards.	Auditing suppliers of basic products according to the Code of Ethics and Conduct and the Sustainability Approach, until 2025.	The code of conduct is signed by all our suppliers under their own responsibility. We regularly audit our core products, both internally and externally.
Digitization of restaurants Using new ordering technologies to improve the experience of our customers and employees.	Kiosk ordering systems (where the surface and design allow), by 2021.	We ended 2023 with all KFC and Taco Bell restaurants equipped with kiosk ordering systems, where the surface and design allowed. In Italy, the Group achieved 100% compliance. Sphera continues to pursue the implementation of these systems in all newly opened restaurants.
Digital panels for menus Digital communication of the menu to improve the experience of our customers and employees.	100% restaurants equipped with digital menu boards in all KFC and Taco Bell restaurants by 2022.	Taco Bell locations are equipped with digital menu boards. Sphera is committed to continue equipping all newly opened restaurants with digital menu boards.

There were no incidents of discrimination or child labor exploitation in 2023.

We are currently working on our fifth sustainability report for 2023, which will be published end of June 2024, and progress on each of the above indicators will be reflected in it.

Risk management

Compliance with legal requirements, as well as the identification and management of risks associated with Group operations in various respects – food safety, health, and safety – are of strategic importance to Sphera, with vulnerabilities assessed in all areas of activity. Compliance and risk management are key aspects for Sphera Franchise Group, one of the largest companies in the food service industry in Europe. Compliance with legal requirements and the identification and management of risks associated with Group operations are crucial to ensuring food safety and the health and safety of our customers and employees. Through a proactive approach and by taking appropriate preventive measures, Sphera ensures that it observes the highest compliance standards and manages risks effectively. For food safety and our customers' and employees' health and safety, Sphera uses the latest technologies and procedures, thus ensuring sound protection against risks associated with the business.

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

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

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

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

We regularly assess operational risks regarding health and safety at work and draw up plans for the prevention and protection of employees. We regularly monitor and check all risks associated with our activities. We work closely with an external consultant for support in this area. We assess the environmental aspects that can generate a negative impact and we are proactive in generating potential mitigation solutions. The Group mitigates risks through monitoring and control conducted by our Legal Department.

DECLARATION FROM THE MANAGEMENT

According to the best information available we confirm that the individual and consolidated financial information included here offer the real and accurate situation on the company's financial position on December 31st, 2023, on the financial performance and cash-flow, according to financial and accounting standards applicable to date, and that the Annual Report for the period of January 1st, 2023 to December 31st, 2023 transmitted to the market operator, Bucharest Stock Exchange and to the Financial Supervisory Authority presents accurate and complete information about the company.

Chairman of the Board of Directors
Lucian Hoanca

L.S.

SPHERA

SPHERA

investor.relations@spheragroup.com

SPHERA FRANCHISE GROUP SA

CONSOLIDATED FINANCIAL STATEMENTS

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

31 December 2023

CONTENTS

All amounts in RON thousand, unless specified otherwise

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

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

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes

All amounts in RON thousand, unless specified otherwise

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

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

All amounts in RON thousand, unless specified otherwise

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

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

All amounts in RON thousand, unless specified otherwise

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

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

All amounts in RON thousand, unless specified otherwise

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

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

1. CORPORATE INFORMATION

These consolidated financial statements are prepared by Sphera Franchise Group SA and comprise its activities and those of its subsidiaries, together referred hereinafter as ''SFG'' or ''the Group''.
Sphera Franchise Group SA is listed on Bucharest Stock Exchange under the symbol "SFG".
Sphera Franchise Group SA (''the legal Parent'', or ''Sphera'') was incorporated on 16 May 2017 as a joint stock company and is registered at No. 239 Calea Dorobantilor, Bucharest, Romania.

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

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

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

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

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

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

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

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

2. MATERIAL ACCOUNTING POLICIES

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

2.1 Basis of preparation

Statement of Compliance

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

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

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

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

In making the assessment about whether the going concern basis of preparation is appropriate, management considered the following factors:
- The Group's current and expected profitability
- The timing of repayment of existing financing facilities.

The management based their assessment on the Group's detailed cash flow projections for the period up to 31 December 2024 that take into account the current available cash resources of the Group as of 31 December 2023, the contracts in place in relation to rental expenses, anticipated additional expenses from new lease agreements to be concluded during the period covered by the projections, as well as contracted debt financing and the current classification of loans at the reporting date, CAPEX and other commitments.

