



Sphera Franchise Group Financial Report for H1 2020

27.08.2020



Semi-annual Report in Accordance with	Annex 14 from ASF Regulation nr. 5/2018
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Number of Shares	38,799,340 shares
Symbol	SFG

Notes: The interim condensed consolidated financial statements presented below are prepared in accordance with International Financial Reporting Standards, as adopted by European Union ("IFRS").

The interim condensed consolidated financial statements are unaudited.

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1. H1 2020 & Q2 2020 Highlights



Sales Sphera Franchise Group



Share of brands in total sales generated

in H1 2020



Key Indicators of gradual recovery

from Q2 and Q3 2020



2. H1 2020 Financial Results Analysis

Important 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 analysing the performance of the Group, the management’s focus is on the financial results excluding 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 interim condensed consolidated financial statements of Sphera, please refer to the Interim Condensed Consolidated Financial Statements.

The Group, being one of the most important employers in the HoReCa sector in Romania, faced tremendous challenges as the overall hospitality business. In a recent Open Letter to the Romanian Government, HORA, the Romanian Hotel and Restaurants Association, stated that the overall sales turnover in the industry in the first half of 2020 dropped by 70% compared to the same period of last year as a result of the COVID-19 pandemic, with 40% of the operators suspending their activity.

Under these circumstances, consolidated sales for Sphera Franchise Group in H1 2020 reached RON 304.6 million, a decrease of 31.6% compared to the same period of 2019. As predicted and communicated in the Q1 report published on May 14th, 2020, because of the March outbreak of the COVID-19 pandemic in Europe, the Group’s performance in Q2 took a hard hit. Despite the difficult first half of the year, the Group managed to maximize revenues by accessing new sales channels and swiftly implemented significant cost-optimization and cost-control measures in order to limit the adverse effects of lockdown on its financial performance.

With the lockdown of all three markets of the Group’s activity mid-March, the most significant negative impact was recorded in the month of April, when most of the locations were completely shut down, and delivery activity was limited. In all three countries of operation, Romania, Italy and Republic of Moldova, lockdowns were ordered at the government level, restricting or prohibiting the movement of vehicles and people.

From May 15th, when the partial reopening of the Romanian economy started, the performance of the Group improved significantly. The Group expects that the increasing trend in sales recorded for all the brands will continue. June figures show significant increases as the results for all the brands, on all the markets of activity, are better than those registered in March 2020 and are on average 65% of the combined January and February 2020 results. This is a considerable recovery given that June 2020 result relies almost solely on delivery and takeout services. For the second half of the year, in line with the monthly numbers presented by the brands from the Group, the management expects a gradual recovery unless another lockdown is ordered at a national level on either, or both, of the two key markets of activity – Romania or Italy, or if other unexpected negative evolution occurs.

In H1 2020, since the onset of the pandemic, the Group has been attentively monitoring the situation on all its markets of activity to adapt the business model in an agile way and to limit potential losses. The Group managed to achieve significant cost-optimization through internal efforts as well as by adopting suitable measures introduced by the Romanian and Italian states as well as the Republic of Moldova.

As a result of the measures as mentioned above, the Group has managed in H1 2020 to lower restaurant expenses by almost 25%, from RON 396.1 million to RON 297.9 million. Except for other operating expenses and depreciation and amortization, all the restaurant expenses have decreased significantly, with the largest reductions being registered in food and material and payroll. The rent costs (without IFRS 16) decreased by 7.4% compared to the same period of last year even though the Group operated 10 more restaurants during H1 2020 compared to H1 2019. Further rent negotiations are still ongoing.

The increase of 5.8% in “Other operating expenses” was primarily driven by the higher share of aggregators’ commission, while increased depreciation and amortization are the result of opening 10 new restaurants between June 30th, 2019 and June 30th, 2020.

For H1 2020 the Group reported a restaurant operating profit of RON 6.7 million, 86.5% lower compared to same period of last year. The 8.2% decrease in General & Administrative expenses, helped achieve an EBITDA of RON 0.8 million, still, 97.9% lower compared to H1 2019 (normalised EBITDA of RON 1.6 million, a decrease of 95.7%) with an EBITDA margin by 8 pp lower compared to the previous period.

Operating profit decreased by 178% Y/Y to RON -17.8 million and the loss for the period equalled RON 22.4 million.

Summary of interim Consolidated Financial Statements (results excluding IFRS 16 Impact):

Data in RON'000	H1-20	H1-19	Y/Y % H1-20/H1-19	% of Sales		Δ%
				H1-20	H1-19	
Restaurant sales	304,580	445,567	-31.6%			
Restaurant expenses	297,903	396,138	-24.8%	97.8%	88.9%	8.9%
Food and material	100,793	154,699	-34.8%	33.1%	34.7%	-1.6%
Payroll and employee benefits	71,315	106,321	-32.9%	23.4%	23.9%	-0.5%
Rent	29,295	31,642	-7.4%	9.6%	7.1%	2.5%
Royalties	17,884	26,075	-31.4%	5.9%	5.9%	0.0%
Advertising	14,429	20,387	-29.2%	4.7%	4.6%	0.1%
Other operating expenses, net	46,414	43,883	5.8%	15.2%	9.8%	5.4%
Depreciation and amortization	17,773	13,130	35.4%	5.8%	2.9%	2.9%
Restaurant operating profit	6,677	49,429	-86.5%	2.2%	11.1%	-8.9%
General & Admin expenses, net	24,447	26,632	-8.2%	8.0%	6.0%	2.0%
Operating Profit/(Loss)	(17,771)	22,797	-178.0%	-5.8%	5.1%	-10.9%
Finance costs	2,902	3,467	-16.3%	1.0%	0.8%	0.2%
Finance income	88	63	39.7%	0.0%	0.0%	0.0%
Profit/(Loss) before tax	(20,585)	19,393	-206.1%	-6.8%	4.4%	-11.2%
Income tax expense	1,775	1,297	36.9%	0.6%	0.3%	0.3%
Profit/(Loss) for the period	(22,360)	18,096	-223.6%	-7.3%	4.1%	-11.4%
EBITDA	772	36,712	-97.9%	0.3%	8.2%	-7.9%
Normalised EBITDA*	1,563	36,712	-95.7%	0.5%	8.2%	-7.7%

(*)For the six-month period ended June 30th, 2020, EBITDA was normalized to exclude the accrued penalties due to Pizza Hut Europe (Master Franchisor) for the restaurants committed to be opened in 2019 and postponed for the future periods (Note 4).

Summary of interim Consolidated Financial Statements – results and evolution presented with and without IFRS 16 impact

Data in RON'000	H1-20	H1-20	H1-19	H1-19	Change (%)	
					H1-20/H1-19 (1)	H1-20/H1-19 (2)
Restaurant sales	304,580	304,580	445,567	445,567	-31.6%	-31.6%
Restaurant expenses	296,476	297,903	394,721	396,138	-24.9%	-24.8%
Food and material	100,793	100,793	154,699	154,699	-34.8%	-34.8%
Payroll and employee benefits	71,315	71,315	106,321	106,321	-32.9%	-32.9%
Rent	3,409	29,295	9,713	31,642	-64.9%	-7.4%
Royalties	17,884	17,884	26,075	26,075	-31.4%	-31.4%
Advertising	14,429	14,429	20,387	20,387	-29.2%	-29.2%
Other operating expenses, net	46,582	46,414	44,062	43,883	5.7%	5.8%
Depreciation and amortization	42,063	17,773	33,464	13,130	25.7%	35.4%
Restaurant operating Profit / (Loss)	8,104	6,677	50,846	49,429	-84.1%	-86.5%
General & Admin expenses, net	23,915	24,447	26,410	26,632	-9.4%	-8.2%
Operating Profit/(Loss)	(15,810)	(17,771)	24,437	22,797	-164.7%	-178.0%
Finance costs	9,303	2,902	9,341	3,467	-0.4%	-16.3%
Finance income	88	88	63	63	39.7%	39.7%
Profit/(Loss) before tax	(25,026)	(20,585)	15,158	19,393	-265.1%	-206.1%
Income tax expense	1,313	1,775	1,455	1,297	-9.8%	36.9%
Profit/(Loss) for the period	(26,339)	(22,360)	13,703	18,096	-292.2%	-223.6%
EBITDA	28,483	772	60,058	36,712	-52.6%	-97.9%
Normalised EBITDA*	29,274	1,563	60,058	36,712	-51.3%	-95.7%

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

(*) Normalized EBITDA – excludes the penalty from franchisor for postponed development of Pizza Hut restaurants in 2019.

