

2022 ANNUAL REPORT

S P H E R A F R A N C H I S E G R O U P S A



S P H E R A

KFC



TABLE OF CONTENTS

ISSUER INFORMATION	3
LETTER FROM THE CEO	4
DIRECTORS' REPORT	5
CORPORATE INFORMATION	6
GROUP STRUCTURE	6
SCOPE OF BUSINESS	8
SHAREHOLDERS AND ISSUED CAPITAL	10
MANAGEMENT OF THE GROUP	10
CONSOLIDATED FINANCIAL RESULTS	15
STANDALONE FINANCIAL RESULTS	20
MAIN FINANCIAL RATIOS	22
BRAND & SALES PERFORMANCE	23
KEY EVENTS IN 2022	27
DIVIDENDS	30
KEY FACTORS AFFECTING GROUP'S RESULTS	31
FINANCIAL INSTRUMENTS RISK MANAGEMENT	34
INTERNAL CONTROL	36
COMMITMENTS AND CONTINGENCIES	38
ENVIRONMENTAL MATTERS	40
CORPORATE GOVERNANCE	41
BVB CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT	42
CONSOLIDATED NON-FINANCIAL STATEMENT	49
DECLARATION FROM THE MANAGEMENT	55

The individual and consolidated financial statements as of December 31st, 2022, presented on the following pages are audited and are prepared in accordance with Order of the Ministry of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards.

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

ISSUER INFORMATION

INFORMATION ABOUT THIS FINANCIAL REPORT

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

ISSUER INFORMATION

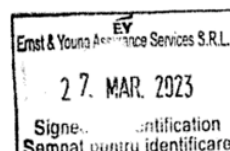
Issuer's name	Sphera Franchise Group S.A.
Fiscal code	RO 37586457
Trade registry number	J40/7126/2017
Registered office	Calea Dorobanților nr. 239, 2nd floor, Bucharest sector 1

INFORMATION ABOUT FINANCIAL INSTRUMENTS

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

CONTACT DETAILS FOR INVESTORS

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,

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



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

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

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

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

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

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

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

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

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" (or "SFG").

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

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

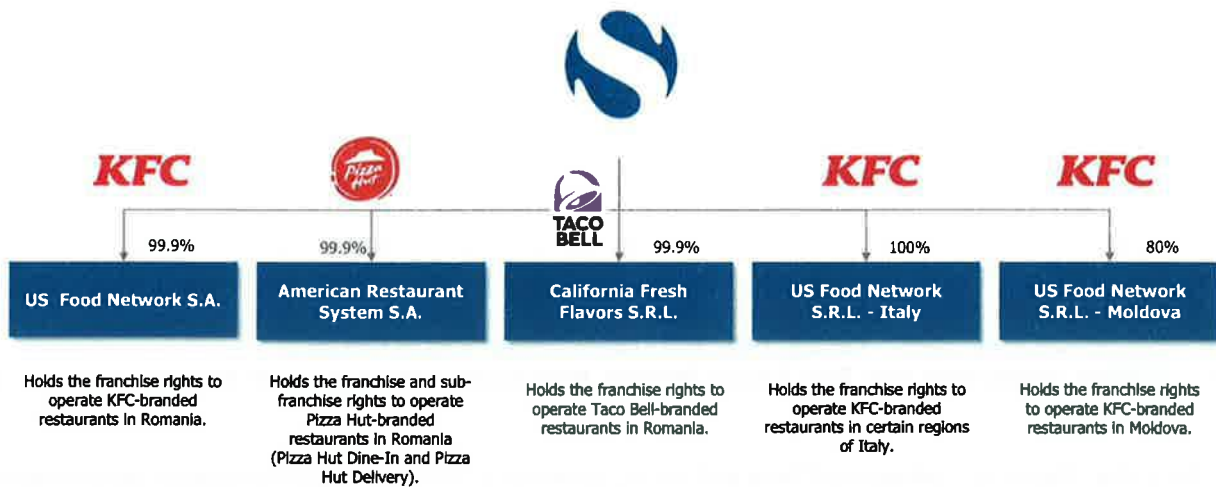
In 2017, ahead of listing on Bucharest Stock Exchange, the Group underwent reorganization that resulted in the establishment of Sphera as the legal parent company of US Food Network SA (USFN), American Restaurant System SA (ARS), US Food Network S.r.l. ("USFN Italy" or the "Italian subsidiary"), US Food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

GROUP STRUCTURE

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

Company name	Incorporation	Field of activity	Control 31.12.2022	Control 31.12.2021
US Food Network SA	Romania	Restaurants	99.9997%	99.9997%
American Restaurant System SA	Romania	Restaurants	99.9997%	99.9997%
California Fresh Flavors SRL	Romania	Restaurants	99.9900%	99.9900%
US Food Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network S.r.l.	Italy	Restaurants	100.0000%	100.0000%