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

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

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

2. MATERIAL ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation

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

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

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

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

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

2.3 Business combination and goodwill

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

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

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

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

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

2. MATERIAL ACCOUNTING POLICIES (continued)

2.4 Summary of material accounting polices

2.4.1 Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period
  The Group classifies all other liabilities as non-current.
  Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.4.2 Fair value measurement

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

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

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

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

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

2.4.3 Revenue

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

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

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

All amounts in RON thousand, unless specified otherwise

2. MATERIAL ACCOUNTING POLICIES (continued)

Loyalty points programme - Contract liability

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

2.4.4 Government grants

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

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

2.4.5 Foreign currencies

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

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

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

Transactions and balances

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

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

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

2. MATERIAL ACCOUNTING POLICIES (continued)

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into RON at the rate of exchange prevailing at the reporting date and their revenues and expenses are translated using the average exchange rates of daily exchange rates published by National Bank of Romania (NBR) as detailed above. Equity items are translated into RON at the historical exchange rate.
The exchange differences arising on the translation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in the profit or loss.

2.4.6 Taxes

Current income tax

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

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

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

Deferred tax

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

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

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

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

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

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

2. MATERIAL ACCOUNTING POLICIES (continued)

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax (VAT)

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

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

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

2.4.7 Property, plant and equipment

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

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

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

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

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

2. MATERIAL ACCOUNTING POLICIES (continued)

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

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

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

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

Start-up expenses for new restaurants

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

2.4.8 Leases

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

Group as a lessee

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

i) Right-of-use assets

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

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

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

2. MATERIAL ACCOUNTING POLICIES (continued)

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.
Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

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

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

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

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

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

2.4.9 Intangible assets

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

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

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

Franchise rights

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

2.4.10 Impairment of non-financial assets, including goodwill

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

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

The Group is organised into business units based on the restaurants' brands, each being considered as a single CGU (cash generating unit), as follows:
- KFC restaurants, Romania, Moldova and Italy
- Pizza Hut restaurants
- Taco Bell restaurants

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

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

2.4.11 Financial instruments

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

i) Financial assets

Initial recognition and measurement

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

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

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

2. MATERIAL ACCOUNTING POLICIES (continued)

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

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

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

Subsequent measurement

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:
• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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

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

De-recognition

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

Impairment of financial assets

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

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

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

2. MATERIAL ACCOUNTING POLICIES (continued)

ii) Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

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

De-recognition

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

2.4.12 Inventories

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

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

2.4.13 Cash and cash equivalents

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

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

2.4.14 Prepayments

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

2. MATERIAL ACCOUNTING POLICIES (continued)

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

2.4.15 Equity

Share capital

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

Dividends

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

Treasury shares

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

2.4.16 Royalties

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

2.4.17 Provisions

General

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

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

Onerous contracts

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

2. MATERIAL ACCOUNTING POLICIES (continued)

2.4.18 Employee benefits and share-based payments

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

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

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

Defined benefit plans (Italian subsidiary)

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

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

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

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

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

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

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

Share-based payments

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

3. MATERIAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

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

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

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

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

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

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

Estimates and assumptions

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

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

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

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

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

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

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

Impairment of goodwill

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

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

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

Deferred for tax losses carried forward

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

4. CHANGES IN ACCOUNTING POLICIES

4.1 CHANGES IN ACCOUNTING POLICIES FROM 1 JANUARY 2023

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

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

All amounts in RON thousand, unless specified otherwise

4. CHANGES IN ACCOUNTING POLICIES (continued)

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

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

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

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

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

- IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)
- IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)
- IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure - Supplier Finance Arrangements (Amendments)
- IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)
- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

5. GROUP INFORMATION

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

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

All amounts in RON thousand, unless specified otherwise

6. OTHER OPERATING EXPENSES

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

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

7. GENERAL AND ADMINISTRATIVE EXPENSES

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

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

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

All amounts in RON thousand, unless specified otherwise

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

8.1 Payroll and employee benefits

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

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

Employee defined benefit liabilities (Italian subsidiary)

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

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

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

Reconciliation of benefit obligation

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

Remeasurement loss on defined benefit plan (recognized in other comprehensive income and Other reserves)	**Other reserves**	**OCI**	**Other reserves**
	1 January 2023	**2023**	**31 December 2023**
Gross remeasurement loss on defined benefit plan	1,471	(221)	1,691
Deferred tax credit	(356)	53	(408)
Net remeasurement loss on defined benefit plan	**1,115**	**(168)**	**1,283**

All amounts in RON thousand, unless specified otherwise

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

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

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

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

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

The demographic assumptions (mortality, inability and retirement age) are based on the national statistical databases.
A quantitative sensitivity analysis for significant assumptions as at 31 December 2023 is as shown below:

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

Share-based remuneration

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

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

Following EGMS Resolution no. 1 dated April 27th, 2023, the Group carried out a buyback program for the acquisition of a number of 104,100 own shares (representing 0.268% of the parent company's share capital), during the period July 3rd – September 4th, 2023. The buyback was carried out to implement the Share Option Plan (SOP) for Directors for the activity related to the years 2021 and 2022.
The average buyback price was RON 19.5715 per share, with the full price paid for the buyback shares repurchased amounting to RON 2,037 thousand.
The own equity instruments that were acquired (treasury shares) in amount of RON 2,037 thousand were recognized at cost and deducted from equity. No gain or loss was recognized in profit or loss on the purchase, the difference between the purchase price and the fair value at the date of grant being recognized in equity as a loss related to the acquisition of the treasury shares (RON 487 thousand).