At the level of Group companies, USFN Romania and USFN Moldova managed to close H1 2020 on operating profit, corresponding to a net profit of RON 7.4 million at the end of H1 2020. The rest of the Group entities ended H1 2020 with a loss for the period, with the biggest loss registered by USFN Italy resulting from the severe impact of the coronavirus pandemic on the local economy and widespread and prolonged lockdown measures in Italy.

Breakdown of consolidated results by Group companies – H1-2020 (Results excluding IFRS 16 Impact):

Data in RON'000	H1-20							
	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons.Adj.	SFG Cons
Restaurant sales	221,563	36,848	3,354	30,640	12,008	12,299	(12,133)	304,580
Restaurant expenses	200,280	41,448	3,194	40,865	12,823	484	(1,192)	297,903
Food and material	75,312	10,488	1,353	9,273	4,372	0	(5)	100,793
Payroll and employee benefits	46,007	11,422	720	10,505	2,662	0	0	71,315
Rent	18,917	4,141	133	4,895	1,208	0	0	29,295
Royalties	13,278	2,123	202	1,835	447	0	0	17,884
Advertising	9,502	2,669	196	2,037	708	484	(1,166)	14,429
Other operating expenses	27,358	8,140	423	8,209	2,305	0	(21)	46,414
Depreciation	9,906	2,465	168	4,113	1,122	0	0	17,773
Restaurant operating profit/(loss)	21,283	(4,600)	160	(10,225)	(815)	11,815	(10,941)	6,677
G&A expenses	12,528	3,576	127	3,562	1,156	14,400	(10,902)	24,447
Operating profit/(loss)	8,775	(8,176)	33	(13,788)	(1,971)	(2,585)	(39)	(17,771)
Finance costs	1,860	530	38	1,407	811	738	(2,481)	2,902
Finance income	1,560	9	0	1	0	1,000	(2,481)	88
Profit/(Loss) before tax	8,454	(8,697)	(5)	(15,194)	(2,782)	(2,323)	(39)	(20,585)
Income tax expense	1,040	362	(18)	132	67	192	-	1,775
Profit/(Loss) for the period	7,415	(9,059)	13	(15,325)	(2,849)	(2,514)	(39)	(22,360)
EBITDA	18,928	(5,630)	220	(9,663)	(808)	(2,236)	(39)	772
Normalised EBITDA*	18,928	(4,839)	220	(9,663)	(808)	(2,236)	(39)	1,563

The General and Administrative (G&A) expenses of the Group have decreased by 8.2% compared to the same period of 2019, while in Q2 2020, the Group managed to decrease the G&A expenses by RON 3.1 million (-22.6%) compared to Q2 2019. The largest cost-savings registered in H1 2020 were on transport (-53.1%) and third-party services (-16.7%). The payroll costs for G&A decreased by 3.0% in H1 2020 while Q2 payroll costs were reduced by 23.7% through different measures.

	Data in RON '000				Percentage of sales							
	H1-20	H1-20	H1-19	H1-19	Change (%)	2020/2019 (1)	2020/2019 (2)	H1-20	H1-20	H1-19	H1-19	
	(1)	(2)	(1)	(2)				(1)	(2)	(2)	(2)	
General and administration (G&A) expenses, net	23,915	24,447	26,410	26,632	-9.4%	-8.2%		7.9%	8.0%	5.9%	6.0%	
Payroll and employee benefits	15,630	15,630	15,808	15,808	-1.1%	-1.1%						
Third-party services	4,156	4,441	5,332	5,332	-22.1%	-16.7%						
Depreciation and amortization	2,231	770	2,158	785	3.4%	-1.9%						
Rent	(23)	1,685	237	1,831	-109.6%	-8.0%						
Banking charges	1,304	1,304	1,561	1,561	-16.4%	-16.4%						
Transport	617	617	1,315	1,315	-53.1%	-53.1%						

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

Analysing the performance of stores based on geographic location, sales results in Romania decreased by 32.5%, from RON 401.0 million to RON 270.6 million while Italy reached RON 30.6 million, with a drop of 21.8% and Moldova dropped 38.0%. For the purpose of better presenting the trends, below we showcase the separate data for Q1 and Q2 alongside the aggregated results for H1 2019 and H1 2020.

Data in RON '000	Q1-20	Q1-19	Q2-20	Q2-19	H1-20	H1-19	Change H1-20 / H1-19
Sales by region							
Romania	176,764	194,780	93,821	206,180	270,585	400,960	-32.5%
Italy	19,205	17,203	11,435	21,993	30,640	39,196	-21.8%
Republic of Moldova	2,345	2,742	1,009	2,669	3,354	5,411	-38.0%
Total sales	198,314	214,725	106,266	230,842	304,580	445,567	-31.6%

Impacted by the lockdown, H1 2020 sales, are lower by 31.6% year-on-year. The most significant decline was registered for ARS, -42.0% compared to H1 2019, mainly due to dine-in restaurants, that remained negatively influenced even after the reopening of the economy. Many of the ARS restaurants are located in shopping malls, without an option to offer open-air dining required by the state. The smallest impact was registered by CFF (-14.0%), as Taco Bell re-gained a significant part of the lost sales by focusing on the delivery.

Overall delivery sales, facilitated either by collaboration with food aggregators or through Group's own delivery capacities, helped recover part of sales that were lost because of the closing of the restaurants. Partnerships with the food aggregating platforms, relevant marketing activities and reopening of the restaurants shopping malls and the overall "unfreezing" of the economy has resulted in the significantly improved performance of the Group in June. The sales in June 2020 improved significantly, reaching approximately 65% of the pre-pandemic combined performance of January and February 2020.

The number of active stores dropped drastically mid-March following the introduction of State of Emergency, with only 30% of stores being active as of March 18th. Mid-May, following the decision to loosen restrictions on all the markets of activity, 53% of stores were active. As of June 30th, 2020, 96.7% of stores were active, with only 5 restaurants being temporarily closed. Since the beginning of 2020 until the date of publishing this report, 2 new KFC stores opened in Italy and 3 new KFC restaurants opened in Romania. In Romania, two stores identified as non-viable were closed, one of them being already impaired as of December 31st, 2019. The Group counted 153 locations as of June 30th, 2020 and 158 stores as of August 26th.

	30-Jun-19	31-Dec-19	23-Mar-20*	14-May-20	30-Jun-20	26-Aug-20
Number of active stores						
KFC RO	77	82	29	46	79	83
KFC MD	2	2	1	1	1	2
KFC IT	14	15	0	10	16	17
Pizza Hut	23	23	0	5	21	12
Pizza Hut Delivery	22	22	15	15	21	21
Taco Bell	7	10	0	5	10	10
Total active stores	145	154	45	82	148	145

(*) Notes: The stores in Italy were closed as of March 12th; the closing of stores in Romania took place in two stages: first stores were closed starting March 18th (35 KFC restaurants, and all Pizza Hut Dine-In and Taco Bell stores); additional stores were closed on March 23rd, after the Romanian Government decided the closure of all commercial centres. As a result, as of March 23rd, there were 29 KFC stores operating only through their Drive-Thru and Delivery channels (15 Drive-Thru, 8 Street, 6 Food court).

The split between delivery and non-delivery sales has shifted over Q2 2020, with 47% of all orders in Romanian stores being delivered and 53% sold in-store; as a comparison, in the same period of 2019, only 7% of sales were generated through the delivery channel, with 93% of sales being done in-store. The promotion of the delivery option and collaboration with food aggregators helped the Group to partly cover lost sales.

Sales by entity, by Country		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20
USFN RO	delivery	3%	3%	3%	4%	6%	44%
	non-delivery	97%	97%	97%	96%	94%	56%
ARS	delivery	23%	27%	27%	29%	33%	68%
	non-delivery	77%	73%	73%	71%	67%	32%
USFN MD	delivery	8%	10%	8%	10%	13%	60%
	non-delivery	92%	90%	92%	90%	87%	40%
USFN IT	delivery	0%	0%	0%	0%	0%	32%
	non-delivery	100%	100%	100%	100%	100%	68%
CFF	delivery	0%	0%	0%	5%	11%	81%
	non-delivery	100%	100%	100%	95%	89%	19%
RO	delivery	7%	7%	7%	8%	11%	47%
	non-delivery	93%	93%	93%	92%	89%	53%

The second quarter of 2020 brought significant increases to the average ticket size for all the brands from the Group portfolio, when compared to the same period of the last year. This positive evolution was impacted by the work from home model, where the food orders were larger in order to accommodate more than just one person. Additionally, many clients increased the value of their order to benefit from free or discounted delivery, offered either by the Group or by the food aggregators.