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



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

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

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

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

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

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

SCOPE OF BUSINESS

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

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

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

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

ABOUT THE BRANDS



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

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

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



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



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

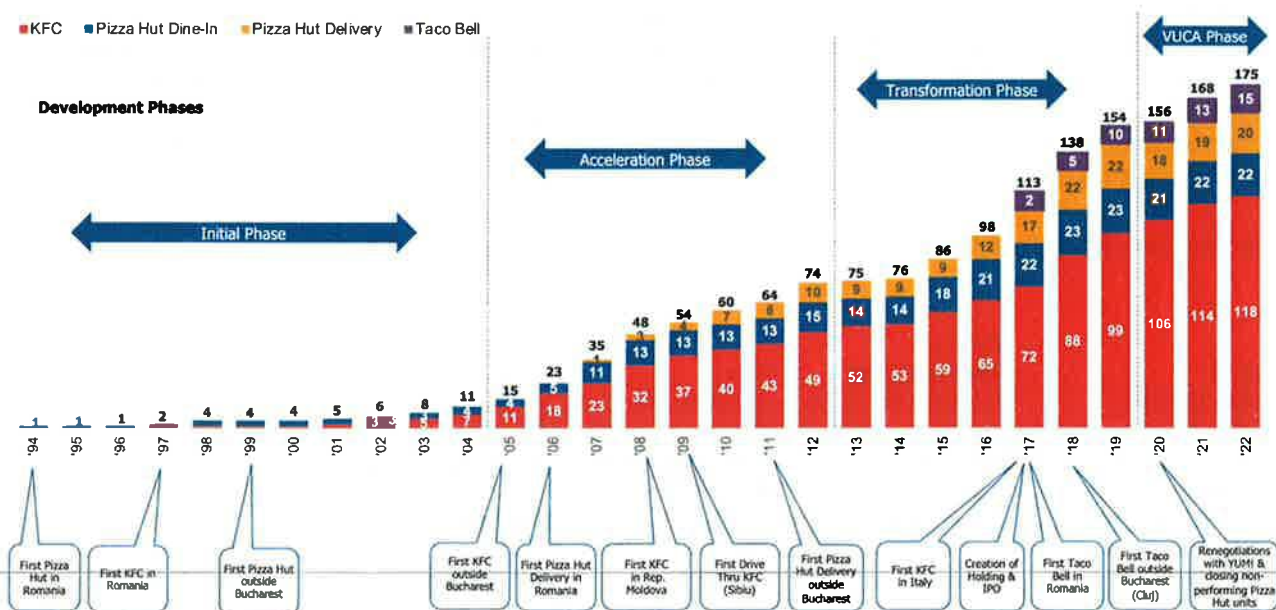
Pizza Hut is the largest casual dine-in restaurant chain in Romania in terms of both total sales and number of restaurants. On December 31st, 2022 there were 22 Pizza Hut Dine-In restaurants across the major cities of Romania and 21 Pizza Hut Delivery restaurants (including 1 PHD sub-franchise). Of the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

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



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

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



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

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

SHAREHOLDERS AND ISSUED CAPITAL

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

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

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

MANAGEMENT OF THE GROUP

BOARD OF DIRECTORS

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

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

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

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

LUCIAN HOANCA

Born in 1957, Mr Hoanca is a non-executive member of the Board of Directors of Sphera Franchise Group since 2018, as well as the Chairman of the Board since October 2020. He is also chairman of the Group's Nomination and Remuneration Committee. Mr 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 Băneasa Investments SA.

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

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

SILVIU GABRIEL CÂRMACIU

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

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

Affiliate companies: Computerland Romania SRL.

In the last 5 years, Mr Cârmaciu has not been banned by a court from serving as a member of the board of directors or supervisory board of a company. In the last 5 years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of some companies, of which Mr Cârmaciu is a member of the board of directors or supervisor. In the last 5 years, there have been no litigations or administrative procedures in which Mr Cârmaciu has been involved in the context of his activity within the issuer, as well as

those regarding Mr Cârmaciu's ability to fulfil his duties within the issuer. There is no agreement, understanding or family connection between Mr Cârmaciu and another person due to whom he was appointed as the administrator of the company.

RAZVAN STEFAN LEFTER

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

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

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

MIHAI ENE

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

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

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

CONSULTATIVE COMMITTEES

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

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

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

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

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

EXECUTIVE MANAGEMENT

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

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

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

CĂLIN IONESCU

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

VALENTIN BUDEȘ

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

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

CRISTIAN OSIAC

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

MONICA EFTIMIE

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

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

CONSOLIDATED FINANCIAL RESULTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(*) Normalized EBITDA for 2022 – excludes other provisions related to closing of stores. Normalized EBITDA for 2021 – excludes the reversal of penalties from franchisor Pizza Hut.

(**) Normalized profit for 2022 – excludes other provisions related to closing of stores and the related thereto depreciation. Normalized profit for 2021 excludes the reversal of penalties from franchisor Pizza Hut.

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

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

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

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

Starting 1st of January 2022, the banking charges related to the POS commissions, in amount of 4,506 in 2022 are presented within Other operating expenses category, being directly related to the operating sales activity. In 2021, these banking charges in amount of 2,262 were presented within General and administrative expenses category.