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

All amounts in RON thousand, unless specified otherwise

8.2 Depreciation and amortization

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

9. FINANCE COSTS AND INCOME

9.1 Finance costs

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

9.2. Finance income

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

10. INCOME TAX

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

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

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

All amounts in RON thousand, unless specified otherwise

10. INCOME TAX (continued)

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

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

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

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

Deferred tax

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

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

Reflected in the statement of financial position as follows:

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

10. INCOME TAX (continued)

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

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

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

11. PROPERTY, PLANT AND EQUIPMENT

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

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

All amounts in RON thousand, unless specified otherwise

11. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

Analysis regarding the impairment of property, plant and equipment

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

In 2023, the Group has recognised an impairment for property, plant and equipment of RON 4,345 thousand for the Pizza Hut and KFC units closed in2023 and that will be closed in January 2024; Their recoverable amount, determined as fair value less cost of disposal (level 3 of fair value hierarchy), was estimated to be zero. Based on the analysis performed, it was concluded that there is no need of any additional specific impairment for the property, plant and equipment.

12. INTANGIBLE ASSETS AND GOODWILL

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

All amounts in RON thousand, unless specified otherwise

	Goodwill	Franchise rights	Other intangible assets	Intangibles in progress	Total
Net book value					
At 1 January 2022	**35,447**	**15,930**	**5,910**	**2,484**	**59,771**
At 31 December 2022	**35,447**	**15,750**	**5,422**	**1,160**	**57,778**
At 31 December 2023	**35,447**	**14,279**	**4,753**	**3,658**	**58,137**

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

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

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

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

Discount rate (post tax) used is 12.6% (2022: 12.7%). The discount rate reflects the current market assessment of the risks specific to ARS and was estimated based on the weighted average cost of capital for the industry. This rate was further adjusted to reflect the market assessment of any risk specific to ARS for which further estimates of cash-flows have not been adjusted. The WACC was determined by taking into account the debt equity structure of the peers.

The Group considers the sales growth rates used in the impairment test to be reasonable, based on the measures it has undertaken to support sales, including the level of selling prices and alignment of its sales channels and the recent evolution of Pizza Hut restaurants.

Budget EBITDA margins are based on the following assumptions:

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

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

All amounts in RON thousand, unless specified otherwise

12. INTANGIBLE ASSETS (continued)

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

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

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

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

13. BORROWINGS

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

The Group's financing facilities consist of:

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

All amounts in RON thousand, unless specified otherwise

13. BORROWINGS (continued)

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

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

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

Covenants:

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

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

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

	31 December 2022	**Non-cash changes**				**Cash changes**				**31 December 2023**
		Interest accrual	Bank charges related to financing	Deferred bank charges recognized in the period	Foreign exchange gains/loss es	Drawings	Repayme nts	Interest paid	Bank charges paid	
Borrowings	**188,035**	**10,244**	**99**	**-**	**816**	**21,633**	**(76,933)**	**(10,107)**	**(15)**	**133,772**
Bank loans	188,035	10,244	99	-	816	21,633	(76,933)	(10,107)	(15)	133,772

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

All amounts in RON thousand, unless specified otherwise

14. LEASE LIABILITIES

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

The Group has leases of certain office equipment (i.e. printing and photocopying machines) that are considered of low value. The Group applies the "short-term leases" and "lease of low-value assets" recognition exemptions for these leases.
Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

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

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

As at 1 January 2023	**243,422**
Additions	91,839
Accretion of interest	13,185
Payments (principal and interest)	73,764
Disposals	8,402
Unrealized forex exchange gain	1,320
Translation difference	287
As at 31 December 2023	**267,887**
Non-current	211,844
Current	56,043

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

All amounts in RON thousand, unless specified otherwise

14. LEASE LIABILITIES (continued)

The following are the amounts recognized in profit or loss:

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

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

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

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT

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

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

Interest rate risk

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

All amounts in RON thousand, unless specified otherwise

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Interest rate sensitivity

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

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

The Group does not hedge its interest rate risk.

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

Foreign currency risk

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

Foreign currency sensitivity

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

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

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

Credit risk

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

All amounts in RON thousand, unless specified otherwise

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

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

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

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

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

Liquidity risk

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

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

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

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

All amounts in RON thousand, unless specified otherwise

15. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Capital management

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

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

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

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

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

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

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

Fair values

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

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

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

All amounts in RON thousand, unless specified otherwise

16. INVENTORIES

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

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

17. TRADE AND OTHER CURRENT RECEIVABLES

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

Terms and conditions relating to related party transactions are described in Note 25.
Trade receivables are non-interest bearing and are generally on terms of 30-90 days.