3. Main Financial Ratios

The main financial ratios of Sphera Franchise Group as of June 30th, 2020 (including and excluding IFRS 16 impact) are presented below, together with the result from the same period of 2019 (including IFRS 16 impact).

<i>Financial data in RON '000</i>	Six-month period ended 30 June 2020(1)	Six-month period ended 30 June 2020(2)	Six-month period ended 30 June 2019(1)
Current ratio			
Current assets	122,259	125,381	109,756
Current liabilities	202,155	161,228	194,884
	= 0.60	= 0.78	= 0.56
Debt to Equity ratio			
Interest-bearing debt (long term)	293,593	100,654	248,738
Equity	132,313	142,016	131,691
	= 221.89%	= 70.87%	= 188.88%
Interest-bearing debt (long term)	293,593	100,654	248,738
Capital employed	425,906	242,670	380,429
	= 68.93%	= 41.48%	= 65.38%
Trade receivables turnover (days)			
Average receivables	34,197	34,197	22,387
Sales	304,580	304,580	445,567
	= 20.21	= 20.21	= 9.04
Fixed asset turnover			
Sales	304,580	304,580	445,567
Net fixed assets	493,028	266,425	449,424
	= 1.24	= 2.29	= 1.98

Notes: Annualized values, based on ASF methodology.

(1) Including the impact of IFRS 16; (2) Excluding the impact of IFRS 16 Leases.

4. Significant events in H1 2020: COVID-19 Response

On March 16th, 2020, Romanian President issued the decree establishing the state of emergency in Romania, which included the temporary closure of restaurants, hotels, cafes, clubs, shopping malls, gradual closure of borders as well as limiting or prohibiting the movement of vehicles or people in/to certain areas. The order permitted the selling of food and alcoholic and non-alcoholic beverages that do not require clients to remain in the spaces destinatated to consumption, as „drive-in”, „room-service” or customer delivery services. The decree was adopted unanimously by the Romanian Parliament on March 19th. The state of emergency was in place in Romania until May 14th, when a thirty-day state of alert was decreed, starting the following day, thus ending the stricter state of emergency. The state of alert is still in place in Romania at the date of publishing this report.

Sphera Franchise Group restricted its restaurant operations in Romania on March 18th, following the order issued by the Ministry of Internal Affairs prohibiting the serving of food in closed spaces. Following the

closing of the restaurants, Sphera shifted its focus onto delivery services and signed new or renegotiated partnerships with the major food delivery aggregator platforms including FoodPanda, Glovo, Tazz (former EuCeManac, rebranded by eMAG in April 2020) and TakeAway.

The partial reopening of the restaurants in Romania begun on May 15th when restaurants with outdoor seating were reopened. On June 15th further restrictions were lifted, with shopping malls reopening however without allowing consumption of food in the closed-space food courts. To the date of publishing of this report, the restaurants with indoor seating as well as food courts, remain closed.

In Republic of Moldova, the State of Emergency for the entire territory was declared by the Parliament on March 17th for a period of 60 days, later extended through other decisions. On March 15th, 2020, the National Extraordinary Commission of Public Health (NECPH) of the Republic of Moldova disposed that dine-in bars and restaurants would be closed and limited to takeout orders and delivery until April 1st. Starting April 22nd take-away was allowed for all street location and on June 16th, all food service venues, except for commercial centres and markets, were allowed to re-open with the provision of supplementary social distancing and sanitary protection rules. Only one aggregator is currently operating in Moldova – Straus, with a new one, iFood, preparing to launch by the end of August.

Italy introduced lockdown on March 7th, initially in the North, where the Group's stores are located, then nationwide. In early May, some restrictions were relaxed and on May 18th, the restaurants were allowed to open again, with a set of social distancing rules strictly observed. Consequently, only half of indoor seating space is available. This measure is expected to be enforced during the entire period of the State of Emergency which was extended until October 15th. There are on-going contracts with all big aggregators in Italy: Glovo, Deliveroo, Just Eat and UberEats, according to their area of coverage, with 13 out of the 17 Italian locations successfully operating delivery services.

Since the onset of the pandemic, for the Group to operate as smoothly as possible while observing all the necessary safety regulations, detailed procedures to mitigate the risk of infection among the employees and clients were introduced in all restaurants, including:

- Monitoring the health of the Group's employees, customers and collaborators upon the entry to the restaurants;
- Strengthening the already stringent hygiene, cleaning and sanitation procedures;
- Promoting contactless payment options that protect the employees, customers as well as collaborators;
- Providing all the restaurant employees with readily available and unlimited supplies of personal protection and hygiene supplies;
- For employees in the headquarters, moving to the work from home model and renouncing on face-to-face meetings.

As of June 30th, 2020, the Group had 148 stores active, of which 79 KFC stores, 21 Pizza Hut stores, 21 Pizza Hut Delivery and 10 Taco Bell stores in Romania, 16 KFC stores in Italy, and 1 KFC store in the Republic of Moldova.

Ongoing business evolution: The management is actively monitoring the performance of individual stores to determine which stores remain open, fully or partially, and which ones are to be closed. The general rule is that only restaurants that can cover their operating costs by taking advantage of the open-air dining option and/or by concentrating on delivery remain open. The estimated sales for July and August presented below support Group's confidence in the solidity of the current increasing trend.

	<i>Estimate</i>	<i>Estimate</i>
Restaurant Sales (amounts in RON million)	Jul-20	Aug-20*
Sphera Franchise Group	60.5	64.4
% Jan-Feb average	75%	80%



(*) August 2020 estimate based on the sales as of August 26th, 2020.

(**) as percentage of January-February average restaurant sales

4.1 Staff

As of June 30th, 2020, Sphera Franchise Group had 5,003 employees. Since the onset of the pandemic, Sphera has adopted the suitable support measures offered by the governments in the countries of its activity. In Romania, following the introduction of the lockdown measures, the State has provided financial support for employees in technical unemployment. Depending on the location, employees were sent either fully or partially into technical unemployment. Where the stores were fully closed, for example in the food courts of shopping malls, all the staff was sent to technical unemployment. For locations that remained active to ensure delivery activities, be it through own delivery services or collaboration with food delivery platforms, only part of employees was sent into technical unemployment. For those employees, the Group decided to cover the difference between the cost supported by the State (75% of the average national salary in Romania) and the employee's actual salary.

The headquarters kept constant oversight over the activity in the restaurants and in case of increased sales, calibrated the number of staff in restaurants and brought employees back from technical unemployment. As of June 30th, 2020, an estimated 22% of the employees from the Group's Romanian restaurants were still in technical unemployment.

The daily schedule of the staff in the stores was modified from double to a single shift, and the open hours were reduced, which helped minimize the off-peak expenses. Additionally, to reduce the burden on the active employees, a simplified core menu was introduced in all Sphera restaurants.

In the Republic of Moldova, starting April 1st, 2020, approximately half of Group employees were on technical unemployment, with an indemnity of 70% of the base salary, the state covering 43% of this indemnity.

During the pandemic, KFC Italy has adopted a policy of no prolongation of employees' term contracts generating a natural attrition of 20%. For the rest of employees, the company applied for technical unemployment during lockdown and then gradually re-called them as the stores re-opened.

When it comes to the activity in the headquarters (G&A expenses), all hiring activity was frozen in March, and the payroll costs were reduced by either applying for technical unemployment or by reducing the working week from 5 to 4 days (equivalent to a 20% reduction in payroll cost). Additionally, the top management took a voluntary 25% reduction in their pay.

Ongoing business evolution: On May 29th, 2020, the Emergency Ordinance no. 92/2020 on the application of support measures for the Romanian employees and employers in the context of epidemiological situation caused by the spread of the SARS-CoV-2 coronavirus, as well for the amendment of some legislation was published in the Official Gazette no. 459/29.05.2020. At the time of publishing this report, under the terms of the above-mentioned Ordinance, Sphera Franchise Group is in the process of applying for a state aid which will cover 41.5% of costs related to the salaries of employees who received technical unemployment indemnity for at least 15 days. This measure is to apply starting Q3 2020. The Group welcomes the measure as it allows to gradually reintroduce the workforce in the restaurants while mediating the higher costs resulting from lower demand.