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

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

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

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

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

(**) Normalized profit for 2022 – excludes other provisions related to closing of stores and the related thereto depreciation.

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

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

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

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

STANDALONE FINANCIAL RESULTS

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

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

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

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

Data in RON'000

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

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

As of 31 December 2022, the Company assessed whether there are indicators of impairment for its cost of investment in subsidiaries and further to the analysis performed no impairment resulted for investments in US Food 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 4,022 for which the Company recognized an impairment loss in the financial statements as at and for the year ended 31 December 2022.

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

FY Standalone Financial Statements

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

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

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

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

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

MAIN FINANCIAL RATIOS

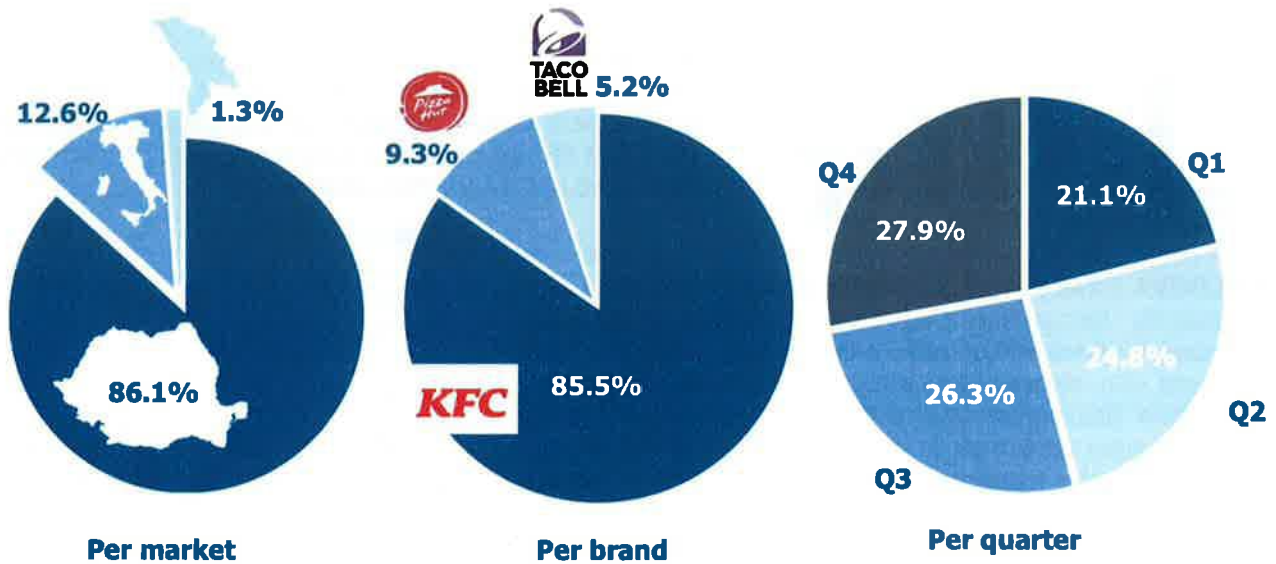
The main financial ratios of Sphera Franchise Group (consolidated result) as of December 31st, 2022, are presented below, together with the result from 2021 (ratios are including IFRS 16 impact).

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

Notes: calculated based on ASF methodology.

BRAND & SALES PERFORMANCE

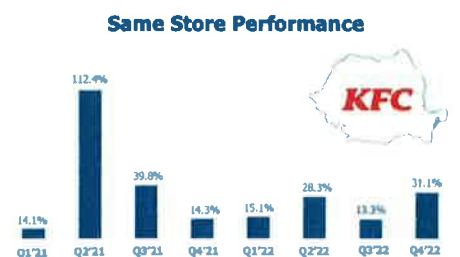
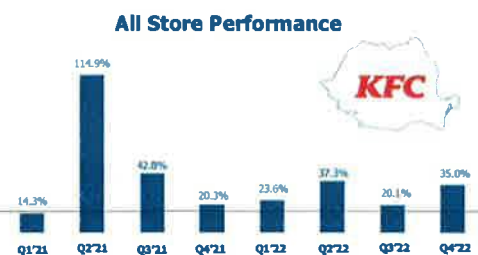
In 2022, the Group recorded RON 1.3 billion in consolidated restaurant sales, a 32% increase compared to the performance from 2021. Sales generated in Romania contributed to 86% of this result, amounting to RON 1.14 billion followed by Italy bringing in the contribution of 13% amid sales of RON 166.3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

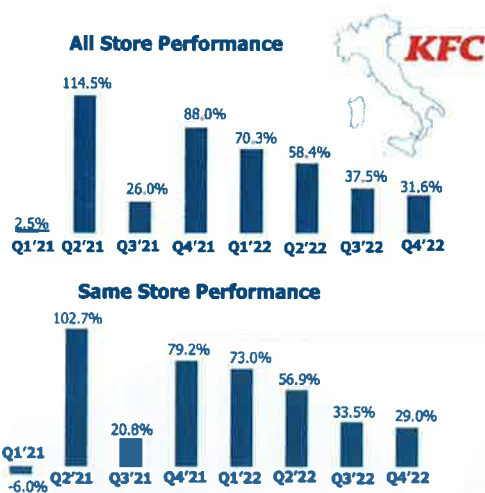


In terms of individual brand performance, all the companies from the group registered significant increases in 2022 compared 2021, led by USFN Italy (KFC Italy) reaching RON 166.3 million in sales (+46% YoY), CFF (Taco Bell) with RON 69.3 million (+42%), USFN Moldova (KFC Moldova) with RON 17.4 million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

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

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



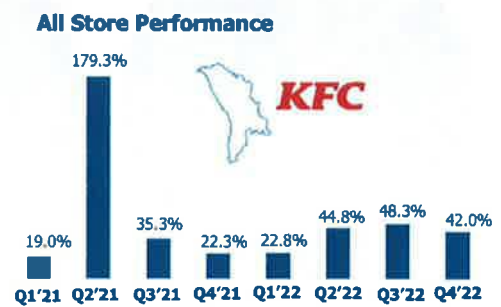


KFC ITALY – After a mixed 2021, USFN Italy saw a very strong 2022, with both all store and same store performance increasing significantly. Overall, in 2022, KFC Italy registered the largest YoY increase in turnover out of all the brands of the Group, with the revenues reaching RON 166.3 million, a 46%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

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

KFC

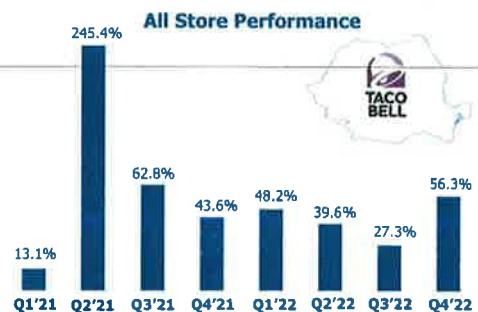
MOLDOVA – The performance in the Republic of Moldova grew consistently throughout 2022, with the best performance recorded, in terms of YoY growth in Q3 2022, when the result increased 48%. Notable performance was registered in Q4 2022, when USFN Moldova overpassed the historic milestone of RON 5 million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



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

Cotroceni was closed.

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



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

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

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

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

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

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

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

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

For 2023, the Group expects KFC Romania to continue to be the main contributor to the Group’s performance, with other brands from the Group such as KFC Moldova, Taco Bell and KFC Italy continuing the QoQ increases

and consequently improving the restaurant operating performance. However, it is important to underline that the rising inflation, growing costs of energy paired with geopolitical conflicts in Europe and the rising tension within the population (which is easy to be influenced through a spread of so called 'fake news') will continue to cause a decline in the purchasing power of the population or the willingness to eat out (be it in-store or for delivery).

KEY EVENTS IN 2022

COVID-19 EVOLUTION

COVID-19 UPDATES

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

HORECA AID IN ROMANIA

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

BUSINESS EVENTS

DEVELOPMENT OF THE NETWORK

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

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

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

STAFF

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

RECEIVING FOOD SAFETY CERTIFICATION FOR ALL PORTFOLIO BRANDS IN ROMANIA

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

DEVELOPMENT PLAN FOR TACO BELL ROMANIA

On July 11th, 2022, the Group signed a new development plan for 2022 for Taco Bell network with franchisor YUM!. Following negotiations with the representative of YUM! and Taco Bell Europe, the parties agreed that in 2022, CFF (the subsidiary operating Taco Bell restaurants in Romania) will benefit from progressive financial incentives, depending on the number of newly opened restaurants. For any exceeding of the minimum number

of 2 new net restaurants, CFF will benefit from additional financial incentives. Due to the confidentiality of the agreement with YUM!, the Group cannot disclose the total amount of negotiated financial incentives.

FISCAL UPDATES

According to the new tax changes introduced in 2022 by the Government Ordinance no 16/2022, specific tax for HORECA industry will no longer be in place starting January 1st, 2023. This tax will be replaced by the profit tax (16%) or tax on micro-company income, at the choice of the companies. The option must be exercised by March 31st, 2023. At December 31, 2022, the Group estimates the choice of the following options: the payment of the tax on micro-company revenue for USFN and profit tax for ARS and CFF.

CAPITAL MARKET AND GOVERNANCE EVENTS

GENERAL MEETING OF THE SHAREHOLDERS FROM 4.02.2022

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

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

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

INCLUSION IN THE FTSE GLOBAL MICROCAP

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

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

JOINING UN GLOBAL COMPACT (UNGC)

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

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

GENERAL MEETINGS OF THE SHAREHOLDERS FROM 28.04.2022

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

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

DIVIDEND PAYMENT

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

PUBLISHING THE SUSTAINABILITY REPORT

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

GENERAL MEETINGS OF THE SHAREHOLDERS FROM 11.08.2022

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

GENERAL MEETING OF THE SHAREHOLDERS FROM 20.12.2022

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

STOCK EXCHANGE EVOLUTION

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

DIVIDENDS

Data in RON'000

	2022	2021
Dividends declared during the period:		
To shareholders of Sphera Franchise Group SA	55,002	35,001
To non-controlling interests	250	347
Total dividends declared during the period,	55,252	35,348
<i>out of which:</i>		
Dividends declared and paid during the period:		
To shareholders of Sphera Franchise Group SA	35,001	35,001
To non-controlling interests	250	347
Total dividends declared and paid during the period	35,251	35,348
Total dividends declared per share SFG (RON/share)	1.4176	0.9021

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

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

For the year ended December 31st, 2022, the Board of Directors has proposed to the shareholders' approval, the following allocation of the net profit of Sphera Franchise Group SA as presented in its separate financial statements as at and for the year ended December 31st, 2022:

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

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

The shareholders can access the Group's dividend policy [at the following link](#).

KEY FACTORS AFFECTING GROUP'S RESULTS

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

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

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

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

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

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

Price risk – Cost of sales represents the most significant expense of the Group. Gross margin is affected by a number of factors, like movements in the cost of sales (including with respect to the prices of raw materials, or energy prices), the extent to which the Group can negotiate favorable prices and rebates from suppliers as well as the mix of products that it sells from time to time. The Group seeks to procure its principal inputs from

multiple suppliers, in the event that the Group's primary suppliers cannot deliver the components in the contracted amounts and specifications, the Group's requirements exceed the Group's minimum contracted amounts, or the Group is subjected to unanticipated price increases. Prices of the Group's raw materials are generally set by market conditions and the Group is not always able to pass these changes along to the Group's customers, particularly in the short term. The Group seeks to manage factors which put pressure on the Group's gross margin. For example, the Group maintains relationships with additional suppliers.

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

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

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

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

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

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

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

Furthermore, the Group's reliance on third-party food suppliers and distributors increases the risk of food-borne illness incidents to all the Group's restaurants that are served by the respective suppliers and

distributors. Power outages and other issues beyond the Group's control can result in costly spoilage or contamination of food. Also, any media news or reports of inspection authorities released to the public identifying unsanitary preparation or preservation of food products in restaurants that are not related to the Group or that are not under the Group's control may change the perception of its customers about the quality of the products in restaurants in general. Adverse publicity may negatively impact our reputation, regardless of whether the allegations are valid.

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

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

Fake news – The nature of the Group's business, the industry in which it operates as well as the international presence of all the restaurants that the Group operates, can expose the Sphera to claims related to defamation, dissemination of misinformation or news hoaxes (also referred to as 'fake news'), or other types of content that can harm, temporarily or on a long-term, the reputation of the business on one or more of the markets where Sphera operates. Our Group's or our brands may also be negatively affected by the actions or statements of different individuals, acting under false 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.

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

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

FINANCIAL INSTRUMENTS RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

The Group invests cash and cash equivalents with highly reliable financial institutions. The Group has only plain vanilla deposits with reputable banks, none of which has experienced any difficulties in 2022 or up to

the date of these consolidated financial statements. Also, the food aggregating platforms the Group collaborates with, are reputable commercial partners, part of international group of companies. The majority of cash is transacted through and placed with Alpha Bank Romania, member of Alpha Bank Group from Greece and Banca Romana de Dezvoltare (BRD), a member of Societe Generale Group from France, Banca Transilvania, Vista Bank, Unicredit Bank Italy, Intesa Sanpaolo Romania S.A., a member of Intesa Sanpaolo Group from Italy, Victoria Bank (Republic of Moldova). The long-term credit rating of Alpha Bank Greece is Ba2 as provided by Moody's rating agency, no credit rating being available for its Romanian subsidiary. The long-term credit rating of BRD is Baa1, while the one for Unicredit is Baa1, both provided by Moody's. According to Fitch Ratings, the long-term credit rating of Banca Transilvania and Victoria Bank is BB+, for Vista Bank (Vista Bank Global) B+ and for Intesa Sanpaolo S.p.A. is BBB+, no credit rating being available for the Romanian subsidiary of Intesa.

As at 31 December 2022, more than 87% of the Group's cash balance is placed at bank institutions with a stable credit rating (58% - Ba2, 23% - BB and BB++, 7% - Baa1).

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

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

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

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

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

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

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

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

Calculation of consolidated gearing ratio is presented below:

<i>Data in RON'000</i>	31 December 2022	31 December 2021
Borrowings	188,035	212,589
Leases	243,422	257,001
Trade and other payables	85,190	84,209
Less: cash and cash equivalents	128,089	146,116
Net debt	388,558	407,683
Equity	116,364	132,052
Capital and net debt	504,921	539,735
Gearing ratio:	77%	76%

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

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31st, 2022, and December 31st, 2021.

Fair values – The Group has no financial instruments carried at fair value in the statement of financial position. The carrying amount of the interest-bearing loans and borrowings approximate their fair value. Management estimates that the margin applicable over Euribor at the balance sheet date would be similar to the ones at the dates of each previous withdrawal, due to the fact that the Group maintained over the past years a low gearing ratio and a stable financial condition, and also based on statistics published by the National Bank of Romania.

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

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

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

INTERNAL CONTROL

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

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

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

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

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

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

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

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

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

The Board of Directors including the Audit Committee (the "Board") oversees management's performance of internal control and retain objectivity in relation to management. The board monitors the functioning of internal controls by performing periodical analysis on the profit and loss accounts, execution of the budget, internal and external audit reports. The board demonstrates an appropriate level of skepticism of management's

assertions and judgments that affect financial reporting. In particular, the Audit Committee seeks clarification and justification of the Group's process for:

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

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

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

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

COMMITMENTS AND CONTINGENCIES

Lease commitments

The Group has entered into several lease agreements for restaurants that are going to be opened in the next period. The estimated value of the future lease payments for right-of-use assets is of 14,563 for a 10-year contractual period.

Other commitments

Per the Romania new network development plan signed in October 2017 for the period 2017-2022, the target for 2022 included opening of 9 new KFC restaurants. Based on the new addendum signed in 2022, the base target commitment for 2022 was revised to 4 net new outlets, any additional outlet opened above this minimum target ("base tier") being subject of financial incentives from the franchisor. Should the Group fail to achieve the base tier, the Group might pay KFC Europe a penalty for each such location; the Group has not paid such penalties to date, as it has fulfilled the restaurant development plan as agreed with the franchisor. The development plan for 2023 and beyond is under negotiation with the franchisor.

In August 2021, the Group signed a revised development agreement with Pizza Hut Europe. The parties have agreed on a minimum net new unit target (base tier) for the period 2021- 2023, replacing the original restaurant rollout plan applicable for the period 2017-2021 (34 outlets). The new minimum net unit target as agreed by the parties consisted of 10 units (out of which 3 in 2021, 3 in 2022 and 4 in 2023). The Group benefits of progressive financial incentives, depending on the number of net new restaurants being opened that will exceed the base tier. In 2022, the Group opened 2 new stores. The development plan for 2023 and the following years is under negotiation with the franchisor.

According to Taco Bell restaurant rollout plan, the Group has committed to open two new Taco Bell restaurants in 2022. Further to the negotiations with Taco Bell Europe, CFF will benefit of progressive financial incentives, depending on the number of net new restaurants being opened. The Group opened two new restaurants in 2022 and plans to continue the network development.

In 2020, the Group has signed a development incentive agreement with Yum Italy for the period 1 July 2020-31 March 2021 to open a minimum one new store during the term. The Group has inaugurated two new stores in 2021 and none in 2022. The new development plan is under negotiation with Yum! Italy.

Climate change

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

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

Bank letter of guarantees

The Group has issued bank letters of guarantee in favor of suppliers as at December 31st, 2022 in amount of RON 14.7million (31 December 2020: RON 15.7 million).

Other contingencies

Taxation

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

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

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

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

Transfer pricing

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

The Group has prepared transfer pricing files.

Legal proceedings

During the period, the Group was involved in a small number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of Management, based on legal advice, there are no current legal proceedings or other claims outstanding which could have a material effect on the

result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

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

ENVIRONMENTAL MATTERS

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

Chairman of the Board of Directors
Lucian Hoanca

L.S.



CORPORATE GOVERNANCE



BVB CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT


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

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

same is to be deemed independent in terms of character and judgment.			those laid down in the Companies Act), consisting of an individual assessment conducted by the relevant Board member, followed by an external assessment. Moreover, in view of the preparation of the Corporate Governance Report of the Annual Report, the Company reconfirmed with all Board members their independence or non-independence on 31 December 2022. This assessment showed that, in 2022, and 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 under the direction of either the Chairperson or the Nomination Committee and, if so, shall summarize the key measures and the resulting changes. The Company shall have a policy/guide regarding Board assessment, including the purpose, criteria and frequency of the assessment process.		X	The Company has a Board Self-assessment Guide that stipulates the purpose, criteria and frequency of such an assessment. Based on this guide, the Board conducted a self-assessment process for the financial year of 2022 under the direction of the Chairperson of the Board.
A.9. The Corporate Governance Statement shall contain information on the number of Board and Committee meetings over the past year, the participation of the directors (in person and in default) and a Report by the Board and Committees on their activities.	X		The Company executives shall meet at least once a week and the Board shall meet whenever necessary, but at least once every three months. During 2022, 15 Board meetings took place, of which 2 were by electronic means (e-board). Of the 13 with physical presence, 12 were full attendance and only one with partial attendance (4/5). There were additionally 5 meetings of the Audit Committee, all with full attendance, and 3 meetings of the Nomination & Remuneration Committee, all with full attendance.
A.10. The Corporate Governance Statement shall include information on the exact number of independent members of the Board.	X		The assessment of the Board members' independence based on the independence criteria set out in the Corporate Governance Code (which are essentially similar to those provided for by the Companies Act) showed that, in 2022, one (1) Board member met all the criteria of independence provided for by the Corporate Governance Code and thus 1 Board member of Sphera Franchise Group is independent.

Ernst & Young Assurance Services S.R.L.
27. MAR. 2023
Signatura de autentificare
Semnat pentru identificare

<p>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.</p>			<p>X</p>	<p>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.</p> <p>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.</p> <p>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.</p>
<p>Section B – The risk management and internal control system</p>				
<p>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.</p> <p>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.</p>		<p>X</p>		<p>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.</p> <p>In 2022, the Audit Committee was made up of three members of the Board, out of which one member, the Chairman, met all the criteria of independence set out in the Corporate Governance Code.</p> <p>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.</p>
<p>B.2. The Chair of the Audit Committee shall be an independent non-executive member.</p>		<p>X</p>		<p>As members of the Board, all members, including the Chair of the Audit Committee, are non-executive. The Chair of the Audit Committee meets the criteria of independence.</p>
<p>B.3. As part of its responsibilities, the Audit Committee shall carry out an annual assessment of the internal control system.</p>		<p>X</p>		<p>The Terms of Reference for the Audit Committee detail the role and duties of the Audit Committee, which primarily consist of:</p>
<p>B.4. The assessment shall take into account the effectiveness and scope of the internal audit function, the adequacy of the risk</p>		<p>X</p>		<p>(i) Reviewing and revising the individual and consolidated annual financial statements and the profit sharing proposal;</p>


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

management and internal control reports submitted to the Board Audit Committee, the promptness and effectiveness with which the executive management addresses any deficiencies or weaknesses identified as a result of the internal control and the submission of relevant reports to the Board.			(ii) Reviewing and submitting recommendations on the appointment, re-appointment or revocation of the external independent financial auditor for approval thereof by the Ordinary General Shareholders' Meeting;
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		(iii) Carrying out an annual assessment of the internal control system, taking into account the effectiveness and purpose of the internal audit function, the adequacy of the risk management and internal control reports submitted to the Audit Committee, the promptness and effectiveness with which the executive management addresses any deficiencies or weaknesses identified as a result of the internal control and the submission of relevant reports to the Board;
B.6. The Audit Committee shall assess the effectiveness of the internal control and risk management systems.	X		(iv) Assessing any conflicts of interest in connection with the transactions of the Company and its subsidiaries with related parties;
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		(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.8. Whenever the Code mentions reports or analyses initiated by the Audit Committee, these shall be followed by regular reports (at least annual reports) or ad hoc reports to be subsequently submitted to the Board.	X		The Audit Committee regularly presents the Board with reports on the specific issues that have been assigned to it.
B.9. No shareholder may be granted preferential treatment over other shareholders in connection with transactions and agreements entered into by the Company with the shareholders and affiliates thereof.	X		The Company grants equal treatment to all its shareholders. Related party transactions are treated objectively, in accordance with the usual industry standards, and the applicable laws and corporate regulations.
B.10. The Board shall adopt a policy to ensure that any transaction of the Company with any of the companies with which it has close ties, whose value is equal to or greater than 5% of the Company net assets (according to the latest financial report), is approved by the Board following a binding opinion of the Board Audit Committee and is properly	X		The Company has adopted the key principles for reviewing, approving, and publishing transactions with related parties in accordance with the applicable regulations and Company corporate documents, including the fact that Company transactions with related parties that exceed or are expected to exceed, either individually or in aggregate, an annual value of 5% of the Company net assets from the previous financial year, shall be approved by the Board, based on the opinion of the Audit

Ernst & Young ^{EY} Services S.R.L.
27. MAR. 2023
Signe-ntification
Semnal pentru identificare

disclosed to the shareholders and prospective investors to the extent that such transactions fall within the category of events subject to reporting requirements.			Committee. Sphera Franchise Group submits regular reports on related party transactions to the Financial Supervisory Authority and the Bucharest Stock Exchange. These reports are reviewed by an independent financial auditor in accordance with the relevant legislation in force.
B.11. Internal audits shall be performed by a structurally separate division (the Internal Audit Department) within the Company or by hiring an independent third party.	X		The Internal Audit function was established as of September 2022.
B.12. In order to ensure the fulfilment of the primary functions of the Internal Audit Department, functionally speaking, it shall report to the Board by means of the Audit Committee. For administrative purposes and as part of the responsibilities of the management to monitor and reduce risks, it shall report directly to the Chief Executive Officer.	X		The Internal Audit function reports functionally to the Board by means of Audit Committee and to the CEO for administrative purposes.
Section C – Fair reward and motivation			
C.1. The Company shall publish the Remuneration Policy on its website and shall include a statement on the implementation of the Remuneration Policy in the Annual Report during the annual period under review. Any key change in the Remuneration Policy shall be published on the Company website in a timely manner.	X		The Company has a Remuneration Policy in place adopted by way of OGSM Resolution no. 1 of August 11 th , 2022, and consistently applies the remuneration principles with respect to the Company's managers, i.e. (i) to any member of the Board of Directors, as well as to (ii) any executive manager. These basic remuneration principles are listed in the Corporate Governance Report.
Section D – Adding value by way of the investor relations			
D.1. The Company shall organize an Investor Relations Service - indicating to the general public the officer(s) in charge or the relevant organizational unit. In addition to the information required by law, the Company shall include on its website a section dedicated to Investor Relations, in both Romanian and English, with all the relevant information of interest to investors, including: <ul style="list-style-type: none"> 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 	X		All the information as specified by the D1 provision is provided on the issuer's website.

Ernst & Young Assurance Services S.R.L.
27. MAR. 2023
Sign. _____
Samnat pentru identificare

<p>annual);</p> <ul style="list-style-type: none"> 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. 			
<p>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.</p>	X		The Company Dividend Policy is published on the Company website in the Corporate Governance section, the Policy and Documents Subsection.
<p>D.3. The Company shall adopt a policy regarding forecasts, whether they are made public or not. Forecasts mean quantified conclusions of various studies aimed at determining the overall impact of a number of factors for a future period (the so-called assumptions): by its nature, a forecast has a high level of uncertainty, and the actual results can vary significantly from the original forecasts. The Forecast Policy shall determine the frequency, period considered and content of the forecasts. If published, the forecasts may only be included in the annual, half-yearly or quarterly reports. The Forecast Policy shall be published on the Company website.</p>	X		The Company has a Forecast Policy, which is published on the Company website in the Corporate Governance section, the Policy and Documents Subsection.
<p>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.</p>	X		Information on the organization of the General Shareholders' Meetings is mentioned in the Company Articles of Association, as well as the Corporate Governance Report, in brief. Since 2017, Sphera Franchise Group has in place a Shareholders Meeting Procedure and publishes detailed convening notices for each GSM, describing in detail the procedure to be followed during each GSM. In order to welcome the exercise of shareholders' rights and to ensure total transparency on corporate events, starting with April 2022 OGSM meeting, Sphera concluded a partnership with e-Vote through which it facilitated shareholders' access to general shareholders meetings through an online platform. Thus, the Company ensures that the General Shareholders' Meetings are properly managed and organized, and the shareholders' rights are respected.
<p>D.5. Independent financial auditors shall be present at the</p>	X		The independent financial auditors participate in the Ordinary General Shareholders'

Ernst & Young Assurance Services S.R.L.
 27. MAR. 2023
 Signe...ntificazione
 Semnal pentru identificare

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

Ernst & Young ^{EY} Assurance Services S.R.L.
 27. MAR. 2023
 Signe... nification
 Semnat pentru identificare

CONSOLIDATED NON-FINANCIAL STATEMENT



CONSOLIDATED NON-FINANCIAL STATEMENT²

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

THE GROUP BUSINESS MODEL

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

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

APPLIED DUTY OF CARE PROCEDURES

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

SOCIAL RESPONSIBILITY, SOCIAL, ENVIRONMENTAL AND DIVERSITY-RELATED ISSUES

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

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

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

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

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).

Moreover, they must be considered an integral part of the decision-making in terms of policies and must be present in the Group program planning.

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

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

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

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

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

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

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

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

- Workshops for the managers on the management of the employees' cultural diversity and differences.
- Operationalization and development of "skills" such as: empathy, self-assessment and reflection, openness, flexibility, and emotional stability;
- Identification of stereotypes that can be found in both employees and managers and inclusion of activities addressing them in the training;
- Training programs for the managers teaching them to identify different employee needs and ways to make them feel valued;
- Training for the managers in adequately managing situations in which an employee has different opinions than the manager's with respect to a task or decision;

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

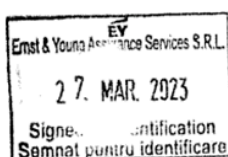
- Introducing in the managers' performance evaluation a component of efficient behaviors.
- Identifying the employees' needs (of appreciation, recognition, development) and the extent to which managers manage the work teams taking these needs into consideration.
- Establishing measurable indicators for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

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

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

THE COMPLIANCE POLICY AND THE ANTI- BRIBERY POLICY

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



KEY PERFORMANCE INDICATORS RELATED TO NON-FINANCIAL STATEMENTS

Environment

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

People

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

Governance Responsibility

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

Digital menu boards

Digital menu communication to improve our customers' and employees' experience.

100% of restaurants equipped with digital menu boards, in all KFC and Taco Bell restaurants, by 2022.

All KFC and Taco Bell locations are equipped with digital menu boards. Sphera is committed to continuing equipping all newly opened restaurants with digital menu boards.

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

RISK MANAGEMENT

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



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

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

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

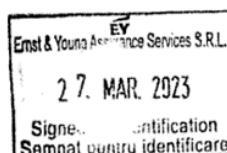
We conduct regular audits on food safety issues and have strict criteria for compliance with them, at the level of the supply chain, as well as at the operational level.

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

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

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

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



DECLARATION FROM THE MANAGEMENT

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

Chairman of the Board of Directors
Lucian Hoanca

L.S.