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

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

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

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

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

18. CASH AND CASH EQUIVALENTS

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

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

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

Financial assets (cash collateral)

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

19. ISSUED CAPITAL

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

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

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

The shareholders of Sphera Franchise Group SA as at 31 December 2022 are: Tatika Investments Ltd. (28.6089%), Computerland Romania SRL (20.5327%), Wellkept Group SA (16.8793%) and free float (33.9792%).

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

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

All amounts in RON thousand, unless specified otherwise

19. ISSUED CAPITAL (continuare)

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

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

20. PROFIT DISTRIBUTION

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

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

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

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

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

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

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

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

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

All amounts in RON thousand, unless specified otherwise

21. TRADE AND OTHER CURRENT PAYABLES

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

Terms and conditions of the above financial liabilities:

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

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

22. EBITDA

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

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

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

All amounts in RON thousand, unless specified otherwise

23. EARNINGS PER SHARE (EPS)

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

There are no dilutive instruments to be considered.

24. COMMITMENTS AND CONTINGENCIES

Lease commitments

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

Other commitments

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

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

Climate change

In the current context, all companies face risks and opportunities derived from the climate and are having to make strategic decisions in this area adapted to the nature of their business, as well as to their footprint on the environment.

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

Bank letter of guarantees

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

Other contingencies

Taxation
The interpretation of the text and practical implementation procedures of the tax regulations could vary, and there is a risk that certain transactions could be viewed differently by the tax authorities as compared to the Group's treatment.
The tax legislation, especially in Romania, was subject to significant changes and contradictory interpretations, which may apply retroactively. Moreover, in practice, the tax authorities can take a strong approach and assess additional tax liabilities and related late payment penalties based on their individual interpretations of the tax legislation. As a result, penalties and delay payment interest could result in a significant amount payable to the state.

24. COMMITMENTS AND CONTINGENCIES (continued)

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

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

The Group has prepared transfer pricing files.

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

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

25. RELATED PARTY DISCLOSURES

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

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

All amounts in RON thousand, unless specified otherwise

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

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

	2023		31 December 2023	
Related party	**Sales to related parties**	**Purchases (without VAT) from related parties**	**Amounts owed by related parties**	**Amounts owed to related parties**
Moulin D'Or SRL	4	4	-	-
Radu Dimofte	-	93	-	-
Wellkept Group SA	-	494	-	19
Midi Development SRL	-	154	-	17
Grand Plaza Hotel SA	-	1,182	66	25
Arggo Software Development and Consulting SRL	-	1,225	-	113
Elicom SRL	-	721	-	68
Elicom Connect SRL	-	-	-	1
Dorobanti 239 Imobiliare SRL	-	3,709	-	131
Baneasa Developments SRL	-	4,566	-	202
Baneasa Investments SA	-	669	128	68
Computerland Romania SRL	20	10	7	9
Casa Doina SA	-	13	-	-
	24	**12,840**	**201**	**653**

All amounts in RON thousand, unless specified otherwise

25. RELATED PARTY DISCLOSURES (continued)

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

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

Terms and conditions of transactions with related parties

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

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

Compensation of key management personnel of the Group:

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

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

All amounts in RON thousand, unless specified otherwise

26. SEGMENT INFORMATION

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

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

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

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

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

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

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

All amounts in RON thousand, unless specified otherwise

26. SEGMENT INFORMATION (continued)

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

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

Geographic information:

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

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

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

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

All amounts in RON thousand, unless specified otherwise

27. AUDITOR'S FEES

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

The fee for the statutory audit of the consolidated and standalone financial statements as of 31 December 2023 of Sphera Franchise Group SA prepared in accordance with MOF 2844/2016 and of the statutory audit of the financial statements as of 31 December 2023 of US Food Network SA, American Restaurant System SA and California Fresh Flavors in accordance cu MOF 1802/2014 and of the statutory audit of US Food Network Srl Italy was of RON 771 thousand (excluding VAT).

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

28. EVENTS AFTER THE REPORTING PERIOD

Proposed profit allocation for the financial year 2023

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

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

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

New loan facility

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

Shares buy back for reduction of the share capital

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

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

Chief Executive Officer	Chief Financial Officer
Calin Ionescu	Valentin Budes

SPHERA FRANCHISE GROUP SA

SEPARATE FINANCIAL STATEMENTS

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

31 December 2023

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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

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**

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

	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**

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

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

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**

All amounts in RON thousand, unless specified otherwise

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).

All amounts in RON thousand, unless specified otherwise

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**

All amounts in RON thousand, unless specified otherwise

	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	Chief Financial Officer
Calin Ionescu	Valentin Budes