4.2 Store leases

Following the entry into force of the state of emergency, Sphera has notified all the lessors to renegotiate or temporarily suspend the rental contracts and entered a detailed and extensive process of renegotiating rental agreements. The negotiations, which are still ongoing at the time of publishing this report, are carried out on an individual basis by Sphera's legal team.

Until June 30th the amount of fixed rent discounts recognized and recorded in accounting was RON 4.5 million, representing the equivalent of approximately one-month fixed rent. Discussions are still in progress for approximately 25% of contracts, so the discounts obtained as a result of these discussions will be reflected in Q3 2020.

4.3 Financing

During the reported period, in the context of coronavirus crisis, the Group has optimized the financing facilities to ensure enough working capital as well as accelerated the recoverability of the amounts due from the state. In H1 2020, the Group has activated existing working capital lines with house bank that was not utilized until the beginning of the pandemic, in the amount of RON 20.3 million, as well as has secured new working capital lines totalling RON 10 million. Additionally, the Group has refinanced the investments with the house bank in the amount of EUR 2.7 million in Q2 2020.

To improve the cash-flow, the Group has accelerated the recoverability of the amounts due from the state – in the period between March 30th, 2020 until the date of publishing of this report, Sphera has recovered RON 23.5 million of VAT (for USFN Romania and CFF) and approximately RON 2.5 million of medical leave indemnity for USFN Romania.

The Group has adopted the provisions of the Emergency Ordinance no 37/2020 regarding the facilities to debtors in respect of the loans granted by credit institutions and non-banking financial institutions, resulting in the postponement of principal amounts of approximately RON 24 million due to banks and leasing companies. Finally, the Group has also implemented several supplier financing measures, including Yum!.

Ongoing business evolution: On August 19th, 2020, the Group (USFN Romania - Borrower and Sphera Franchise Group SA - Guarantor) entered in a short-term credit facility agreement with Intesa Sanpaolo Romania Bank. The uncommitted credit facility amounting to RON 9.6 million is revolving and may be used by the Borrower to finance the working capital needs.

4.4 Marketing & Sales

Following the onset of the coronavirus pandemic in Romania and across the world in mid-March 2020, the marketing budget of the Group was adjusted to match the level of sales. The plans were adapted continuously to the changing market conditions and, especially in Q2 2020, enabled Sphera to retain loyal customers and gain new clients, especially in the delivery segment. The communication campaigns focused on delivery and take-away and promoted the safety measures taken by Sphera in the context of the pandemic. Specific communications campaigns were developed and executed by Sphera to promote core products, value offers, and familiarity with the product range, to engender continuity, stability and availability of the same high-quality offerings.

Collaboration with local food aggregators, FoodPanda, Glovo, Tazz (EuCeManac) and TakeAway in Romania, Glovo, Deliveroo, Just Eat and UberEats in Italy and Straus in the Republic of Moldova became an essential pillar of the revised business and marketing strategy. In March 2020, Sphera focused on renegotiating the contracts and enhancing the cooperation with local food aggregators as well as jointly running dedicated marketing campaigns for promoting delivery. Additionally, special value offers were created and communicated through digital channels to increase penetration among the customers staying at home and to grow the customer base.

The companies of Sphera Group concluded partnerships with aggregators under one of the following two models:

- the restaurants use the aggregator platform as a **marketplace**, where they sell the products and handle the delivery of the order to the client using own delivery services. The fee paid to the aggregator varies around the level of a single-digit percentage of the total value of the order. The exact percentage value is confidential and cannot be disclosed publicly due to contractual requirements; and
- the restaurants work **end-to-end** with the aggregator platform, meaning that the orders are placed with the platform and delivered by its collaborators. For this service, the restaurant pays a two-digit percentage of the value of the order to the platform.

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

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

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

The results registered in H1 2020, especially in Q2 2020, through the partnership with the aggregators were significant for recovering part of revenues lost due to restaurants closing. Similarly, with the approaches of the direct competitors present in the Romanian market, the prices of products available through the third-party aggregator platforms were not increased compared to the standard in-store prices. However, dedicated menus, products and bundles were developed specifically for the aggregators to offer the Group higher margins than the traditional products sold in the store.

All marketing activities that included both digital and TV advertising, carried out in Q2 2020 in partnership with aggregators were done on preferential terms for companies of the Group. As a result, a joint TV campaign of FoodPanda and KFC took place in May and of FoodPanda and Pizza Hut in June. The campaigns promoted the products and bundles of the two brands and offered free delivery. The campaigns resulted in increased sales and an influx of new customers for the two brands.

Overall, given the context, the sales in Q2 2020 evolved under a positive trend, growing from month to month. The growth came from both restaurants that opened after 15 May 2020 and could serve clients in an outdoor setting or provide takeaway as well as significant revenue coming from delivery services. Sales from delivery covered a part of revenue lost from closed restaurants. The silver lining is the fact that a new significant sales channel was developed in H1 2020 – through delivery platforms, that helped access a considerable pool of new clients to the Group. Regardless of how the next months or years evolve, the management considers the progress made in the digital area 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.

With the switch to digital services, it is now easier than ever to better track customers' preferences and better understand their behaviour and critical decision drivers. With OOH and traditional advertising, the capability of brands to understand customer behaviours 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 months as it helped assess the effectiveness of the campaigns in real-time and when necessary, adjustments were made daily to bring better results.

4.5 Donations

Throughout the H1 2020, Sphera Franchise Group remained close to the local community by supporting various causes. Specifically:

- on 1 April 2020, Sphera donated EUR 100,000 (RON 484,000) to the Romanian Red Cross for the acquisition of medical ventilators for coronavirus patients and protective suits for health care workers;
- throughout H1 2020, KFC and Pizza Hut provided food donations for part of the employees of the Public Health Direction Bucharest and the medical staff from the National Institute of Infectious Diseases, Prof. Dr Matei Balş; and Sphera donated part of the raw materials (food products) to different organizations in Bucharest and in the country, supporting people from disadvantaged environments. To-date, these donations of food and raw materials are worth a total of RON 382,790.

5. About Sphera Franchise Group

5.1 Business Overview

Sphera Franchise Group SA is a holding company which includes well-known and power brands such as KFC, Pizza Hut, Pizza Hut Delivery and Taco Bell. Specialized in Quick Service Restaurants, Casual Dine-in Restaurants and Delivery Centers, Sphera Franchise Group operates franchises in Romania, Republic of Moldova, and Italy. As of June 30th, 2020, Sphera operates a total of 153 restaurants in Europe, out of which 135 located in Romania, 16 in Italy and 2 in the Republic of Moldova.

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

Sphera Franchise Group SA is the mother company of:

- a. **US Food Network SA** (USFN Romania), which holds franchise rights to operate restaurants under KFC brand in Romania. Sphera Franchise Group holds a 99.9997% stake in the company. As of June 30th, 2020, USFN Romania operated 81 KFC restaurants.
- b. **American Restaurant System SA** (ARS) which holds franchise rights to operate restaurants under Pizza Hut brand in Romania. Sphera Franchise Group holds a 99.9997% stake in the company. As of June 30th, 2020, ARS operated 23 Pizza Hut restaurants around the country as well as 21 Pizza Hut Delivery units, with the majority being based in Bucharest and Brașov, Cluj, Constanța, Ploiești and Popești-Leordeni.
- c. **California Fresh Flavors SRL** (CFF), which holds franchise rights to operate restaurants under Taco Bell brand in Romania. Sphera Franchise Group holds a 99.9900% stake in the company. As of June 30th, 2020, California Fresh Flavors Romania operated 10 Taco Bell restaurants.
- d. **US Food Network SRL** (USFN Italy), which holds franchise rights to operate restaurants under KFC brand in selected north regions of Italy. Sphera Franchise Group owns a 100% stake in the company. As of June 30th, 2020, USFN Italy operated 16 KFC restaurants.
- e. **US Food Network SRL** (USFN Moldova), which holds franchise rights to operate restaurants under KFC brand in Republic of Moldova. Sphera Franchise Group holds an 80% stake in the company. As of June 30th, 2020, USFN Moldova operated 2 KFC restaurants in Chișinău.

Sphera Franchise Group SA was incorporated on May 16th, 2017. The Group's shares floated on the Main Market of the Bucharest Stock Exchange on November 9th, 2017 after a successful Initial Public Offering. Since September 24th, 2018, the shares of Sphera Franchise Group, available under "SFG" symbol are included in the Main Index of Bucharest Stock Exchange, BET, which is the benchmark index for the Romanian capital market. Sphera Franchise Group is the first and the only foodservice operator listed on the Bucharest Stock Exchange.

