



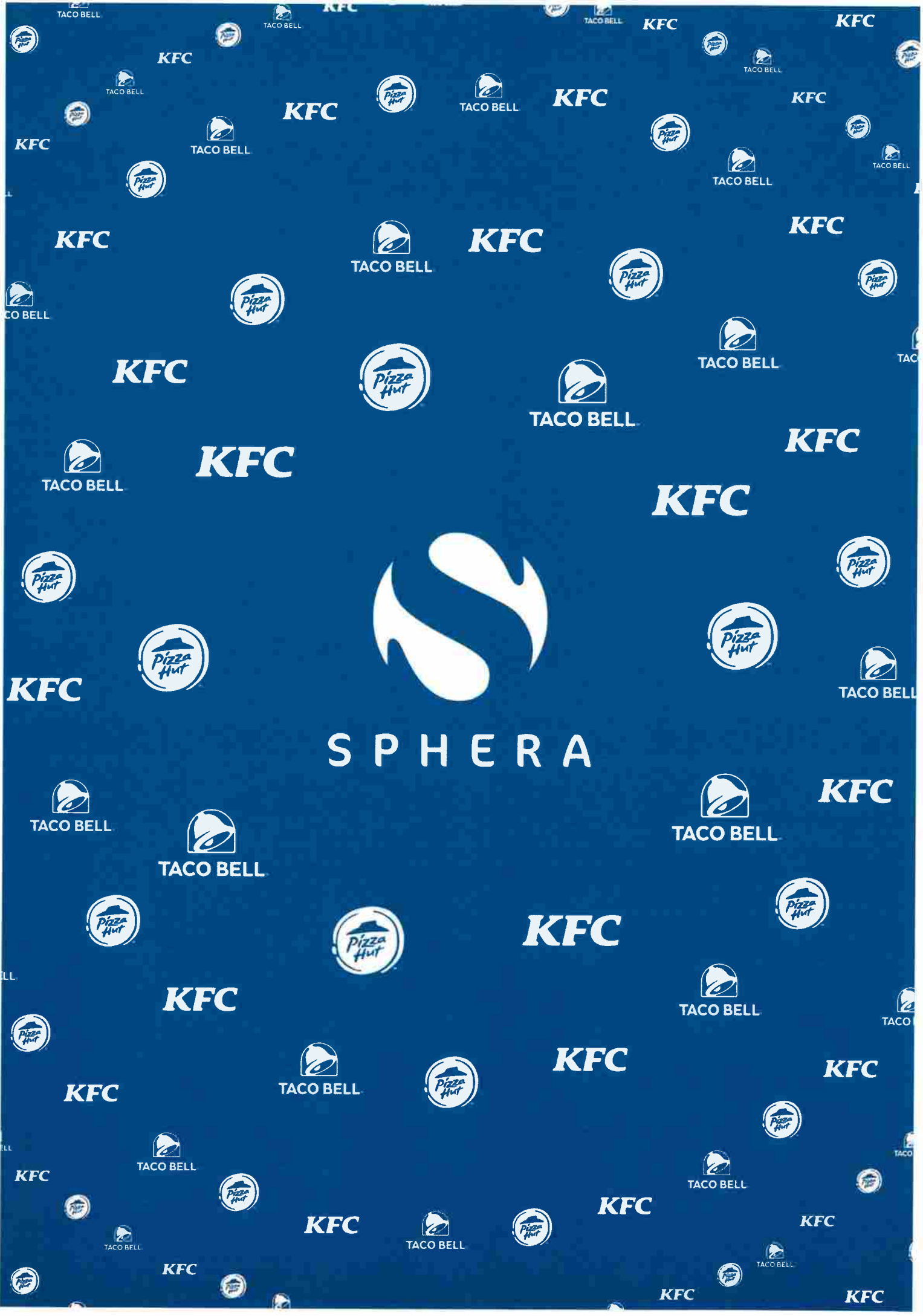
**KFC**



# 2023 Annual Report

Sphera Franchise Group S.A.





S P H E R A

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

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

## ISSUER INFORMATION

### INFORMATION ABOUT THIS FINANCIAL REPORT

Type of report	Annual Report
For financial period	01.01.2023 – 31.12.2023
Date of publishing	26.03.2024
According to	Annex 15 of ASF Regulation 5/2018

### ISSUER INFORMATION

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

### INFORMATION ABOUT FINANCIAL INSTRUMENTS

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

### CONTACT DETAILS FOR INVESTORS

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Website	www.spheragroup.com



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## LETTER FROM THE CEO

Dear Shareholders,

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

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

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

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

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

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

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

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



sales decreased by 2pp year-on-year, down to 32.6%.

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

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

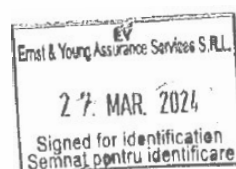
Pizza Hut's network reorganization program formally began in Q3 2023. It focuses on unifying the Pizza Hut and Pizza Hut Delivery brands to optimize costs, increase brand agility, and improve profitability indicators. The reorganization is expected to yield positive effects in the medium term.

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

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

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

We continued to embed sustainability principles in our activities, and it is with great pride that we





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share that Sphera remains ranked in the low-risk category in terms of ESG risks. This shows our long-term approach to conducting our business.

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

In this context, in November 2023, based on the votes of institutional investors, we were awarded Best CEO, Best CFO, Best IRO, and Best IR

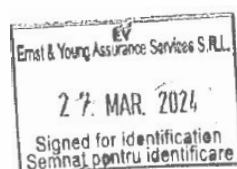
program in Romania recognition, for which we are appreciative and grateful.

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

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

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

**Călin Ionescu**



# KEY FINANCIAL HIGHLIGHTS



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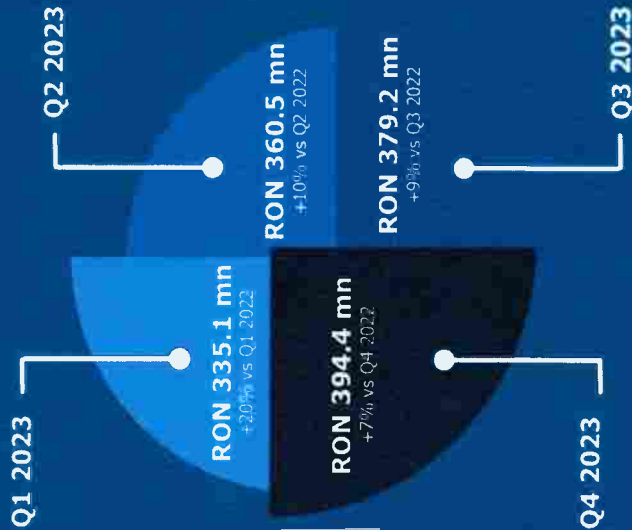
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## 2023 Consolidated Sales

RON 1,469.2 mn  
+11% vs. 2022



RON 1,264.8 mn  
+11% vs. 2022

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RON 1,269.4 mn  
+12% vs. 2022



RON 183.8 mn  
+11% vs. 2022



RON 115.2 mn  
-6% vs. 2022



RON 20.6 mn  
+18% vs. 2022



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RON 84.5 mn  
+22% vs. 2022

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

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

# DIRECTORS' REPORT



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## CORPORATE INFORMATION

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

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

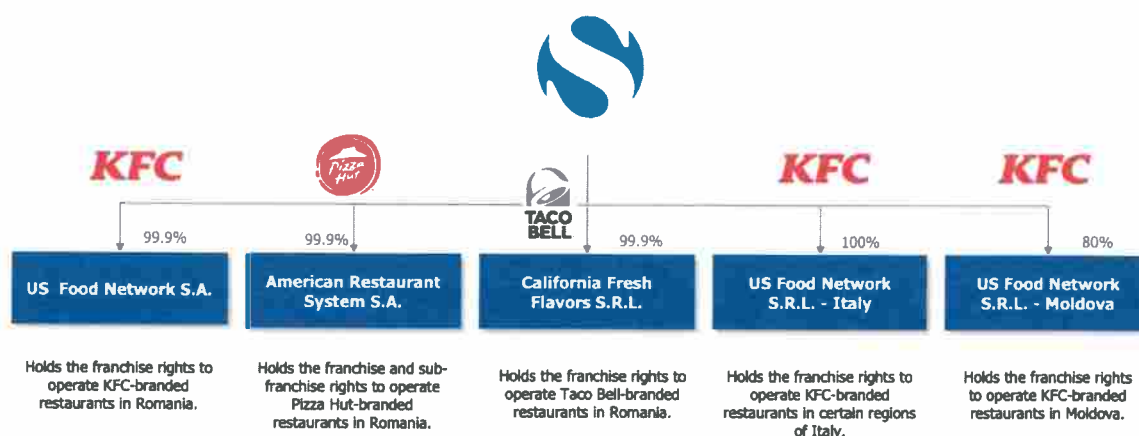
Consequently, Sphera Franchise Group SA (the 'legal Parent', 'Sphera' or the 'Group') was incorporated on May 16<sup>th</sup>, 2017, by the shareholders of USFN and ARS as a joint stock company and is registered at no. 239 Dorobanti Avenue, Bucharest, Romania.

## GROUP STRUCTURE

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

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

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





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

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

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

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

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

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

## SCOPE OF BUSINESS

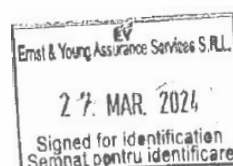
The Group's franchised foodservice business was launched in 1994 with the opening of the first Pizza Hut location, which was followed by the opening in 1997 of the first KFC location, both in Bucharest. The Group operates quick service and takeaway restaurant concepts under the Kentucky Fried Chicken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

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

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

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

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



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

## ABOUT THE BRANDS



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

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

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

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



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

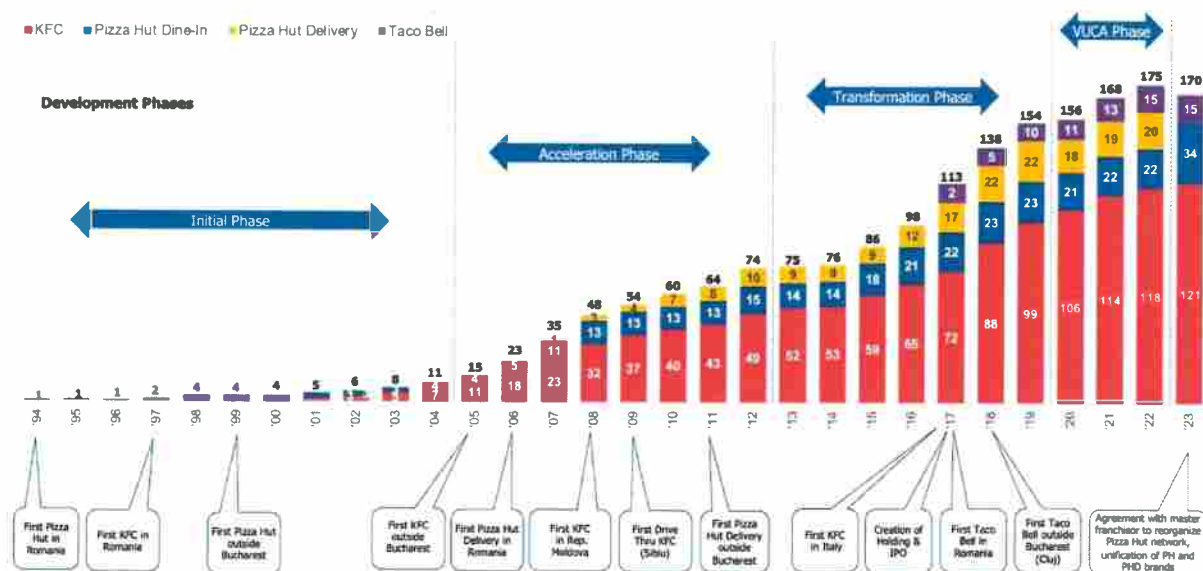
Pizza Hut was the first brand of the Group, to enter the Romanian market 30 years ago, this year, with the opening of its first location on Calea Dorobantilor in Bucharest and today is the largest casual dine-in restaurant chain in Romania in terms of both total sales and number of restaurants. On December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

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



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

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



\*This chart does not include one PHD sub franchise.

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

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

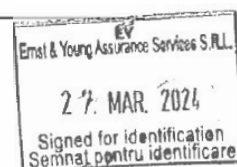
All in all, in 2023, Sphera opened 8 new restaurants – all of them being new KFC restaurants in Romania. The new openings were offset by the closing of 2 non-performing KFC units in Italy, 3 KFC units in Romania, 8 Pizza Hut locations due to reorganization process as described above, as well as one Paul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

## SHAREHOLDERS AND ISSUED CAPITAL

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

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

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



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

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

## ACTIVITY ON BUCHAREST STOCK EXCHANGE

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

Since September 24<sup>th</sup>, 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 21<sup>st</sup>, 2022, SFG shares are included in the FTSE Global Microcap index, and as of August 10<sup>th</sup>, 2023, in the MSCI Frontier Markets Small Cap and MSCI Romania Small Cap indices.

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



## GOVERNANCE

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

### GENERAL SHAREHOLDER MEETING FROM 27.04.2023

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

### GENERAL SHAREHOLDER MEETING FROM 04.09.2023

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

## MANAGEMENT OF THE GROUP

### BOARD OF DIRECTORS

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

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

The structure of the Board of Directors as of December 31<sup>st</sup>, 2023, was the following:

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



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### LUCIAN HOANCA

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

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

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

### GEORGIOS-VASSILIOS REPIDONIS

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

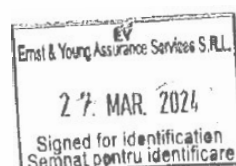
Since 2008 he is a shareholder, administrator, and general manager of Cafe Nescafe cafes, and since 2015 he is general manager of Casa Doina restaurant in Bucharest. Mr. Repidonis is a member of the Board of Directors and an administrator at Baneasa Investments SA.

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

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

### GABRIEL- SILVIU CARMACIU

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





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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 Carmaciuc 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 Carmaciuc 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 Carmaciuc has been involved in the context of his activity within the issuer, as well as those regarding Mr Carmaciuc's ability to fulfil his duties within the issuer. There is no agreement, understanding or family connection between Mr Carmaciuc and another person due to whom he was appointed as the administrator of the company.*

### RAZVAN-STEFAN LEFTER

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

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

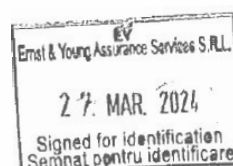
*In the last 5 years, Mr Lefter has not been banned by a court from serving as a member of the board of directors or supervisory board of a company. In the last 5 years, there have been no cases of insolvency, liquidation, bankruptcy or special administration of some companies, of which Mr Lefter is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

### MIHAI ENE

Mr. Ene was born in 1975 and has been a non-executive member of the Board of Directors since February 4, 2022. He graduated from the Faculty of Business and Tourism at the Academy of Economic Studies, later obtaining a Diploma in Hospitality Management at Ecole Hoteliere de Lausanne in Switzerland. Over time, he has participated in numerous courses and programs for professional development and specialization. He is currently General Manager and Chairman of the Board of Directors of Practic SA, Business operational director at Star Consulting & Training SRL and Trade operations manager at Euroaces 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, Euroaces Foundation, Universal SA.

*In the last 5 years, Mr Ene has not been banned by a court from serving as a member of the board of directors or supervisory board of a company. In the last 5 years, there have been no cases of insolvency, liquidation,*





*bankruptcy or special administration of some companies, of which Mr Ene is a member of the board of directors or supervisor. In the last 5 years, there have been no litigations or administrative procedures in which Mr Ene has been involved in the context of his activity within the issuer, as well as those regarding Mr Ene's ability to fulfil his duties within the issuer. There is no agreement, understanding or family connection between Mr Ene and another person due to whom he was appointed as the administrator of the company.*

## CONSULTATIVE COMMITTEES

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

The members of the Audit Committee as of December 31<sup>st</sup>, 2023, were:

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

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

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

## EXECUTIVE MANAGEMENT

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

- Mandate of Mr. Calin Ionescu as CEO was extended for new term effective as of 01.05.2023 until 30.04.2027 in the Board meeting held on April 27<sup>th</sup>, 2023;
- Mandate of Mr. Valentin Budes as CFO was extended for new term effective as of 09.05.2023 until 08.05.2027 in the Board meeting held on May 8<sup>th</sup>, 2023;
- Mandate of Mrs. Monica Eftimie as CMO was extended for new term effective as of 01.09.2023 until 01.09.2027 in the Board meeting held on August 29<sup>th</sup>, 2023.

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

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

**CĂLIN IONESCU, CHIEF EXECUTIVE OFFICER**

Date of most recent appointment: May 1<sup>st</sup>, 2023



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

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

Number of SFG shares held as of 31.12.2023: -

**VALENTIN BUDES, CHIEF FINANCIAL OFFICER**

Date of most recent appointment: May 9<sup>th</sup>, 2023



Born in 1983, Mr. Budeş is the Chief Financial Officer (CFO) of Sphera Franchise Group since May 2019. Valentin Budeş 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. Budeş 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 Budeş 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 Medcover Romania Group.

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

**MONICA EFTIMIE, CHIEF MARKETING OFFICER**

Date of most recent appointment: September 1st, 2023



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

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

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

Number of SFG shares held as of 31.12.2023: -

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

## CONSOLIDATED FINANCIAL RESULTS

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

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

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

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

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

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

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

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

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



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## Summary of Consolidated Financial Statements for FY (excluding IFRS 16 Impact):

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

<sup>1</sup> In 2023, net profit was normalized to exclude: the impairment for the closing of 13 Pizza Hut units, in line with the network reorganization plan (RON 4.1m), impairment for the closing of KFC restaurants in Romania (RON 0.9m), closing costs for the selected units as part of the PH network reorganization (RON 2.3m, out of which RON 2.2m YUM costs and RON 0.1m other closing costs), as well as other provisions (litigation with a former non-executive director, RON 0.3m). In 2022, net profit was normalized to exclude the impairment of non-current assets (RON 4.7m) and other costs related to the closing of non-performing stores (RON 0.5m).

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

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

Data in RON'000	2023		2022		Change (%)	
	1	2	1	2	2023/ 2022 (1)	2023/ 2022 (2)
<b>Restaurant sales</b>	<b>1,469,172</b>	<b>1,469,172</b>	<b>1,322,822</b>	<b>1,322,822</b>	<b>11.1%</b>	<b>11.1%</b>
<b>Other restaurant income</b>	<b>-</b>	<b>-</b>	<b>1,172</b>	<b>1,172</b>	<b>-100.0%</b>	<b>-100.0%</b>
<b>Restaurant expenses</b>	<b>1,298,263</b>	<b>1,309,595</b>	<b>1,207,065</b>	<b>1,214,438</b>	<b>7.6%</b>	<b>7.8%</b>
Food and material	479,405	479,405	457,108	457,108	4.9%	4.9%
Payroll and employee benefits	325,207	325,207	287,056	287,056	13.3%	13.3%
Rent	34,644	104,287	32,109	94,646	7.9%	10.2%
Royalties	87,935	87,935	78,803	78,803	11.6%	11.6%
Advertising	75,351	75,351	66,988	66,988	12.5%	12.5%
Other operating expenses	192,503	192,872	184,450	184,560	4.4%	4.5%
Depreciation and amortization	103,218	44,537	100,551	45,276	2.7%	-1.6%
<b>Restaurant operating profit</b>	<b>170,909</b>	<b>159,577</b>	<b>116,928</b>	<b>109,555</b>	<b>46.2%</b>	<b>45.7%</b>
General & Admin expenses	61,976	62,655	55,572	56,389	11.5%	11.1%
Operating profit	<b>108,933</b>	<b>96,923</b>	<b>61,356</b>	<b>53,166</b>	<b>77.5%</b>	<b>82.3%</b>
<b>Normalized operating profit<sup>1</sup></b>	<b>116,634</b>	<b>104,624</b>	<b>61,356</b>	<b>53,166</b>	<b>90.1%</b>	<b>96.8%</b>
Finance costs	26,177	11,772	23,062	13,307	13.5%	-11.5%
Finance income	1,239	1,239	496	496	149.7%	149.8%
Profit before tax	<b>83,995</b>	<b>86,389</b>	<b>38,790</b>	<b>40,355</b>	<b>116.5%</b>	<b>114.1%</b>
<b>Normalized profit before tax<sup>1</sup></b>	<b>91,696</b>	<b>94,090</b>	<b>38,790</b>	<b>40,355</b>	<b>136.4%</b>	<b>133.2%</b>
Income tax expense/ (credit)	12,248	14,410	(1,725)	(1,264)	-	-
Specific Tax	0	0	2,565	2,565	-100.0%	-100.0%
Profit for the period	71,747	71,979	37,950	39,054	89.1%	84.3%
<b>Normalized profit for the period<sup>1</sup></b>	<b>79,449</b>	<b>79,680</b>	<b>43,167</b>	<b>44,270</b>	<b>84.1%</b>	<b>80.0%</b>
EBITDA	219,168	145,290	168,495	102,161	30.1%	42.2%
<b>Normalized EBITDA<sup>2</sup></b>	<b>221,815</b>	<b>147,937</b>	<b>168,988</b>	<b>102,655</b>	<b>31.3%</b>	<b>44.1%</b>

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



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

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

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

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

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

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

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

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

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

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

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

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

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

Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons. Adj.	SFG Cons
<b>Restaurant sales</b>	<b>1,065,024</b>	<b>115,211</b>	<b>20,589</b>	<b>183,814</b>	<b>84,544</b>	<b>40,779</b>	<b>(40,788)</b>	<b>1,469,172</b>

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

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

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

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

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

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

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

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

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## STANDALONE FINANCIAL RESULTS

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

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

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

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

Data in RON'000

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

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

As of 31 December 2023, the Company assessed whether there are indicators of impairment for its cost of investment in subsidiaries and further to the analysis performed no impairment resulted for investments in US Food Network SA, US Food Network SRL (Moldova), US Food Network SRL (Italy) and California Fresh Flavors SRL. For ARS, there was a decrease of the investment's recoverable amount of additional RON 4,369 thousand for which the Company recognized an impairment loss in the financial statements as at and for the year ended 31 December 2023.

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

### FY Standalone Financial Statements

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

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

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

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

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

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



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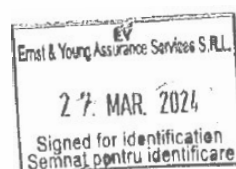
TACO BELL

## MAIN FINANCIAL RATIOS

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

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

Notes: Annualized values, based on the ASF methodology.



## BRAND & SALES PERFORMANCE

### MARKET SHARE

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

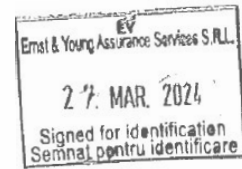
KFC is recognized for its superior taste, a key factor in its success. It ranks highest for taste-related attributes, including 'best tasting chicken', 'freshest ingredients', 'high quality food', and 'food is freshly prepared'. Key products include Crispy Strips, Garlic Sauce, Smart Menu, Crispy Sandwich,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

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

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

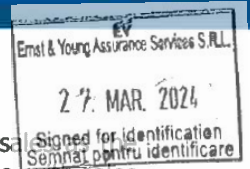
**Taco Bell** has established itself as the largest Mexican food chain in Romania, capturing 1.5% of the market share from the total food service sector in 2023. This position is part of its strategic growth under the Sphera Franchise Group. The brand has seen a significant increase in brand recognition,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

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



### BRAND & MARKETS PERFORMANCE

Romania contributed RON 1,264,8 million to the 2023 turnover, bringing in 86% of the total sales. Revenues registered an 11% YoY increase. Italy brought RON 183.8 million, 13% of total revenues, registering a 11% YoY increase, while the Republic of Moldova contributed RON 20.6 million, amounting to 1% of revenues and an 18% appreciation in sales.



**RON 1,264.8 mn**  
+11% vs. 2022



**RON 183.8 mn**  
+11% vs. 2022



**RON 20.6 mn**  
+18% vs. 2022

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



**RON 1,269.4 mn**  
+12% vs. 2022



**RON 115.2 mn**  
-6% vs. 2022

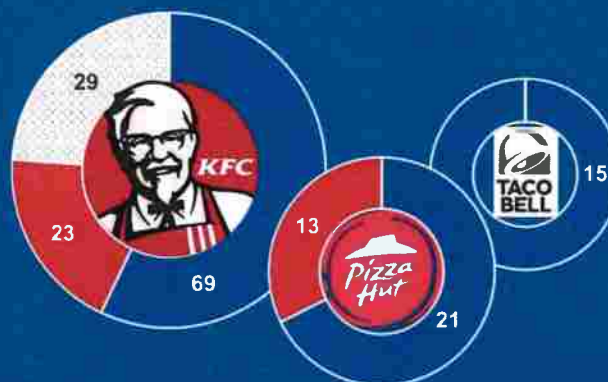


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**RON 84.5 mn**  
+22% vs. 2022

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

### Network as of 31.12.2023



Food Court    In Line    Drive-through

NOTE: 1 PHD sub-franchise not included above.



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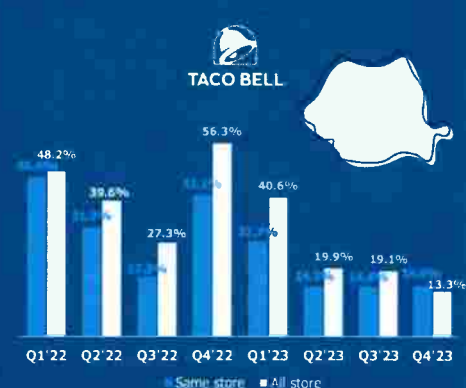
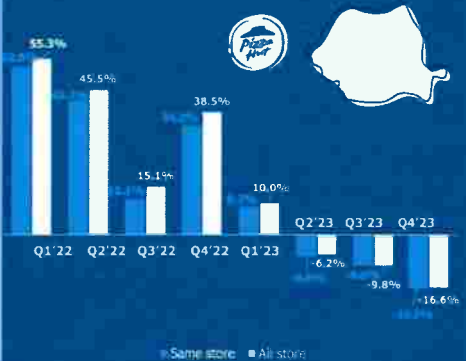
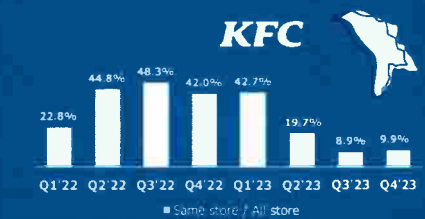
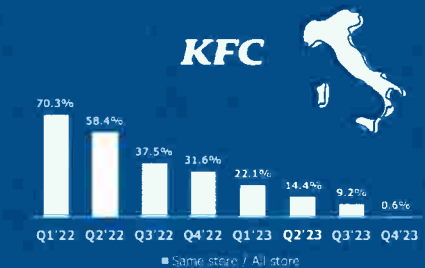
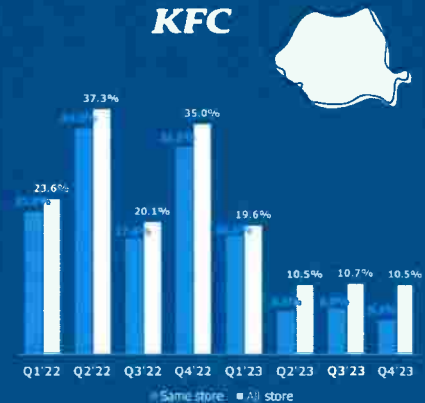
**KFC ROMANIA** experienced a significant year in terms of expansion and sales performance as the restaurant sales overpassed the RON 1 bn mark for the first time in history, increasing sales 12.5% YoY, to RON 1.07 billion. In 2023, Sphera opened 8 new KFC restaurants exclusively in Romania. This expansion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

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

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

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

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



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## DELIVERY

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

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

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

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

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

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

## DIVIDENDS

Data in RON'000

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

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

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

Considering the 104,100 shares acquired by the Group during the SOP program which were not eligible for dividends, the amount of RON 120 thousand was withheld from the distribution. Based on the gross dividend per share of RON 1.16, the value of distribution was of RON 44,886 thousand.

For the year ended 31 December 2023, the Board of Directors has proposed to the shareholders' approval, the following allocation of the net profit of Sphera Franchise Group SA in amount of RON 65,657 thousand::

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

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

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

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



## KEY FACTORS AFFECTING GROUP'S RESULTS

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

### General economic environment in the markets

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

### Competitive landscape

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

### Political and military instability in the region

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

### Supply chain disruptions

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

### Supplier price fluctuations

A critical risk that Sphera Franchise Group faces relates to the fluctuations in the prices of key inputs, including raw materials and energy. These fluctuations can directly impact the Group's gross margin, potentially affecting its financial stability and profitability. Although the Group engages with multiple suppliers to mitigate this risk



and ensure a stable supply chain, market conditions such as supply shortages, geopolitical tensions, inflation, or unexpected global events can still lead to significant variations in costs.

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

### Price risk

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

### Fiscal regulatory shifts

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

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

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

### Labor costs

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

### Labor shortages

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



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

### Consumer preferences

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

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

### Marketing and advertising activities

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

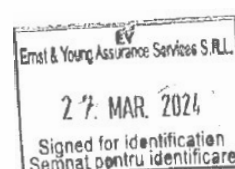
The effectiveness of the marketing and advertising activities can vary from one year to another and from one campaign to another, depending on the products under promotion, the quality of our communication as well as on the ability of our employees to communicate to customers the ongoing campaigns and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

### Product liability claims and health pandemics

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

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

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



of the products in restaurants in general. Adverse publicity may negatively impact our reputation, regardless of whether the allegations are valid.

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

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

### Product safety and public perception

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

### Dependency on the franchisor

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

### Sustainability concerns

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

### New technologies

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

### Cybersecurity threats

With the expansion of digital operations, including online ordering and digital payment systems, the Group is increasingly exposed to cybersecurity risks. Cyberattacks, data breaches, and technological failures can



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severely impact the Group's reputation, leading to a loss of consumer trust and financial losses. The potential inadequacy of cybersecurity measures could leave the Group vulnerable to these threats, emphasizing the need for robust and proactive cybersecurity strategies.

### Fake news

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

### Lockdowns

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

### Financial risks

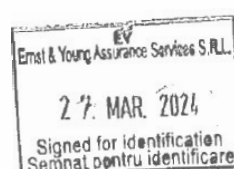
The Group is exposed to several financial risks in connection with its activities, including market risk (interest rate risk, foreign exchange rate risk), risk related to financial liquidity, and, to a limited extent to credit risk. The Group's senior management oversees the management of these risks,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

### Interest rate risk

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

### Foreign currency risk

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



### Credit risk

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

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

### Liquidity risk

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

## INTERNAL CONTROL

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

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

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

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

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

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



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

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

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

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

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

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

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

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



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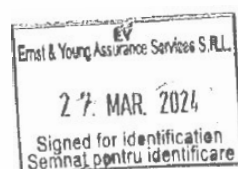
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- The actions of the Group's directors, employees, and contractors are in compliance with the Group's policies, procedures, and applicable laws, regulations, and governance standards;
- The results of operations are consistent with established goals;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

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





## COMMITMENTS AND CONTINGENCIES

### Lease commitments

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

### Other commitments

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

### Climate change

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

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

### Bank letter of guarantees

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

### Other contingencies

#### *Taxation*

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

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

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

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



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### *Transfer pricing*

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

The Group has prepared transfer pricing files.

### *Legal proceedings*

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

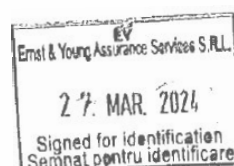
In 2019, USFN, alongside the owner of the building where one of the KFC drive-through restaurant is operating, has been sued by a third party acting as plaintiff in connection with utilities pipes (electrical, gas and water) [sub]crossing plaintiff's plot in absence of a pre-agreement. Plaintiff requests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

## **ENVIRONMENTAL MATTERS**

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

Chairman of the Board of Directors  
Lucian Hoanca

L.S.



# CORPORATE GOVERNANCE



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## BVB CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

PROVISION OF THE BUCHAREST STOCK EXCHANGE CORPORATE GOVERNANCE CODE <sup>1</sup>	COMPLIANT	PARTIALLY COMPLIANT	COMMENT
<b>Section A - Responsibilities</b>			
<b>A.1.</b> 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.	<b>X</b>		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.
<b>A.2.</b> 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.	<b>X</b>		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.
<b>A.3.</b> The Board shall consist of at least 5 (five) members.	<b>X</b>		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.
<b>A.4.</b> Most Board members shall not have an executive function. In the case of companies in the Premium		<b>X</b>	The governance of Sphera Franchise Group is achieved through a unitary system in which the Board ensures the Company management, and the day-

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<sup>1</sup> 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](http://www.bvb.ro).



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<p>Category, no less than two non-executive members of the Board shall be independent. Each independent Board member shall issue a statement at the time of nomination thereof for election or re-election, and whenever any change arises in the status thereof, indicating the elements on the basis of which the same is to be deemed independent in terms of character and judgment.</p>			<p>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.</p> <p>On the occasion of each (re)appointment of a Board member, the Company performs an assessment of the independence of its members on the basis of the independence criteria set out in the Corporate Governance Code (which are essentially similar to those laid down in the Companies Act), consisting of an individual assessment conducted by the relevant Board member, followed by an external assessment.</p> <p>Moreover, in view of the preparation of the Corporate Governance Report of the Annual Report, the Company reconfirmed with all Board members their independence or non-independence on December 31<sup>st</sup>, 2023.</p> <p>This assessment showed that, in 2023 one Board member met all the criteria of independency set out in the Corporate Governance Code.</p> <p>Information on the independence of the Board members is available at the Company's headquarters.</p>
<p><b>A.5.</b> 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.</p>	<p>X</p>		<p>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.</p>
<p><b>A.6.</b> 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.</p>	<p>X</p>		<p>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.</p>
<p><b>A.7.</b> The Company shall appoint a Secretary of the Board to be in charge of supporting the activity of the Board.</p>	<p>X</p>		<p>The Company has a General Secretary who supports the Board activities.</p>
<p><b>A.8.</b> The Corporate Governance Statement shall stipulate whether a Board assessment has taken place</p>		<p>X</p>	<p>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</p>

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<p>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.</p>			<p>conducted a self-assessment process for the financial year of 2023 under the direction of the Chairperson of the Board.</p>
<p><b>A.9.</b> 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.</p>	X		<p>The Company executives shall meet at least once a week and the Board shall meet whenever necessary, but at least once every three months. During 2023, 21 Board meetings took place, of which 2 were by electronic means (e-board). Of the 19 with physical presence, 17 were full attendance and 2 with partial attendance (4/5). There were additionally 6 meetings of the Audit Committee, all with full attendance, and 4 meetings of the Nomination &amp; Remuneration Committee, all with full attendance.</p>
<p><b>A.10.</b> The Corporate Governance Statement shall include information on the exact number of independent members of the Board.</p>	X		<p>The assessment of the Board members' independence based on the independence criteria set out in the Corporate Governance Code (which are essentially similar to those provided for by the Companies Act) showed that, in 2023, one (1) Board member met all the criteria of independence provided for by the Corporate Governance Code and thus one Board member of Sphera Franchise Group is independent.</p>
<p><b>11.</b> 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>		X	<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 &amp; 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>

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<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><b>Section B – The risk management and internal control system</b></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 2023, the Audit Committee was made up of three members of the Board, out of which one member, the Chairman, met all the criteria of independence set out in the Corporate Governance Code.</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>X</b></p>	<p><b>B.1.</b> 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>As members of the Board, all members, including the Chair of the Audit Committee, are non-executive. The Chair of the Audit Committee is independent.</p>		<p><b>X</b></p>	<p><b>B.2.</b> The Chair of the Audit Committee shall be an independent non-executive member.</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>X</b></p>	<p><b>3.</b> As part of its responsibilities, the Audit Committee shall carry out an annual assessment of the internal control system.</p>
<p>(i) Reviewing and revising the individual and consolidated annual financial statements and the profit sharing proposal;</p> <p>(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;</p> <p>(iii) Carrying out an annual assessment of the internal control system, taking into account the effectiveness and purpose of the internal audit</p>		<p><b>X</b></p>	<p><b>4.</b> The assessment shall take into account the effectiveness and scope of the internal audit function, the adequacy of the risk management and internal control reports submitted to the Board Audit Committee, the promptness and effectiveness with which the executive management addresses any deficiencies or weaknesses identified as</p>

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<p>a result of the internal control and the submission of relevant reports to the Board.</p>			
<p><b>B.5.</b> The Audit Committee shall assess any conflicts of interest in connection with the transactions of the Company and its subsidiaries with related parties.</p>	<b>X</b>		<p>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;</p>
<p><b>B.6.</b> The Audit Committee shall assess the effectiveness of the internal control and risk management systems.</p>	<b>X</b>		<p>(iv) Assessing any conflicts of interest in connection with the transactions of the Company and its subsidiaries with related parties;</p>
<p><b>B.7</b> The Audit Committee shall monitor the application of the legal standards and generally accepted internal audit standards and assess the reports of the internal audit team.</p>	<b>X</b>		<p>(v) Assessing the effectiveness of the internal control and risk management systems;</p> <p>(vi) Monitoring the application of the legal standards and generally accepted internal audit standards;</p> <p>(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;</p> <p>(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.</p>
<p><b>B.8.</b> 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.</p>	<b>X</b>		<p>The Audit Committee regularly presents the Board with reports on the specific issues that have been assigned to it.</p>
<p><b>B.9.</b> 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.</p>	<b>X</b>		<p>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.</p> <p>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.</p>

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<p><b>B.10.</b> The Board shall adopt a policy to ensure that any transaction of the Company with any of the companies with which it has close ties, whose value is equal to or greater than 5% of the Company net assets (according to the latest financial report), is approved by the Board following a binding opinion of the Board Audit Committee and is properly disclosed to the shareholders and prospective investors to the extent that such transactions fall within the category of events subject to reporting requirements.</p>		X	<p>The Company has adopted the key principles for reviewing, approving, and publishing transactions with related parties in accordance with the applicable regulations and Company corporate documents, including the fact that Company transactions with related parties that exceed or are expected to exceed, either individually or in aggregate, an annual value of 5% of the Company net assets from the previous financial year, shall be approved by the Board, based on the opinion of the Audit Committee.</p>
<p><b>B.11.</b> Internal audits shall be performed by a structurally separate division (the Internal Audit Department) within the Company or by hiring an independent third party.</p>		X	<p>The Internal Audit function is established within the Company.</p>
<p><b>B.12.</b> 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.</p>		X	<p>The Internal Audit function reports functionally to the Board by means of Audit Committee and to the CEO for administrative purposes.</p>
<b>Section C – Fair reward and motivation</b>			
<p><b>C.1.</b> 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.</p>		X	<p>The Company has a Remuneration Policy in place adopted by way of OGSM Resolution no. 1 of August 11<sup>th</sup>, 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.</p>
<b>Section D – Adding value by way of the investor relations</b>			
<p><b>D.1.</b> 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</p>		X	<p>All the information as specified by the D1 provision is provided on the issuer's website.</p>

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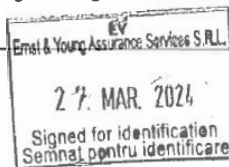


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<p>include on its website a section dedicated to Investor Relations, in both Romanian and English, with all the relevant information of interest to investors, including:</p> <ul style="list-style-type: none"> <li>• The main corporate regulations: Articles of Association, the procedures regarding the General Shareholders' Meetings (GSM);</li> <li>• 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;</li> <li>• Current and regular reports (quarterly, half-yearly and annual);</li> <li>• Information on the General Shareholders' Meetings;</li> <li>• Information on the corporate events;</li> <li>• The name and contact details of a person who can provide relevant information, on request;</li> <li>• Company presentations (e.g., investor presentations, quarterly result presentations, etc.), financial statements (quarterly, half-yearly, annual), Audit Reports, and Annual Reports.</li> </ul>			
<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	<p>The Company Dividend Policy is published on the Company website in the Corporate Governance section, Policies and Documents subsection.</p>
<p>D.3. The Company shall adopt a policy regarding forecasts, whether they are made public or not.</p>		X	<p>The Company has a Forecast Policy, which is published on the Company website in the Corporate Governance section, Policies and Documents</p>


  
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<p>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>			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		<p>Information on the organization of the General Shareholders' Meetings is mentioned in the Company Articles of Association, as well as the Corporate Governance Report, in brief. Since 2017, Sphera Franchise Group has in place a Shareholders Meeting Procedure and publishes detailed convening notices for each GSM, describing in detail the procedure to be followed during each GSM. In order to welcome the exercise of shareholders' rights and to ensure total transparency on corporate events, starting with April 2022 OGSM meeting, Sphera concluded a partnership with eVote through which it facilitated shareholders' access to general shareholders meetings through an online platform. Thus, the Company ensures that the General Shareholders' Meetings are properly managed and organized, and the shareholders' rights are respected.</p>
<p>5. Independent financial auditors shall be present at the General Shareholders' Meeting when their reports are presented at these meetings.</p>	X		<p>The independent financial auditors participate in the Ordinary General Shareholders' Meetings where the individual and consolidated annual financial statements are subject to approval.</p>
<p>5. 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.</p>		X	<p>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.</p>
<p>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</p>	X		<p>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.</p>

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<p>Board. Accredited journalists may also attend General Shareholders' Meetings, unless otherwise decided by the Chairperson of the Board.</p>			
<p>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.</p>	X		<p>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.</p>
<p>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.</p>	X		<p>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.</p>
<p>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 mission and development strategy, it will publish its policy on its activity in this field.</p>	X		<p>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.</p>

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# CONSOLIDATED NON-FINANCIAL STATEMENT



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## CONSOLIDATED NON-FINANCIAL STATEMENT<sup>2</sup>

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

### THE GROUP BUSINESS MODEL

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

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

### APPLIED DUTY OF CARE PROCEDURES

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

### SOCIAL RESPONSIBILITY, SOCIAL, ENVIRONMENTAL AND DIVERSITY-RELATED ISSUES

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### THE COMPLIANCE POLICY AND THE ANTI-BRIBERY POLICY

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

### KEY PERFORMANCE INDICATORS REGARDING NON-FINANCIAL STATEMENTS

#### Environment

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





## People

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

## Governance

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

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

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

### Risk management

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

BUSINESS RISKS	OPERATING RISKS
<ul style="list-style-type: none"> <li>Risk of non-compliance with the laws</li> <li>Risk of payments</li> <li>Reputational risk</li> <li>Risk of violating the Code of Business Conduct</li> </ul> 	<ul style="list-style-type: none"> <li>Occupational health and safety risk</li> <li>Food safety risk</li> <li>Environmental risk</li> <li>Risk of operational shutdowns</li> </ul> 

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

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

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

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

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



SPHERA

KFC



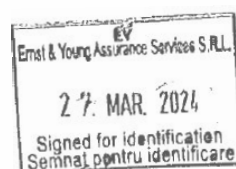
TACO BELL

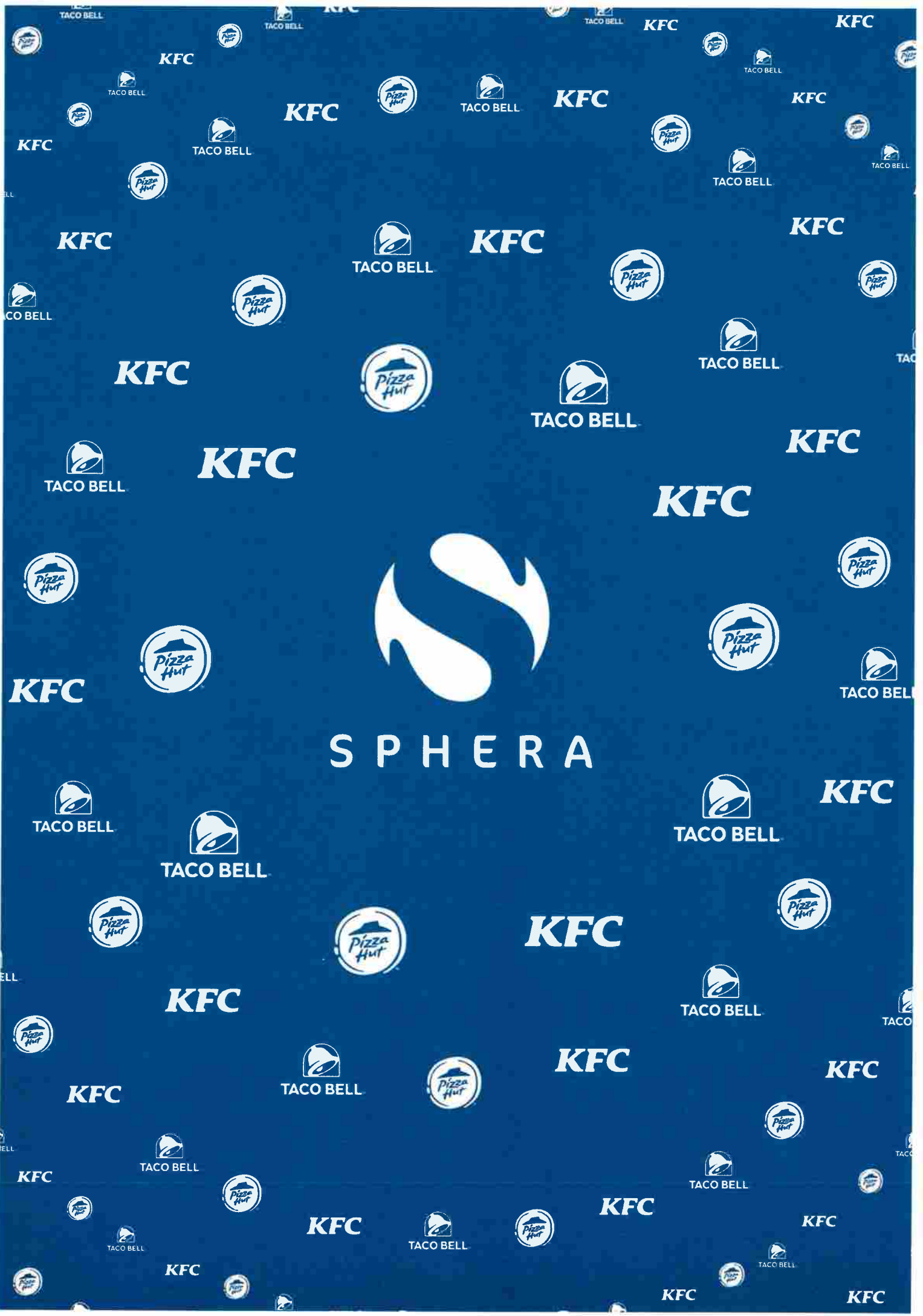
## DECLARATION FROM THE MANAGEMENT

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

Chairman of the Board of Directors  
Lucian Hoanca

L.S.





S P H E R A



SPHERA

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