5.2 Brands



KFC is the world's second-largest restaurant chain as measured by sales. KFC is a quick-service restaurant specialized in fried chicken and chicken meals. As of December 2019, there were 22,621 KFC Restaurants globally, located in 150 countries around the world. KFC was launched in Bucharest, Romania in 1997.



Pizza Hut is a casual dine-in restaurant, known for its Italian American cuisine. With 18,703 restaurants across the globe, it is the world's largest pizza chain in terms of locations. Restaurants serve a diverse menu which includes pizza and pasta, salads as well as side dishes and desserts. Pizza Hut entered the Romanian market in 1994, with the opening of its first location on Calea Dorobanților in Bucharest.



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



Taco Bell is the world's leading Mexican-inspired quick service restaurant (QSR). The restaurants serve a variety of Mexican inspired foods that include tacos, burritos, quesadillas, nachos, novelty and specialty items and a range of "value menu" products. The first Taco Bell store was launched in Bucharest, Romania, by Sphera Franchise Group in October 2017.

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

5.3 Key Management

On April 23rd, 2020, Mr. Georgios Argentopoulos' mandate agreement as Chief Executive Officer was terminated by parties' mutual written consent, effective immediately. In the same meeting, the Board of Directors took note of the resignation of Mr. Georgios Argentopoulos to the mandate of director and to the office of Chairman of the Board within Sphera Franchise Group SA, which became effective starting with May 28th, 2020.

As of June 30th, 2020, the Board of Directors of Sphera Franchise Group consisted of six Board Members:

- Anastasios Tzoulas – Vice-Chairman of the Board (independent)
- Silviu-Gabriel Cârmaci, Member of the Board
- Georgios-Vassilios Repidonis, Member of the Board
- Lucian Hoancă, Member of the Board
- Valentin Arnaoutou, Member of the Board (independent)
- Răzvan Lefter, Member of the Board (independent)

On April 24th, 2020, the Board of Directors of Sphera Franchise Group appointed Mr. Calin Ionescu as Interim Chief Executive Officer. Following the appointment, Mr. Calin Ionescu has also retained the office of the Chief Operating Officer within the Group.

As of June 30th, 2020, the day-to-day management of Sphera Franchise Group is ensured by the executive team:

- Calin Ionescu, Interim Chief Executive Officer and Chief Operating Officer
- Valentin Budes, Chief Financial Officer
- Cristian Osiac, Chief Development Officer
- Monica Eftimie, Chief Marketing Officer

6. Risks and Expectations regarding H2 2020

Given the instability caused by the global evolution of the pandemic as well as the continuously growing number of cases, especially in Romania and in the Republic of Moldova, the management abstains from making any detailed predictions regarding the performance in the H2 2020. Nonetheless, the management would like to bring attention to the most critical risks as foreseen in H2 2020.

Risks related to ordering a lockdown – In the context of COVID-19 pandemic, there 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 in H1 2020 and the almost complete reliance on the delivery and take-out services to generate revenues have prepared the Group for another potential lockdown in H2 2020 this lowering the extent of the negative impact of this risk. This, however, does not mean that the Group will be able to recover its financial results to the pre-pandemic levels in the course of 2020.

Risks related to the 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. This risk is especially highlighted for H2 2020 as there is a consensus amongst the economists that the novel coronavirus pandemic will negatively affect the global economy. 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 leading new clients, amongst the customers who may substitute more expensive dining options with Group's products.

Risks related to the competitive environment – The Group operates in a highly competitive market, particularly concerning food quality, price, service, convenience and concept, which in turn may be affected by considerations such as changes in consumer preferences. The Group competes against international chains, national, regional and local businesses in the quick-service, casual dine-in and delivery and takeaway restaurant sectors. This competition can put downward pressure on product prices and demand for the Group's products. In the current context, the Group has decided to include the food aggregators in its sales strategy as of H1 2020 to increase the customer base and extend the delivery coverage while avoiding the increase in personnel costs. This decision has allowed the Group to recover part of the revenues lost due to the temporary closing of the restaurants.

Risk related to limited access to foodstuffs and the variability of their cost – The Group needs to ensure frequent deliveries of fresh agricultural products and foodstuffs. The Group cannot rule out the risk related to delivery deficits or interruptions caused by factors such as unfavourable weather conditions, changes in legal regulations or withdrawing some foodstuffs from trading. The demand for certain products paired with a limited supply may lead to difficulties in obtaining them as well as price increases, thus having an adverse effect on the Groups results. There is a risk related to the fact that limited portion of Sphera's supplies comes from the UK and following the Brexit, an increase in prices of those supplies might be registered. To mitigate this risk, the Group's procurement division has prepared to switch to alternative providers if the above situation occurs.

Price risk - Cost of sales represents the most significant expense of the Group. Gross margin is affected by several factors, including movements in the cost of sales, the extent to which the Group can negotiate favourable 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 case the primary suppliers cannot deliver the components in the contracted amounts and specifications, the Group's requirements exceed the minimum contracted amounts, or the Group is subjected to unanticipated price increases. Market conditions generally set prices of the Group's raw materials, and it might not be possible to pass these charges immediately onto customers. In the context of the COVID-19, in H1 2020 there were no significant disruptions on supply chain procurement however there is a risk that it could happen in H2 2020.

Risk related to 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 increase the risk of food-borne illness incidents to all of 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 our 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 of 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.

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

Investors should consider that the risks presented above are the most significant risks for the H2 2020 that Sphera Franchise Group is aware of at the time of redacting this report. However, the risks presented in this section do not include all the risks associated with the issuer's activity, and the Group cannot guarantee that it includes all the relevant risks for H2 2020. There may be other risk factors and uncertainties of which the Group or the companies within the Group is not aware at the time of preparing this report and which may in future modify the actual results, financial conditions, performances and achievements of the issuer and may lead to a decrease in the price of the Group's shares. Investors should undertake pre-requisite checks to prepare their investment opportunity assessment. The management recommends investors to read a more elaborated list of risks that Sphera Franchise Group is subject to, that was included in the Listing Prospectus, available [here](#), which nonetheless cannot be treated as exhaustive.

7. Declaration of the Management

We confirm to the best of our knowledge that the unaudited interim condensed consolidated financial statements for the six-month period ended 30 June 2020 give a true and fair view of Sphera Franchise Group's assets, liabilities, financial position and profit and loss, as required by the applicable accounting standards, and that the Directors' Report gives a true and fair view of important events that have occurred during the first six months of the 2020 financial year and their impact on the interim condensed consolidated financial statements.

Bucharest, 27 August 2020

Interim Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes

Interim Condensed Consolidated Financial Statements as at and for the six-month period ended 30 June 2020 (unaudited)

The interim condensed consolidated financial statements presented below are prepared in accordance with International Financial Reporting Standards, as adopted by European Union ("IFRS").

The interim condensed consolidated financial statements are unaudited.

SPHERA FRANCHISE GROUP SA

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020 (UNAUDITED)**

	Note	Six-month period ended	
		30 June 2020	30 June 2019
Restaurant sales		304,580	445,567
Restaurant expenses			
Food and material expenses		100,793	154,699
Payroll and employee benefits	4	71,315	106,321
Rent		3,409	9,713
Royalties		17,884	26,075
Advertising		14,429	20,387
Other operating expenses, net	5	46,582	44,061
Depreciation, amortization and impairment of non-current assets	7	42,063	33,464
Restaurant operating profit		8,104	50,846
General and administration expenses, net	6	23,915	26,410
Operating profit/(loss)		(15,810)	24,437
Finance costs	8	9,303	9,341
Finance income		88	63
Profit/(Loss) before tax		(25,026)	15,158
Income tax expense		1,313	1,455
Profit/(Loss) for the period		(26,339)	13,703
Attributable to:			
Equity holders of the parent		(26,321)	13,602
Non-controlling interests		(18)	101
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Exchange differences on translation of foreign operations		80	(176)
Total comprehensive income for the period, net of tax		(26,259)	13,526
Attributable to:			
Equity holders of the parent		(26,239)	13,436
Non-controlling interests		(19)	90

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020
(UNAUDITED)**

	30 June 2020	31 December 2019
Assets		
Non-current assets	508,632	508,147
Property, plant and equipment	200,252	199,415
Right-of-use assets	228,697	229,121
Intangible assets	64,079	64,835
Deposits for rent guarantee	9,020	8,416
Deferred tax assets	6,584	6,360
Current assets	122,259	112,082
Inventories	10,057	11,632
Trade and other receivables	29,105	39,289
Prepayments	2,190	3,889
Cash and short-term deposits	80,906	57,272
Total assets	630,891	620,229
Equity and liabilities		
Equity		
Issued capital	581,990	581,990
Share premium	(519,998)	(519,998)
Other reserves	(1,178)	(1,178)
Retained earnings	71,402	111,402
Foreign currency translation reserve	(84)	(166)
Equity attributable to equity holders of the parent	132,131	172,050
Non-controlling interests	182	201
Total equity	132,313	172,251
Non-current liabilities	296,423	265,596
Interest-bearing loans and borrowings	100,413	73,617
Lease liabilities	193,180	190,073
Net employee defined benefit liabilities (Note 5)	2,830	1,906
Current liabilities	202,155	182,381
Trade and other payables	110,068	101,696
Interest-bearing loans and borrowings	45,704	34,427
Lease liabilities	46,384	45,139
Provisions	-	1,120
Total liabilities	498,578	447,978
Total equity and liabilities	630,891	620,229

SPHERA FRANCHISE GROUP SA

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020
(UNAUDITED)**

All amounts in RON thousand, unless specified otherwise

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020 (UNAUDITED)

	Issued capital	Share premium	Other reserves	Retained earnings	Foreign currency translation reserve	Total equity	Non-controlling interest	Total equity
As at 1 January 2020	581,990	(519,998)	(1,178)	111,402	(166)	172,049	202	172,251
Loss for the period	-	-	-	(26,321)	-	(26,321)	(18)	(26,339)
Other comprehensive income								
Translation differences	-	-	-	-	82	82	(1)	80
Total comprehensive income	-	-	-	(26,321)	82	(26,239)	(19)	(26,259)
Cash dividends	-	-	-	(13,679)	-	(13,679)	-	(13,679)
At 30 June 2020	581,990	(519,998)	(1,178)	71,402	(84)	132,131	182	132,313

	Issued capital	Share premium	Retained earnings	Foreign currency translation reserve	Total equity	Non-controlling interest	Total equity
As at 1 January 2019, as previously reported	581,990	(520,578)	67,248	20	128,680	146	128,826
Impact of change in accounting policies (IFRS 16)	-	-	3,179	-	3,179	47	3,227
As at 1 January 2019	581,990	(520,578)	70,428	20	131,859	194	132,053
Profit for the period	-	-	13,602	-	13,602	101	13,703
Other comprehensive income							
Translation differences	-	-	-	(165)	(165)	(11)	(176)
Total comprehensive income	-	-	13,602	(165)	13,436	90	13,526
Transfer to share premium	-	580	(580)	-	-	-	-
Cash dividends	-	-	(13,673)	-	(13,673)	(216)	(13,889)
At 30 June 2019	581,990	(519,998)	69,776	(145)	131,623	68	131,691

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020 (UNAUDITED)

	Six-month period ended	
	30 June	30 June
	2020	2019
Operating activities		
Profit/(Loss) before tax	(25,026)	15,158
Adjustments to reconcile profit/(loss) before tax to net cash flows:		
Depreciation of right-of-use assets	25,898	21,707
Depreciation and impairment of property, plant and equipment	16,736	12,454
Amortisation and impairment of intangible assets	1,659	1,460
Rent concessions	(4,419)	-
Unrealised net foreign exchange differences	3,208	3,711
(Gain)/Loss on disposal of property, plant and equipment	42	1
Finance income	(88)	(63)
Finance costs (interest)	6,645	5,687
Working capital adjustments:		
Decrease/(Increase) in trade and other receivables and prepayments	17,726	(18,160)
Decrease in inventories	1,573	326
Increase in trade and other payables	3,436	5,310
Interest received	88	63
Interest paid	(6,592)	(5,581)
Income tax paid	(2,460)	(2,341)
Net cash flows from operating activities	38,426	39,732
Investing activities		
Proceeds from sale of property, plant and equipment	86	14
Purchase of intangible assets	(904)	(3,565)
Purchase of property, plant and equipment	(17,701)	(34,214)
Net cash flows used in investing activities	(18,519)	(37,765)
Financing activities		
Proceeds from borrowings	48,714	11,232
Repayment of borrowings	(11,601)	(15,038)
Payment of lease liabilities	(19,723)	(19,868)
Dividends paid to equity holders of the parent	(13,671)	-
Dividends paid to non-controlling interests	-	-
Net cash flows used in financing activities	3,719	(23,674)
Net increase in cash and cash equivalents	23,626	(21,707)
Net foreign exchange differences	8	(209)
Cash and cash equivalents at 1 January	57,272	90,665
Cash and cash equivalents at 30 June	80,906	68,750

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020 (UNAUDITED)

1 CORPORATE INFORMATION

These interim condensed consolidated financial statements are prepared by Sphera Franchise Group SA and comprise its activities and those of its subsidiaries, together referred hereinafter as "SFG" or "the Group". Sphera Franchise Group SA is listed on Bucharest Stock Exchange under the symbol "SFG".

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

The Group operates quick service and takeaway restaurant concepts (a chain of 99 restaurants) under the Kentucky Fried Chicken ("KFC"), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates a chain of pizza restaurants (23 restaurants as at 30 June 2020) as well as pizza delivery points (21 locations as at 30 June 2020) under the Pizza Hut ("PH") and Pizza Hut Delivery ("PHD") brands, spread across Romania, one chain of restaurants under the "Taco Bell" brand (10 restaurants as at 30 June 2020) and one restaurant under Paul brand, in Romania.

US Food Network SA (USFN), the subsidiary which operates the KFC franchise in Romania was incorporated in 1994 as a joint stock company and is registered at No. 28-30 Gheorghe Magheru Boulevard, Bucharest, Romania.

American Restaurant System SA (ARS) operating the Pizza Hut and Pizza Hut Delivery franchises was incorporated in 1994 as a joint stock company and is registered at No. 5-7 Calea Dorobantilor Street, Bucharest, Romania.

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

The Italian subsidiary, US Food Network Srl operating the KFC franchise in Italy was incorporated in 2016 as a limited liability company and is registered at No. 6 Via Pietro Paleocapa Street, Milano, Italy. The Group owns 100% of the company's shares.

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

2 BASIS OF PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed unaudited financial statements of the Group as of and for the six-month period ended 30 June 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting.

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2019.

The interim condensed consolidated financial statements for six-month period ended 30 June 2020 included in this report are unaudited.

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General accounting policies

The accounting policies and valuation methods adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for adoption of the new amendment to IFRS 16, COVID-19-Related Rent Concessions, issued by IASB in May 2020 and effective for the periods beginning on or after 1 June 2020, with earlier application permitted.

All other amendments effective since 1 January 2020 do not have a material effect on the Group's condensed consolidated financial statements. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

COVID-19-Related Rent Concessions - Amendment to IFRS 16 Leases (the amendment).

The IAS Board has amended the standard to provide optional relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The amendments do not apply to lessors.

Under the standard's previous requirements, lessees assess whether rent concessions are lease modifications and, if so, apply the specific guidance on accounting for lease modifications. This generally, involves complex calculations as remeasuring the lease liability using the revised lease payments and a revised discount rate.

As a practical expedient, a lessee may elect not to assess whether a COVID-19 related lease concession from a lessor is a lease modification. A lessee that makes this election accounts for any qualifying change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16 if the change was not a lease modification. A lessee may elect to apply the practical expedient consistently to contracts with similar characteristics and in similar circumstances.

The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021;
- There is no substantive change to other terms and conditions of the lease.

For the six-month period ended 30 June 2020, the Group has used the practical expedient allowed by the amendment to the IFRS 16 and recognized the benefit of the rent concession received in profit or loss as if it was a variable lease payment, as follows:

	Six-month period ended 30 June 2020
Variable lease payments and expenses related to short-term leases included in restaurant expenses – Rent	7,497
Rent concessions included in restaurant expenses	(4,088)
Rent presented in Restaurant expenses	3,409
Expenses relating to leases of low value assets and short-term leases included in administrative expenses	309
Rent concessions included in administrative expenses	(332)
Rent in "General and administration expenses, net"	(23)
Foreign currencies	

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

The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

The exchange rate RON – EUR as at 30 June 2020 and 31 December 2019 were:

	30 June 2020	31 December 2019
RON – EUR	4.8423	4.7793
RON – USD	4.3233	4.2608
RON – MDL	0.2490	0.2481

Transactions and balances

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

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

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is classified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into RON at the rate of exchange prevailing at the reporting date and their revenues and expenses are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in the profit or loss.

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3 GROUP INFORMATION

Investments in controlled companies

Details of the Group consolidated subsidiaries at 30 June 2020 and 31 December 2019 are as follows:

Company name	Country of incorporation	Field of activity	Control	Control
			30 June 2020	31 December 2019
US Food Network SA	Romania	Restaurants	99.9997%	99.9997%
American Restaurant System SA	Romania	Restaurants	99.9997%	99.9997%
California Fresh Flavours SRL	Romania	Restaurants	99.9900%	99.9900%
US Foods Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%	100.0000%

The value of non-controlling interests in USFN, ARS si CFF of 30 June 2020 is below 1 thousand RON therefore there are no other presentations thereof.

4 PAYROLL AND EMPLOYEE BENEFITS

	Six-month period ended	
	30 June 2020	30 June 2019
Payroll and employee benefits recognized in restaurant expenses	89,958	106,321
Government grants for technical unemployment recognised in restaurant expenses	(18,643)	-
Payroll and employee benefits recognised in restaurant expenses	71,315	106,321
Payroll and employee benefits recognized in "General and administration expenses, net"	16,082	15,808
Government grants for technical unemployment recognised in "General and administration expenses, net"	(452)	-
Payroll and employee benefits recognized in "General and administration expenses, net"	15,630	15,808
Total Payroll and employee benefits	86,945	122,129

Government grants for the technical unemployment indemnity refer to the financial support granted by the governments in the countries when the Group operates, as part of the supportive measures for the employee-related costs incurred by the companies affected by a temporary reduction and/or interruption of activity due to COVID-19 pandemic.

Payroll costs of 388 representing the value of project management and other technical activities performed by the Group's employees during the six-month period ended 30 June 2020 (412 during the six-month period ended 30 June 2019) for the construction or refurbishment of restaurants were capitalised in the cost of construction of the non-current assets.

Net employee defined benefit liabilities (Italian subsidiary)

In accordance with the local labour regulations, Italian companies have to pay to their employees a leaving-service indemnity ("TFR"). The accrual for termination benefits in amount of 2,830 (1,906 as at 31 December 2019) was calculated as a career-average lump sum, in accordance with the Italian statutory regulations. The Group performs an actuarial computation of these termination benefits in line with the IAS 19 "Employee benefits".

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5 OTHER OPERATING EXPENSES, NET

	Six-month period ended	
	30 June 2020	30 June 2019
Third-party services	23,381	15,320
YUM penalties (Note 11)	791	-
Utilities	9,726	12,020
Maintenance and repairs	4,417	5,857
Cleaning supplies	2,716	3,774
Transport	2,236	3,376
Small-wares	853	1,964
Telephone and postage	392	455
Insurance	375	401
Net (gain)/loss on disposal of property, plant and equipment	42	-
Miscellaneous expenses and income, net	1,655	894
Total	46,582	44,061

6 GENERAL AND ADMINISTRATION EXPENSES, NET

	Six-month period ended	
	30 June 2020	30 June 2019
Payroll and employee benefits	15,630	15,808
Third-party services	2,603	4,051
Depreciation and amortization	2,231	2,158
Rent	(23)	237
Banking charges	1,304	1,561
Transport	617	1,315
Maintenance and repairs	147	162
Small-wares	26	174
Insurance	265	274
Advertising	487	144
Telephone and postage	131	195
Miscellaneous expenses and income, net	496	331
Total	23,915	26,410

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7 DEPRECIATION AND AMORTIZATION

	Six-month period ended	30 June	30 June
	2020	2019	
Depreciation and amortization of right-of-use assets, recognized in "Restaurant expenses"	24,367	20,334	
Depreciation, amortization and impairment of property, plant and equipment and intangible assets, recognized in "Restaurant expenses"	17,696	13,130	
Depreciation, amortization and impairment recognized in "Restaurant expenses"	42,063	33,464	
Depreciation and amortization of right-of-use assets recognized in "General and administration expenses, net"	1,531	1,373	
Depreciation, amortization and impairment of property, plant and equipment and intangible assets recognized in "General and administration expenses, net"	700	785	
Depreciation, amortization and impairment recognized in "General and administration expenses, net"	2,231	2,158	
Total depreciation and amortization	44,294	35,622	

8 FINANCE COSTS

	Six-month period ended	30 June	30 June
	2020	2019	
Interest on loans and borrowings	2,300	2,284	
Interest expense on lease liabilities	4,345	3,403	
Interest cost on benefit obligation	5	-	
Foreign exchange loss, net	2,653	3,654	
Total finance costs	9,303	9,341	

9 INTEREST-BEARING LOANS AND BORROWINGS

	Interest rate, %	Maturity	30 June 2020	31 December 2019
Current interest-bearing loans and borrowings				
Bank loan	EURIBOR 3M + relevant spread	5 years from each withdrawal	39,675	34,427
Short term working capital facility	ROBOR 3M + relevant spread	1 year from contract date	6,029	0
Total current interest-bearing loans and borrowings			45,704	34,427
Non-current interest-bearing loans and borrowings				
Bank loan	EURIBOR 3M + relevant spread	5 years from each withdrawal	100,413	73,617
Total non-current interest-bearing loans and borrowings			100,413	73,617
Total interest-bearing loans and borrowings			146,117	108,044

The Group has a credit facility from Alpha Bank Romania and a short-term credit facility from Vista Bank Romania.

Credit facility from Alpha Bank Romania is made up of 8 cash sub-limits, out of which it can be accessed by companies included in the consolidation, as follows: credit facility for the development of new locations, issuance of bank guarantee letters, credit card, financing of Moldova subsidiary, financing of working capital and financing of Italian subsidiary and overdraft payments. The loan is secured with property, plant and equipment of each restaurant location for which the credit limit has been utilised, pledge on business goodwill, pledge on current accounts opened with the bank, promissory notes issued, pledge on receivables from and shares owned by the Group in its Moldova and Italia subsidiary.

As a result of a request made to Alpha Bank Romania by the Borrowers on the base of Emergency Ordinance 37/2020, the parties agreed by an addendum to loan contract to suspend temporarily all loan principal payments due by the Borrowers between and including 11 May 2020 and 31 December 2020. All principal amounts initially due during suspension period will be paid beginning 1 January 2021 and loan maturities will be postponed in accordance. The split between current and non-current loans and borrowings takes into account new loan repayment schedule agreed by the parties by addendum to loan contract. Interest payments are not suspended.

Starting with 29 May 2020, Sphera entered in a short-term borrowing arrangement with Vista Bank Romania. Credit facility is revolving and may be used by the Borrower during 12 months for financing of working capital needs and of generic company costs, as well as intragroup loans.

SPHERA FRANCHISE GROUP SA**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020 (UNAUDITED)***All amounts in RON thousand, unless specified otherwise***Covenants:**

The Group's borrowing arrangement with the Alpha Bank Romania contains several covenants, mainly of quantitative nature, out of which the most important relates to the ratio bank net debt, including non-cash loan utilized for letter of guarantee / EBITDA at a consolidated level, excluding the impact of IFRS 16, which should not exceed at any point in time 2.5.

Breaches in meeting the financial covenant at Group consolidated level would permit the bank to call the loan amount needed to meet the financial covenant. There have been no breaches of the consolidated financial covenant for the year ended 31 December 2019 as well as for the six -month period ended 30 June 2020.

Breaches in meeting standalone financial covenants allow the bank to cease any loan disbursement to the affected company and to immediately call the loan.

As of 30 June 2020 and 31 December 2019, the equity ratio individual covenant of ARS was not met and, as no waiver was received from the bank, the long-term outstanding balance of ARS bank loans and borrowing of 1,311 (2019: 976) has been recorded as a current liability.

The Group's borrowing arrangement with Vista Bank Romania does not contains quantitative covenants. The loan is secured with pledge on current accounts opened with the bank and promissory note.

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

	31 December 2019	Non-cash changes			Cash changes			30 June 2020
		Interest accrual	Bank charges related to financing	Foreign exchange gains/losses	Drawings	Repayments	Interest paid	
Interest-bearing loans and borrowings	108,044	2,227	73	739	48,714	(11,601)	(2,057)	(23) 146,117

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10 ISSUED CAPITAL

	30 June 2020	31 December 2019
Authorised shares		
Ordinary shares of 15 RON each	38,799,340	38,799,340
Share capital (RON thousand)	581,990	581,990

The shareholders of Sphera Franchise Group SA at 30 June 2020 and 31 December 2019, respectively are: Tatika Investments Ltd. (27.3300%), Computerland Romania SRL (21.4347%), Wellkept Group SA (16.3400%), Lunic Franchising and Consulting LTD (10.9900%) and free float (23.9053%).

At the Ordinary General Shareholders Meeting held on 02 March 2020, the shareholders of Sphera Franchise Group SA approved the distribution of the net profit remained undistributed related to 2018 financial year, respectively of the amount of 13,679. The payment of the dividends has started on 31 March 2020.

11 EBITDA

	Six-month period ended	
	30 June 2020	30 June 2019
Operating profit/(loss)	(15,810)	24,437
Adjustments to bridge operating profit/(loss) to EBITDA:		
Depreciation, amortization and impairment included in restaurant expenses	42,063	33,464
Depreciation, amortization and impairment included in general and administration expenses	2,231	2,158
EBITDA	28,483	60,058
Non-recurring expenses	791	-
Normalised EBITDA	29,274	60,058

For the six-month period ended 30 June 2020, EBITDA was normalized to exclude the accrued penalties due to Pizza Hut Europe (Master Franchisor - YUM!) for the restaurants committed to be opened in 2019 and postponed for the future periods (Note 5).

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12 RELATED PARTY DISCLOSURES

During the six-month period ended 30 June 2020 and 30 June 2019 respectively, the Group has carried out transactions with the following related parties:

Related party	Nature of the relationship	Country of incorporation	Nature of transactions
Moulin D'Or SRL	Entity with common members of key management personnel	Romania	Sale of goods and services
Midi Development SRL	Entity with common members of key management personnel	Romania	Services
Grand Plaza Hotel SA	Entity affiliated to a shareholder of the parent	Romania	Rent and utilities store PH Dorobanti
Arggo Software Development and Consulting SRL	Entity affiliated to a shareholder of the parent	Romania	Implementation services
Lunic Franchising and Consulting LTD	Shareholder (since November 2019)	Cyprus	Payment of dividends
Wellkept Group SA	Shareholder	Romania	Rent training center and payment of dividends
Tatika Investments Ltd.	Shareholder	Cyprus	Payment of dividends
Computerland Romania SRL	Shareholder	Romania	Payment of dividends
Cinnamon Bake&Roll SRL	Entity with common members of key management personnel	Romania	Sale of goods and services, loans provided
Lucian Vlad	Beneficial owner of Lunic Franchising and Consulting Ltd.	Romania	Rent store KFC Mosilor
Radu Dimofte	Beneficial owner of Wellkept Group SA	Romania	Rent store KFC Mosilor
Elicom SRL	Entity affiliated to a shareholder of the parent	Romania	Call-centre services
Elicom Connect SRL	Entity affiliated to a shareholder of the parent	Romania	Marketing services
Dorobanti 239 Imobiliare SRL	Entity affiliated to a shareholder of the parent	Romania	Rent and utilities for restaurant and administrative area
Baneasa Developments SRL	Entity affiliated to a shareholder of the parent	Romania	Restaurant rent
Baneasa Investments SA	Entity affiliated to a shareholder of the parent	Romania	Restaurant rent

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

	Transactions during the six-month period ended 30 June 2020		Balances as at 30 June 2020	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL	-	7	696	9
Moulin D'Or SRL	163	3	194	-
Lucian Vlad	-	109	-	18
Radu Dimofte	-	45	-	8
Wellkept Group SA	-	194	-	129
Midi Development SRL	7	-	-	-
Grand Plaza Hotel SA	-	258	67	39
Arggo Software Development and Consulting SRL	-	391	-	363
Elicom SRL	-	648	-	132
Elicom Connect SRL	-	5	-	2
Dorobanti 239 Imobiliare SRL	-	1,177	-	-
Baneasa Developments SRL	-	1,489	-	77
Baneasa Investments SA	-	187	128	140
	170	4,513	1,085	917

	Transactions during the six-month period ended 30 June 2019		Balances as at 31 December 2019	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Cinnamon Bake&Roll SRL	6	3	974	2
Moulin D'Or SRL	624	30	753	2
Lucian Vlad	-	168	-	-
Radu Dimofte	-	70	-	-
Wellkept Group SA	-	231	-	2
Midi Development SRL	4	5	-	-
Grand Plaza Hotel SA	-	536	-	16
Arggo Software Development and Consulting SRL	-	142	-	13
Elicom SRL	-	575	-	165
Elicom Connect SRL	-	5	-	1
Dorobanti 239 Imobiliare SRL	-	1,468	-	18
Baneasa Developments SRL	-	1,963	-	63
Baneasa Investments SA	-	275	128	-
	634	5,471	1,855	282

The Group has granted a loan to Cinnamon Bake&Roll SRL. The loan balance as at 30 June 2020 was of 638 (31 December 2019: 734) and the interest accrual as at 30 June 2020 was of 58 (31 December 2019: 51).

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Intangibles in progress include an amount of 1,129 (31 December 2019: 949) representing the capital expenditure related to the new ERP system implementation services provided by Arggo Software and Development SRL.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the period end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the six months periods ended 30 June 2020 and for similar period of the year 2019, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group:

	Six months ended	
	30 June	30 June
	2020	2019
Short-term employee benefits	5,191	3,761
Total compensation paid to key management personnel	5,191	3,761

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

13 SEGMENT INFORMATION

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

- KFC restaurants
- Pizza Hut restaurants
- Taco Bell restaurants

The Group has also two more immaterial operating segment, being one Paul restaurant, which is managed by USFN and which was aggregated into the KFC segment and the management and other support services provided by Sphera to other related parties.

The Group's service revenues in amount of 166 (2019: 636) resulting from the contracts signed with other related parties are presented in the "Other" category. The parent-company's revenues from services rendered to its subsidiaries are presented in the "Inter-segment revenues" line and eliminated during consolidation.

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

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

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Six-month period ended 30 June 2020	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	255,557	36,848	12,008	166	-	304,580
Inter-segment revenues				12,133	(12,133)	-
Operating expenses	258,548	45,154	13,935	14,847	(12,094)	320,390
Segment operating profit/(loss)	(2,991)	(8,306)	(1,927)	(2,548)	(39)	(15,811)
Finance costs	7,753	1,085	1,085	873	(1,492)	9,303
Finance income	571	9	-	1,000	(1,492)	88
Income taxes	692	362	67	192	-	1,313
Net profit/(loss)	(10,865)	(9,745)	(3,078)	(2,613)	(39)	(26,339)
Total assets	505,517	70,073	37,550	79,788	(62,037)	630,891
Total liabilities	421,329	74,285	47,924	63,127	(108,086)	498,578
Six-month period ended 30 June 2019	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	367,469	63,508	13,956	635	-	445,567
Inter-segment Revenues				12,767	(12,767)	-
Dividend revenues				51,239	(51,239)	-
Operating expenses	337,561	66,410	14,740	15,141	(12,721)	421,130
Segment operating profit	29,908	(2,902)	(784)	49,500	(51,285)	24,437
Finance costs	7,150	1,690	771	1,008	(1,277)	9,341
Finance income	449	4	-	886	(1,277)	63
Income taxes	771	785	103	(204)	-	1,455
Net profit/(loss)	22,437	(5,373)	(1,658)	49,583	(51,285)	13,703
Total assets	430,993	68,560	27,249	134,029	(85,519)	575,313
Total liabilities	394,237	80,405	33,564	63,096	(127,680)	443,622
Total assets	459,009	67,672	38,923	108,256	(53,631)	620,229
Total liabilities	363,911	82,148	46,219	54,907	(99,207)	447,978

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

Geographic information:

	Six-month period ended	
	30 June 2020	30 June 2019
Revenue from external customers		
Romania	270,585	400,960
Italy	30,640	39,196
Republic of Moldova	3,354	5,411
Total restaurant revenue	304,580	445,567

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

14 EVENTS AFTER THE REPORTING PERIOD

In July 2020, the Group opened three more restaurants under KFC brand, two restaurants in Romania (Bucharest Vulcan DT and Baia-Mare Value Center) and one restaurant in Italy, Bari Stazione Centrale. In August 2020, the Group opened a new restaurant under KFC brand in Dambovita Mall in Targoviste.

In August 2020, the Group (USFN Romania - Borrower and Sphera Franchise Group SA - Guarantor) entered in a short-term credit facility agreement with Intesa Sanpaolo Romania Bank. The uncommitted credit facility amounting to RON 9.6 million is revolving and may be used by the Borrower to finance the working capital needs.

Interim Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes