AmRest Holdings N.V.

Consolidated Financial Statements

as at and for the twelve months ended 31 December 2007

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Consolidated Income Statement
for the twelve months ended 31 December 2007 and 31 December 2006

in thousands of Polish zloty	Note	2007	2006 (restated)
Restaurant sales	3	853 355	629 326
Restaurant expenses:	5		
Cost of food		(284 332)	(210 926)
Direct marketing expenses		(38 991)	(30 590)
Direct depreciation and amortization expenses		(49 388)	(40 177)
Payroll and employee benefits		(163 017)	(119 331)
Continuing franchise fees		(50 244)	(37 300)
Occupancy and other operating expenses		(148 486)	(105 600)
Total restaurant expenses		(734 458)	(543 924)
Gross profit on sales		118 897	85 402
General and administrative expenses (G&A)	5	(54 587)	(41 434)
Depreciation and amortization expenses (G&A)	5	(2 809)	(3 416)
Other operating income	6	8 441	5 505
(Loss)/gain on disposal of property, plant and equipment and intangibles	10	(1 155)	1 411
Impairment losses	5	(1 708)	(3 117)
Operating profit		67 079	44 351
Finance income	3,7	3 682	8 671
Finance cost	3,8	(7 963)	(4 847)
Share of profit of associates	3,30	1 132	637
Profit before tax	9	63 930	48 812
Income tax expense	3,9	(15 237)	(10 287)
Profit for the period		**48 693**	**38 525**
Attributable to:			
Minority interest		291	59
Equity holders of the parent		48 402	38 466
Basic earnings per share in Polish zloty	28	3.50	2.85
Diluted earnings per share in Polish zloty	28	3.47	2.84

Consolidated income statement should be analyzed together with the accompanying notes to the consolidated financial statements.

Consolidated balance sheet
as at 31 December 2007 and 31 December 2006

in thousands of Polish zloty	Note	2007	2006 (restated)
Assets			
Property, plant and equipment	10	263 487	191 705
Goodwill	12	155 353	23 516
Other intangible assets	11	13 955	12 829
Investment in associates	3,30	2 353	1 221
Other non-current assets	13	47 952	17 726
Deferred tax asset	9	12 279	9 802
Total non-current assets		495 379	256 799
Inventories	14	11 594	8 134
Trade and other receivables	15	16 733	11 460
Corporate income tax receivables		403	-
Other current assets	16	11 621	5 976
Held-to-maturity assets	17	-	9 984
Cash and cash equivalents	17	46 873	25 241
Assets held for sale	18	-	3 861
Total current assets		87 224	64 656
Total assets	3	582 603	321 455
Equity	19		
Share capital		544	519
Reserves		320 532	219 137
Accumulated deficit		(58 917)	(97 383)
Profit for the period		48 402	38 466
Translation reserve		(23 454)	(4 943)
Equity attributable to shareholders of the parent		287 107	155 796
Minority interest		4 316	79
Total equity		291 423	155 875
Liabilities			
Interest-bearing loans and borrowings	20	124 146	72 140
Finance lease liabilities	25	4 160	3 326
Employee benefits	21	1 221	913
Provisions	22	2 820	5 565
Deferred tax liabilities	9	2 216	760
Other non-current liabilities	23	1 275	1 721
Total non-current liabilities		135 838	84 425
Interest-bearing loans and borrowings	20	38 552	918
Finance lease liabilities	25	1 442	68
Trade and other accounts payable	24	111 550	77 903
Income tax liabilities		3 798	2 266
Total current liabilities		155 342	81 155
Total liabilities	3	291 180	165 580
Total equity and liabilities		582 603	321 455

Consolidated balance sheet should be analyzed together with the accompanying notes to the consolidated financial statements.

Consolidated statement of cash flows
for the twelve months ended 31 December 2007 and 31 December 2006

in thousands of Polish zloty	Note	2007	2006 (restated)
Cash flows from operating activities			
Profit before tax		63 930	48 812
Adjustments for:			
Share of profit of associates	30	(1 132)	(637)
Amortization	11	6 198	6 108
Depreciation	10	45 999	37 485
Interest expense, net	7,8	3 655	3 577
Foreign exchange gain, net	7	(2 167)	(4 726)
Loss/(gain) on disposal of property, plant, equipment and intangibles	10	1 155	(1 411)
Impairment of assets	5	1 694	2 540
Equity–settled share based payments expenses	21	1 433	497
Waiver of loan from a related party	7	-	(3 396)
Working capital changes:			
Change in receivables		1 838	7 643
Change in inventories		(1 995)	(772)
Change in other assets		(8 858)	(2 344)
Change in payables and other liabilities		26 484	14 793
Change in other provisions and employee benefits		(3 855)	997
Income taxes paid		(12 500)	(5 580)
Interest paid		(3 655)	(3 577)
Other		(4 141)	545
Net cash provided by operating activities		114 083	100 554
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	4	(71 270)	(20 730)
Proceeds from the sale of property, plant and equipment and intangible assets	10	520	1 082
Proceeds from the sale of assets held for sale	18	4 000	5 000
Proceeds from held-to-maturity debt securities	17	9 984	-
Acquisition of property, plant and equipment	10	(99 262)	(54 445)
Acquisition of intangible assets	11	(6 307)	(1 521)
Acquisition of held-to-maturity financial assets		-	(9 954)
Acquisition of investments in associates	30	-	(10)
Net cash used in investing activities		(162 335)	(80 578)
Cash flows from financing activities			
Proceeds from borrowings		77 000	4 179
Repayment of borrowings		(3 760)	(30 111)
Repayment of finance lease		(2 881)	(112)
Net cash provided by/(used in) financing activities		70 359	(26 044)
Net change in cash and cash equivalents		22 107	(6 068)
Cash and cash equivalents, beginning of period		25 241	31 575
Effect of foreign exchange rate movements		(475)	(266)
Cash and cash equivalents, end of period		46 873	25 241

Consolidated cash flow statement should be analyzed together with the accompanying notes to the consolidated financial statements.

Consolidated statement of changes in equity
for the twelve months ended 31 December 2007 and 31 December 2006

	Attributable to equity holders of the Company								Minority Interest	Total
in thousands of Polish zloty	**Share Capital (Note 19)**	Share premium	Share options (Note 21)	Other reserves (Note 19)	**Total Reserves**	**Accumulated deficit**	**Currency translations**	**Total**		
As at 01.01.2006 (previously reported)	**519**	210 302	2 147	6 191	**218 640**	**(95 511)**	**(574)**	**123 074**	**20**	**123 094**
Correction of accounting treatment for holiday accrual (Note 2)	**-**	-	**-**	-	**-**	**(1 872)**		**(1 872)**		**(1 872)**
As at 01.01.2006 (restated)	**519**	210 302	2 147	6 191	**218 640**	**(97 383)**	**(574)**	**121 202**	**20**	**121 222**
Employees share option scheme – value of employee services (Note 21)	**-**	-	497	-	**497**	**-**	**-**	**497**	**-**	**497**
Currency translation differences	**-**	-	-	-	**-**	**-**	**(4 369)**	**(4 369)**	**-**	**(4 369)**
Profit for the period	**-**	-	-	-	**-**	**38 466**	**-**	**38 466**	**59**	**38 642**
As at 31.12.2006	**519**	210 302	2 644	6 191	**219 137**	**(58 917)**	**(4 943)**	**155 796**	**79**	**155 875**
As at 01.01.2007	**519**	210 302	2 644	6 191	**219 137**	**(58 917)**	**(4 943)**	**155 796**	**79**	**155 875**
Employees share option scheme – value of employee services (Note 21)	**-**	-	1 433	-	**1 433**	**-**	**-**	**1 433**	**-**	**1 433**
Currency translation differences	**-**	-	-	-	**-**	**-**	**(18 511)**	**(18 511)**	**-**	**(18 511)**
Issue of shares (Note 4, 19)	**25**	99 962	-	-	**99 962**	-	-	**99 987**	-	**99 987**
Minority interest on new subsidiaries	**-**	-	-	-	**-**	-	-	**-**	**3 946**	**3 946**
Profit for the period	**-**	-	-	-	**-**	**48 402**	**-**	**48 402**	**291**	**48 693**
As at 31.12.2007	**544**	310 264	4 077	6 191	**320 532**	**(10 515)**	**(23 454)**	**287 107**	**4 316**	**291 423**

Total income and expense for the period (currency translation differences and profit for the period) attributable to equity holders amounted to PLN 29 891 TPLN (previous year: 34 097 TPLN) and attributable to the minority interest – 291 TPLN (previous year: 59 TPLN).

Consolidated statement of changes in equity should be analyzed together with the accompanying notes to the consolidated financial statements.

1 Group overview and significant accounting policies

a) Background

AmRest Holdings N.V. (the "Company") was established as a joint stock company in October 2000 in the Netherlands. The Company's head office is located in Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands. The Company's corporate offices are located in Wroclaw, Poland. The Company and its subsidiaries are collectively referred to as the "Group".

The Consolidated Financial Statements as at and for the twelve months ended 31 December 2007 comprise the data on the Company, its subsidiaries and on the Group's equity interest in associates.

The following Consolidated Financial Statements were authorised for issue by the Management Board on 25 April 2008.

The principal activity of the Group, conducted by its subsidiaries in Poland, the Czech Republic, Hungary Bulgaria, Russia and Serbia is to operate Kentucky Fried Chicken („KFC") and Pizza Hut franchised restaurants, as well as "Rodeo Drive" restaurants in Poland and the Czech Republic and solely in Poland "Burger King", „Ice*Land" and "Freshpoint" restaurants.

Group's operations are not seasonal.

On 27 April 2005, the shares of AmRest Holdings N.V. commenced trading on the Warsaw Stock Exchange ("WSE") in Poland.

Prior to 27 April 2005, the Company was jointly owned and controlled by International Restaurant Investments, LLC ("IRI") of the United States and Kentucky Fried Chicken Poland Holdings BV ("KFC BV") of the Netherlands. Before the initial public offering each shareholder possessed a 50% ownership.

IRI is a wholly-owned subsidiary of American Retail Concepts, Inc. of the United States ("ARC"), whereas KFC BV was a wholly-owned subsidiary of Yum! Brands, Inc. ("YUM!") of the United States.

In conjunction with the listing of the Company's shares on the WSE, YUM! sold all of its shares in the Company and is no longer a shareholder and a related party. Moreover, IRI also sold part of its shares as a result of the Company's IPO on the stock exchange. As at 31 December 2006 the Company's largest shareholder with a 37.5% voting rights and ownership interest remained IRI. In 2007 IRI sold further part of its shares. As at 31 December 2007 IRI had 8.46 % of voting rights and ownership interest and the Company's largest shareholder was WBK AIB Asset Management with a 14.62% voting rights and ownership interest. As at 31 December 2007 IRI and ARC (together with its subsidiary: American Retail Systems Sp. z o.o.) are still related parties to the Group as controlling voting rights in ARC are held by the some members of the Group's supervisory board and the management board. For details please refer to the Note 31.

Pizza Hut and KFC restaurants operate under franchise agreements with YUM! and YUM! Restaurants International Switzerland, Sarl („YRIS"), a subsidiary of YUM!. Each franchise agreement has a term of ten years, with an option of renewal by the Group for further ten years, subject to certain conditions being met as described in the agreements.

YUM! committed to notify the Company if it enters into another franchise, at least six months before the first KFC or Pizza Hut restaurant is opened in Poland, the Czech Republic or Hungary. During this period, the Company has the right to state its opinion on the issue. YUM! has indicated that at present it has no plans to conclude agreements with other prospective franchisees in Poland, Czech Republic and Hungary or to open new restaurants by itself.

On 8 March 2007, the Group concluded the development agreement with Burger King Europe GmbH ("BKE"), concerning the opening and operation of the Burger King restaurants in Poland. Burger King restaurants are operated under franchise agreements with Burger King Europe GmbH located in Zug, Switzerland which are to be signed for each particular restaurant separately once it opens. Each franchise agreement has a term of ten years, with an option of renewal by the Group for further ten years, subject to certain conditions being met as described in the agreements.

The main conditions relating to signed development agreement are as follows:

- During the 2 years after the first opening of a Burger King restaurant by the Group, BKE shall contribute an amount of 2.5% of the calendar monthly gross sales of all Burger King restaurants operated by the Group to the advertising and sales promotion fund mentioned in the franchise agreement. During the third year after the first opening of a Burger King restaurant by the Group, BKE shall contribute an amount of 2% of the calendar monthly gross sales of all Burger King restaurants operated by the Group to the advertising and sales promotion fund.
- During the initial 5 years term the initial franchise fee payable by the Group shall be 25 000 USD for each Burger King restaurant with a franchise agreement providing for a term of 10 years (plus a further renewal franchise fee of 25 000 USD in case of a 10 years renewal of the franchise agreement at the Group's option). The initial franchise fee shall be reduced by 50% for the development of each Burger King restaurant which exceeds the number of Burger King restaurants to be developed and opened by the Group according to the development schedule.
- The Group agrees to open and operate Burger King restaurants in strict accordance with the development schedule which includes the minimal numbers of openings in each development year as defined in the development agreement.

The Group opened four Burger King restaurants as at 31 December 2007.

On 25 May 2007, the Group concluded agreements with Starbucks Coffee International, Inc. ("Starbucks"), concerning the cooperation on the development and operation of Starbucks stores in Poland, the Czech Republic and Hungary. The agreements have a term ending on May 31, 2022, with an option to extend for an additional 5 years upon the fulfilment of certain conditions.

The parties resolved to establish three separate companies, one for each of the 3 countries Poland, Czech Republic and Hungary. On 27th of March 2007 a new entity for the Polish region – AmRest Coffee Sp. z o.o. was set up, the company for Czech region - AmRest Coffee s.r.o. was set up on 14th of August 2007 and the company for Hungarian region - AmRest Kávézó was setup on 31st of August 2007 (Note 4). The above companies will be the only entities with the right to develop and operate Starbucks cafes in Poland, Czech Republic and Hungary during the term of the agreements with non-exclusive rights to certain institutional locations.

The Group contributed 82% and Starbucks 18% of the capital to all the companies. In the third and fourth year after the formation of all three companies Starbucks shall have the right and option to increase its participation by acquiring additional shares (up to 50%) in case of the Group's failure in opening and operating a minimum number of Starbucks stores in Poland, Czech Republic and Hungary. In the fifth and ninth year Starbucks will have an unconditional option to increase its stake up to 50%. In case of a conflicting acquisition or a change of control of the Group, Starbucks will have the right to increase its participation in companies up to 100% by acquiring shares from the Group.

The Group agrees to open and operate Starbucks stores in strict accordance with the development schedule which includes the minimum numbers of openings in each year within the agreements' period. If Group fails to meet the development obligations Starbucks will have the right to charge a development default fee or to terminate the agreements. The agreements include the provision concerning the purchase of coffee and other basic supplies either from Starbucks or other approved or designated suppliers.

The table below presents a summary of the subsidiaries included within the Group at 31 December 2007:

Name of company	City and country of incorporation	Principal activity	Parent company	Ownership interest and voting rights	Date of effective control
American Restaurants Sp. z o.o.	Wroclaw, Poland	Operating restaurants in Poland	AmRest Holdings N.V.	100.00 %	December 2000
American Restaurants s.r.o.	Prague, Czech Republic	Operating restaurants in the Czech Republic	AmRest Holdings N.V.	100.00 %	December 2000
Pizza Hut s.r.o.	Prague, Czech Republic	No current activities	American Restaurants s.r.o. American Restaurants Sp. z o.o.	99.973% 0.027%	December 2000
American Restaurants Kft	Budapest, Hungary	Operating restaurants in Hungary	American Restaurants Sp. z o.o.	100.00 %	June 2006
Grifex I Sp. z o.o. *	Wroclaw, Poland	No current activities	American Restaurants Sp. z o.o.	48.00 %	September 2003
Galeria Arka Sp. z o.o.	Warsaw, Poland	Lessee of location where a restaurant is planned to be open	American Restaurants Sp. z o.o.	100.00 %	March 2005
AmRest Ukraina t.o.w.	Kiev, Ukraine	Established for the development of Pizza Hut restaurants In Ukraine	American Restaurants Sp. z o.o.	100.00 %	December 2005
Doris 2006 Sp. z o.o.	Warsaw, Poland	Lessee of location where a restaurant is planned to be open	American Restaurants Sp. z o.o.	100.00 %	October 2006
AmRest Coffee Sp. z .o.o.	Wroclaw, Poland	Established to operate Starbucks stores in Poland	American Restaurants Sp. z o.o. Starbucks Coffee International. Inc	82.00 % 18.00 %	March 2007
Bécsi út.13. Kft	Budapest, Hungary	Owner of the building with office space	American Restaurants Kft	100.00 %	April 2007
American Restaurants EOOD	Sofia Bulgaria	Established to operate restaurants in Bulgaria	American Restaurants Sp. z o.o.	100.00 %	April 2007
AmRest Coffee s.r.o.	Prague, Czech Republic	Established to operate Starbucks stores in Czech Republic	American Restaurants Sp. z o.o. Starbucks Coffee International. Inc	82.00 % 18.00 %	August 2007
AmRest Acquisition Subsidiary Inc.	Delaware USA	Established to acquire OOO Pizza Nord (Note 3)	AmRest Holdings N.V.	100.00 %	May 2007
OOO AmRest (previous name OOO Pizza Nord)**	Petersburg, Russia	Operating Pizza Hut and KFC restaurants in Ukraine	AmRest Acquisition Subsidiary Inc. American Restaurants Sp. z o.o.	91.00 % 9.00%	July 2007
OOO KFC Nord	Moscow, Russia	No current activities	OOO AmRest	100.00%	July 2007

Name of company	City and country of incorporation	Principal activity	Parent company	Ownership interest and voting rights	Date of effective control
OOO KFC South	Moscow, Russia	No current activities	OOO AmRest	100.00%	July 2007
OOO Sistema Bistrogo Pitania	Moscow, Russia	No current activities	OOO AmRest	100.00%	July 2007
AmRest Kávézó Kft	Budapest Hungary	Established to operate Starbucks stores in Hungary	American Restaurants Sp. z o.o. Starbucks Coffee International, Inc.	82.00 % 18.00 %	August 2007
AmRest D.O.O.	Belgrade, Serbia	Operating restaurants in Serbia	American Restaurants Sp. z o.o. ProFood Invest GmbH	60.00 % 40.00 %	October 2007

* Despite the fact that the Group holds a 48% of voting rights and ownership interest it consolidates the company as a subsidiary, since on the basis of agreements with the main shareholder, it has the right to control the company's operating and financial activities.

** On 23rd of October 2007 OOO Pizza Nord change the name to OOO AmRest.

On 17th of March International Fast Food Polska Sp. z o.o. was liquidated.

On 30th of August Fried Chicken s.r.o. was liquidated.

Newly acquired or established subsidiaries are described in Note 4.

The Group's associated companies at 31 December 2007 accounted for under the equity method are as follows:

Name of company	City and country of incorporation	Principal activity	Parent company	Ownership interest and voting rights	Date of effective control
Worldwide Communication Services LLC	Nevada, USA	Marketing activity for the Group	American Restaurants Sp. z o.o.	33.33 %	October 2003
Synergy Marketing Partners Sp. z o.o. in liquidation	Warsaw, Poland	Marketing activity for the Group	Worldwide Communication Services LLC.	26.66%	May 2002
Red 8 Communications Group Sp. z o.o.*	Warsaw, Poland	Marketing activity for the Group	Worldwide Communication Services LLC	17.33%	May 2002
Synergy Marketing Partners s.r.o. in liquidation	Prague, Czech Republic	Marketing activity for the Group	Synergy Marketing Partners Sp. z o.o.	24.00%	February 2005
SCM Sp. z o.o.	Chotomow, Poland	Restaurant supply services provided for the Group	American Restaurants Sp. z o.o.	45.00%	April 2005
SCM s.r.o.	Prague, Czech Republic	Restaurant supply services provided for the Group	SCM Sp. z o.o.	40.50%	March 2007

* The Group holds a 17.33% of voting rights and ownership interest in Red 8 Communications Group Sp. z o.o. The Group has the right to influence the company's operations significantly, as it is a subsidiary of an associated entity - Worldwide Communication Services LLC, which holds 52% of voting rights.

On 17th of December 2007 Global Communication Services Sp. z o.o. was liquidated.

(b) Statement of compliance with International Financial Reporting Standards

These annual consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union and issued by the International Accounting Standards Board. As at December 31, 2007 there are no differences with regards to policies adopted by the Group and the International Financial Reporting Standards. The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the annual financial statements for the year ended December 31, 2006, except for the new accounting standards adopted as of January 1, 2007.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2007:

- IFRIC 7, 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflatory Economies', effective for annual periods beginning on or after 1 March 2006. The interpretation has no material impact on the Group's operations and its consolidated financial statements;
- IFRIC 8, 'Scope of IFRS 2', effective for annual periods beginning on or after 1 May 2006. The interpretation has no material impact on the Group's operations and its consolidated financial statements;
- IFRIC 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006. The interpretation has no material impact on the Group's operations and its consolidated financial statements;
- IFRIC 10, 'Interim Financial Reporting and Impairment', effective for annual periods beginning on or after 1 November 2006. The interpretation has no material impact on the Group's operations and its consolidated financial statements;
- IFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after January 1, 2007 and the complementary Amendments to IAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1 January 2007. The adoption of IFRS 7 and amendment to IAS 1 had an impact on the extent of disclosures presented in the consolidated financial statements.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:

- IFRIC 11, 'Group and Treasury Share Transactions', effective for annual periods beginning on or after 1 March 2007. IFRIC 11 addresses application of IFRS 2 in case of emission equity instruments by the Company as a payment for received goods or services or when emitted are equity instrument by any other entity from the Group. The management is already assessing impact of IFRIC 11 on Group's operations but do not expect the interpretation to have material impact on the financial statements;
- IFRIC 12, 'Service Concession Arrangements', effective for annual periods beginning on or after 1 January 2008. IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements. Management do not expect the interpretation to be relevant for the Group;

- IFRIC 13, 'Customer Loyalty Programmes", effective for annual periods beginning on or after July 1, 2008. IFRIC 13 addresses accounting by entities that grant loyalty award credits (such as 'points') to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem award credits. Management is currently assessing the impact of this interpretation on the Group's;
- IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', effective for annual periods beginning on or after January 1, 2008. IFRIC 14 added the interaction between a minimum funding requirements and the limit placed by paragraph 58 of IAS 19 'Employee Benefits' on the measurement of the defined benefit asset or liability. Management expects the new standard to have no impact on the Group's operations and consolidated financial statements;
- IFRS 8, 'Operating Segments', effective for annual periods beginning on or after January 1, 2009. IFRS replaces IAS 14 "Segment Reporting' and adopts a management approach to segment reporting. Management expects the new standard to have a significant impact on the Group's operations and consolidated financial statements. Adoption of IFRS 8 will require redefining of segments, which will be identified on the basis on internal reports regularly reviewed by the Group's chief operating decision makers. Therefore, management expect identification of, apart from geographical segments, also segment based on key Group's brands.
- Revised IAS 23, 'Borrowing costs', effective for annual periods beginning on or after January 1, 2009. The main change from the previous version is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize borrowing costs as part of the cost of such assets. The revised IAS 23 does not require the capitalization of borrowing costs relating to assets measured at fair value, and inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take a substantial period of time to get ready for use or sale. Management do not expect the amendment to have a significant impact on the Group's operations.
- IAS 1 - Presentation of Financial Statements (Revised) effective for annual periods beginning on or after 1 January 2009 r. The changes relate to the presentation of financial statements and disclosures. One of the most important changes is the introduction of „Statement of comprehensive income". The management is already assessing impact of revised standards on the presentation and disclosure.
- IFRS 3 (Revised) – 'Business Combinations' and IAS 27 (Revised) – 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after 1 July 2009 r. Changes relate mostly to the determination of cost of business combinations, goodwill, adjustment subsequent to initial recognition. The management is already assessing impact of revised standards on Group's operations

(c) Basis of preparation

The consolidated financial statements are presented in Polish Zloty (PLN), rounded to the nearest thousand (TPLN).

The Consolidated Financial Statements are prepared on the historical cost basis. Non-current assets held for sale are stated at the lower of the carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 32.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(d) Basis of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the

difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Polish operations is the Polish Zloty (PLN), the functional currency of the Czech operations is the Czech Crown (CZK), while the functional currency of the Hungarian operations is the Hungarian Forint (HUF), Russian operation - Rouble (RUB), Bulgarian operations – Lev, Serbian operations – Dinar.

As the majority of its operations and transactions are PLN denominated, the consolidated financial statements are presented in PLN.

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in such currencies at the balance sheet date are translated to the applicable functional currency at the foreign exchange rate prevailing at that date. All differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost, are translated at the foreign exchange rate as of the date of the transaction.

Financial statements of foreign operations

The results and financial position of all Group entities, which have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

- the assets and liabilities, including goodwill and fair value adjustments arising on consolidation, are translated into PLN at exchange rates ruling at the balance sheet date,
- the revenues and expenses of foreign operations are translated at average rates in the period, which approximate the foreign exchange rates ruling at the dates of the transactions,
- all resulting foreign exchange differences arising on translation are recognised directly in equity.

Foreign exchange differences are released to the income statement upon disposal.

None of the foreign operations' currency is as at 31 December 2007 a currency of a hyperinflationary economy.

(f) Franchise, license and other fees

As noted in Note 1(a) above, KFC and Pizza Hut restaurants are operated in accordance with franchise agreements with YUM! and subsidiaries of YUM!. The franchise agreements typically require that the Group pay an initial, non-refundable fee upon the opening of each new restaurant, pay continuing fees of 6% percent of revenues and commit 5% percent of revenue to advertising as specified in the relevant agreement. In addition, at the conclusion of the initial term of the franchise agreement, the Group may renew the franchise agreement, subject to a renewal fee.

The initial, non-refundable fees constitute in substance rights to use Pizza Hut and KFC trademarks and are included in 'intangible assets' and amortized over the period of the agreement (usually ten years). Continuing fees related to KFC and Pizza Hut and Burger King and Starbucks are expensed as incurred. Renewal fees are amortized over the renewal period when a renewal agreement becomes effective.

The initial fees paid are approximately 41.9 TUSD per restaurant and renewal fees are 50% of the initial fees, adjusted to reflect changes in the US Consumer Price Index during the term of the relevant franchise.

The most significant conditions relating to franchise agreements to be concluded with Burger King (Note 1(a)) are as follows:

- The license is granted for 10 years period commencing from the date the franchised restaurant opens for business. The franchisee has the right to renew the term of the agreement for immediate subsequent second term of 10 years upon the fulfilment of certain pre-conditions.
- The franchisee must pay monthly continuing fees to the franchisor equal to 5% of the gross sales of the Burger King restaurant operated by franchisee.
- The franchisee must pay monthly continuing advertising and sales promotion fees equal to 5% of the gross sales of the Burger King restaurant operated by franchisee.

The key fees and costs to be borne by the Group relating to agreements with Starbucks (Note 1(a)) will be as follows:

- The development and service fees for initial operation support equal to an amount 950 TUSD.
- The initial franchise fee of 25 TUSD for each Starbucks store.
- The continuing licensing and service fee equal to 6% of sales revenues of each Starbucks store.
- A local marketing spend obligation is to be mutually agreed annually.

(g) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at historical cost, less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located.

Borrowing costs incurred for the construction of any qualifying asset are expensed and presented as interest costs.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement and presented as "Gain (loss) on disposal of property, plant and equipment and intangibles".

Restaurant development assets

Direct costs associated with site acquisition and the construction of a restaurant on that site, including direct internal payroll and payroll-related costs are capitalized. Only those site-specific costs incurred subsequent to the time that the site acquisition is considered probable are capitalized and included in restaurant development assets ("Property plant and equipment"). If subsequently it is determined that a site for which development costs have been capitalized will not be acquired or developed, any previously capitalized development costs are expensed. Restaurant development assets are amortized over their estimated useful life.

Leased assets

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in the balance sheet as finance lease liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, and major components that are accounted for separately. Land and assets under construction are not depreciated.

The estimated useful lives are as follows:

- Buildings 30 – 40 years
- Restaurant development assets (including leasehold improvements) 10 years*
- Machinery and equipment 4 – 8 years
- Vehicles 5 years
- Other tangible assets 4 – 8 years

* the lesser of 10 years or the length of the respective lease.

The assets' residual values, method of depreciation and useful lives are reassessed annually.

(h) Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Favourable leases

Favourable leases represent restaurant location lease contracts acquired on acquisition of subsidiaries with below-market lease payments. Favourable lease intangible assets are recognised initially at fair value and subsequently stated at cost less accumulated amortization and impairment losses (see accounting policy (n) below).

Trademark

Trademarks are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives.

Rights to use Pizza Hut, KFC, Burger King and Starbucks trademarks

See accounting policy (f) above.

Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and potential impairment losses (see accounting policy (n) below).

Amortization

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date (see accounting policy (n) below) and are not subject to amortization. Other intangible assets are amortized from the date they are available for use.

The estimated useful lives of other intangible assets are as follows:

- Software licenses 4 - 5 years
- Favourable leases 2 – 10 years*
- Trademark 5 years
- Rights to use Pizza Hut and KFC trademarks 10 years
- Other intangible assets 5 - 10 years

* Favourable lease intangible assets are amortised over the remaining lease term of the respective lease agreement.

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill on acquisitions of subsidiaries/businesses is included in intangible assets and stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortized but is tested annually for impairment (see accounting policy (n)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Costs incurred to create self-generated goodwill and trademarks are expensed in the income statement as incurred.

j) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories described below. The Group does not have any investments classified as available-for-sale financial assets at the balance sheet dates.

Financial assets at fair value profit or loss

This category has two sub-categories: ‘financial assets held for trading’, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as ‘held for trading’ unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. The Group does not have any investments classified as financial assets at fair value profit or loss at the balance sheet dates.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. They are carried at amortized cost less impairment losses and are classified as 'trade and other receivables' in the balance sheet for maturities not greater than 12 months after the balance sheet date (see accounting policy (k) below).

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

(k) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised initially at fair value and subsequently measured at amortized cost less impairment losses (see accounting policy (n)).

(l) Inventories

Inventories comprise mainly materials and are stated at the lower of purchase price and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(m) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(n) Impairment

The carrying amount of the Group's assets, except for inventories (see accounting policy (l)) and deferred tax assets (see accounting policy (v)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. For goodwill, intangible assets that have an indefinite useful life and assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment of trade and other receivables is recorded when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. If there is objective evidence that an impairment loss on receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the effective interest rate. The amount of the loss is recognised in the income statement.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset which does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. In such cases as cash generating units the Group recognises separate restaurants.

Restaurants are evaluated using a "one year history of operating losses" as the primary indicator of potential impairment. For restaurants for which there is an indicator of potential impairment, discounted estimated cash flows are used to assess the recoverable amount of the related assets. The impairment evaluation is based on the estimated cash flows from continuing operation of the restaurant and takin into account the expected terminal value.

In addition, when a decision is made to close a restaurant, the restaurant is reviewed for impairment and depreciable lives are adjusted accordingly. Likewise, a liability is recorded for any lease termination costs associated with the closing of the restaurant.

Reversals of impairment

An impairment loss in respect of receivables carried at amortized cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

(o) Interest bearing loans and borrowings

Interest-bearing loans borrowings are recognised initially at cost being their fair value, less attributable transaction costs. In subsequent periods, borrowings are stated at amortized cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest rate method.

If the loan is settled before the maturity date, any difference between the settled cost and the current cost is recognised in the income statement.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(p) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

(q) Employee benefits

Share-based compensation

The Group operates two equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Long-term service benefits

The Company's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation represents the Group's estimate of future benefits that employees have earned in return for their service in the current and prior periods, discounted to its present value.

Pension accounting

The Group makes contributions to the government's retirement benefit scheme at the applicable rate during the period based on gross salary payment). This plan is funded on a pay-as-you-go basis, i.e. the Group is only obliged to pay the contributions as they fall due based upon a percentage of salary and if the Group ceases to employ members of the plan, it will have no obligation to pay any additional benefits. The plan is a defined contribution plan. The expense for the contributions is charged to the income statement in the same period as the related salary expense and presented in Profit and Loss Account in the line "Payroll and employee benefits".

(r) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Site restoration

Management analyses potential site restoration costs and recognise provision if these costs are material.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(s) Trade and other payables

They are recognised initially at fair value and subsequently measured at effective interest (amortised costs).

(t) Revenue recognition

Revenues comprise the fair value of the sale of goods, net of value-added tax. Sales of goods are recognised when a Group entity sells a product to the customer. Sales are typically in cash.

(u) Operating lease, occupancy cost

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Operating lease relates mainly to the premises in which restaurants operate. Lease costs are recognised in the income statement as „Occupancy and other operating expenses".

(v) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Income tax is recognised in the income statement except when it relates to items recognised directly in equity, in which case it is also recognised in equity.

Deferred tax is provided in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, the deferred tax is not accounted for if it arises form initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. No taxable temporary differences are recognized on the initial recognition of goodwill.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(w) Derivative Financial Instruments

The Group periodically uses derivative financial instruments to hedge its exposure to foreign exchange rate risks arising from operational and financing activities. Derivative financial instruments are recognised initially at fair value and subsequently remeasured at their fair value.

Derivatives used by the Group do not qualify for hedge accounting. Financial instruments are recognised initially at fair value. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

The Group did not have any derivative financial instruments as at 31 December 2007 and 2006.

(x) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(y) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

(z) Business combinations involving entities under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses ultimately are controlled by the same party or parties both before and after the business combination, and that control is not transitory. This business combination is recognised using pooling of interest method. When this method is used there are no fair value adjustments to assets and liabilities and no goodwill is recognised.

2 Correction of prior period error

During 2007 the Group identified prior period mathematical error in the estimation of unused holiday accruals. The Group concluded that the error is material and in order to ensure comparability of the prior years' data, appropriate retrospective adjustment has been made to the consolidated balance sheet, consolidated income statement, consolidated cash flow and to the notes to the consolidated financial statements. Comparative data were restated. Adjustments to previously published financial statements are presented in the table below:

	12 months ended 31 December 2006
Adjustment to the consolidated income statement:	
Increase of payroll and employee benefits – General and administrative expenses	(144)
Decrease of income tax	27
Decrease of profit for the period	(117)
Change of basic and diluted earnings per share	-

	1 December 2006
Adjustment to the consolidated balance sheet:	
Increase of deferred tax asset	439
Increase of accumulated deficit	1 872
Increase of trade and other accounts payable	(2 311)

	31 December 2006
Adjustment to the consolidated balance sheet:	
Increase of deferred tax asset	466
Increase of accumulated deficit	1 872
Decrease of profit for the period	117
Increase of trade and other accounts payable	(2 455)

The above presented adjustments relate to the geographical segment "Poland".

3 Segment reporting

Geographical segments

Even though the Group is managed on a worldwide basis, its business activities operate mainly in three geographical areas: Poland, Czech Republic and Russia.

The division of Group's revenue into geographical segments is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

The Group's restaurant operations constitute one business segment given the similar nature of products, customers, business risks and returns.

Geographical segment data as at and for the twelve months ended 31 December 2007 and 31 December 2006 is as follows:

	Poland	*Czech Republic*	*Russia*	*Unallocated*	*Total*
2007					
Revenue from external customers	553 692	192 974	57 332	49 357	853 355
Inter-segment revenue					
Operating profit	46 394	19 982	4 006	(3 303)	67 079
Finance income					3 682
Finance cost					(7 963)
Share of profit of associates (Note 30)	1 132	-	-	-	1 132
Income tax					(15 237)
Profit for the period					48 693
Segment assets	193 826	121 860	196 368		512 054
Investments in associates (Note 30)	2 353	-	-	-	2 353
Unallocated assets				68 196	68 196
Total assets					582 603
Segment liabilities	72 932	24 793	5 589		103 314
Unallocated liabilities				187 866	187 866
Total liabilities					291 180
Pension, health care, sickness fund state contributions (Note 21)	16 783	11 550	2 604	354	31 291
Depreciation (Note 10)	29 087	11 758	2 826	2 328	45 999
Amortization (Note 11)	4 803	593	310	492	6 198
Capital investments (Note 10, 11, 12)	54 554	20 192	164 300	38 106	277 152
Impairment of fixed assets (Note 5, 10)	1 459	-	-	235	1 694
Impairment of assets held for sale (Note 5)	-	-	-	-	-
Impairment of inventories (Note 5)	-	-	-	-	-
Impairment of trade receivables (Note 5)	14	-	-	-	14

	Poland	*Czech Republic*	*Russia*	*Unallocated*	*Total*
2006					
Revenue from external customers	435 718	172 247	-	21 361	629 326
Inter-segment revenue	-	-	-	-	-
Operating profit/segment result	32 494	12 984	-	(1 127)	44 351
Finance income					8 671
Finance cost					(4 847)
Share of profit of associates (Note 30)	637	-	-	-	637
Income tax					(10 287)
Profit for the period					38 466
Segment assets	208 200	90 921	-		299 121
Investments in associates (Note 30)	1 221	-	-	-	1 221
Unallocated assets				21 113	21 113
Total assets					321 455
Segment liabilities	58 091	20 266	-	-	78 357
Unallocated liabilities	-	-	-	87 223	87 223
Total liabilities					165 580
Pension, health care, sickness fund state contributions (Note 21)	16 708	9 457	-	163	26 328
Depreciation (Note 10)	26 377	10 751	-	357	37 485
Amortization (Note 11)	5 143	663	-	302	6 108
Capital investments (Note 10, 11, 12)	37 039	15 796	-	28 583	81 418
Impairment of fixed assets (Note 5, 10)	611	1 455	-	174	2 240
Impairment of assets held for sale (Note 5)	300	-	-	-	300
Impairment of inventories (Note 5)	91	-	-	110	201
Impairment of trade receivables (Note 5)	265	111	-	-	376

Capital investment comprises additions of property, plant and equipment (Note 10), additions of intangible assets (Note 11) and additions of goodwill (Note 12).

The unallocated column relates to corporate assets, financial liabilities (borrowings) and transactions of AmRest Holdings N.V, and subsidiaries located in Hungary, Bulgaria, Ukraine and Serbia.

4 Establishment and acquisition of subsidiaries and associates

Establishment of AmRest Coffee Sp. z o.o.

In order to operate Starbucks cafes in Poland, on 27th of March 2007 r. the Group established a new company - AmRest Coffee Sp. z o.o. American Restaurants Sp. z o.o. subscribed for 82% of voting rights and shares and Starbucks Coffee International, Inc subscribed for 18%.

This company has been established in relation to the agreement with Starbucks Coffee International, Inc. described in Note 1a and 29. As at 31 December 2007 the company had virtually no operations.

Acquisition of Bécsi út.13.Kft

On 19 April 2007 American Restaurants Kft. acquired 100% of share capital and voting rights of Bécsi út 13. Kft. based in Budapest, Hungary.

Bécsi út 13. Kft. is the owner of the office building located at Bécsi út 13, Budapest. Acquisition of the above mentioned building is aimed to facilitate the extension of American Restaurants Kft.'s office in Budapest.

The fair value of assets acquired and liabilities assumed was as follows:

Cash	3
Property, plant and equipment (Note 10)	1 935
Receivables	5
Other non-current assets	9
Payables and accruals	(6)
Net assets acquired	1 946
Recognised in the income statement negative difference between purchase price and assets acquired	(43)
Total purchase consideration	1 903
Cash paid on acquisition	1 903
Net cash and cash equivalents in subsidiary acquired	(3)
Cash outflow on acquisition	1 900

The principal activity of the acquired business was to lease office building to American Restaurants Kft and the acquisition had no material impact on the Group's financial position and performance as at and for the period ended 31 December 2007.

Establishment of American Restaurants EOOD

On 27 April 2007 the Group established a new company - American Restaurants EOOD based in Sofia, Bulgaria. American Restaurants Sp. z o.o. subscribed for 100% of its equity and voting rights. This company has been established to open and operate KFC and Pizza Hut restaurants in Bulgaria.

Entering the Russian restaurant market

DESCRIPTION OF THE ACQUISITION

On 15 May 2007 AmRest Holdings N.V. set up the new company - AmRest Acquisition Subsidiary, Inc., based in Delaware, USA.

On 2 July 2007 AmRest Acquisition Subsidiary, Inc. acquired from an independent individual (the "Seller") 100% of US Strategies, Inc., based in New Jersey, USA, which controlled 91% of shares and voting rights of OOO Pizza Nord - a franchisee of Pizza Hut and Rostic-KFC brands in Russia. In the same day, American Restaurants Sp. z o.o. (100% subsidiary of AmRest Holdings N.V.) acquired remaining 9% of shares and voting rights of OOO Pizza Nord owned by independent individuals. As a result of above transactions the Group effectively gained 100% control over OOO Pizza Nord, operating on the Russian market 19 Pizza Hut and 22 Rostic-KFC restaurants and located primarily in St. Petersburg and Moscow. As a result the Group gained the market share of Pizza Hut and KFC restaurants in Russia of about 75% and 20% respectively. There are several franchisees of KFC and Pizza Hut restaurants in Russia and there is no exclusivity for one operator.

On 2 July 2007 US Strategies, Inc. and AmRest Acquisition Subsidiary, Inc. merged together into one legal entity - AmRest Acquisition Subsidiary, Inc.

The above acquisition was the next step in the Group's plans to become the largest restaurant company in Central and Eastern Europe.

PROVISIONAL FAIR VALUES ALLOCATION

The purchase price allocation process has not been finalized yet as certain necessary valuations are still in progress. Details of provisional fair values of net assets acquired, goodwill and purchase price as at the date of acquisition are as follows:

	Carrying amounts	**Preliminary fair value and other adjustments**	**Provisional fair values**
Cash and cash equivalents	962	-	**962**
Property, plant and equipment (Note 10)	18 543	6 721	**25 264**
Intangible assets (Note 11)	209	1 479	**1 688**
Inventories	1 595	(130)	**1 465**
Trade and other receivables	6 997	(5 965)	**1 032**
Other current assets	2 459	(1 161)	**1 298**
Other non-current assets	3 875	31 877	**35 752**
Trade, other payables, provisions	(34 183)	(4 886)	**(39 069)**
Net assets acquired	457	27 935	**28 392**
Goodwill			142 696
Total purchase consideration			**171 088**
Satisfied in cash			70 332
Satisfied in shares			99 987
Incremental costs - due diligence			769
Total purchase consideration			**171 088**
Cash paid on acquisition			70 332
Net cash and cash equivalents in subsidiary acquired			(962)
Cash outflow on acquisition			**69 370**

The provisional fair values of assets and liabilities acquired are based on the amounts from OOO Pizza Nord historical accounting records, preliminary adjusted to reflect some deviation from fair values and changes in accounting policies. These values will be subject to further adjustments as additional information is obtained. Such additional information may include valuation reports. The final valuation of acquired assets, assumed liabilities and contingent liabilities will be completed as at 30 June 2008. This process may result in further adjustments to the carrying amounts of identifiable net assets as at the acquisition date. The management does not believe that any net adjustments resulting from such review would have a material adverse effect on the Group. The main reasons of the accounting still being provisional are uncompleted fair valuations of contingent tax liabilities and property plant and equipment.

Provisional fair values and other adjustments presented in the table above related mostly to:

- fair value adjustments to the carrying value of certain items of property plant and equipment;
- valuation of favorable contracts classified as intangible assets;
- valuation of unfavorable contracts classified as provisions;
- valuation of receivable and prepayment from the previous owner of OOO Pizza Nord - operating lease contract related to the certain item of property (Note 13).

PARTIAL SETTLEMENT IN OWN SHARES

Part of the purchase price was satisfied in the Company's own 670 606 shares. The fair value of shares transferred (99 987 TPLN) was determined based on the market price of one share (PLN 149.1) reported on the Warsaw Stock Exchange as at the 2 July 2007 (Note 19).

Due to the fact that the new share issue takes several weeks to arrange, in order to satisfy the above consideration (shares), the Company borrowed own shares (670 606 shares) from its main shareholder – IRI (it owned as at the date of transfer 35% of votes and shares in AmRest Holdings N.V.). On 27 August 2007 the Company issued 670 606 new shares and on 12 October 2007 repaid them to IRI. Settlement was set in fixed number of shares. This was treated as an equity transaction and no change in fair value of shares in the period from 2 July 2007 – 12 October 2007 was recognized.

SUBSEQUENT ADJUSTMENTS TO THE PURCHASE CONSIDERATION

The purchase consideration is contingent as it is based on the expected OOO Pizza Nord Earnings Before Interests, Taxes, Depreciation and Amortisation (EBITDA). The purchase consideration was determined provisionally upon the acquisition date as the best estimate of the expected EBITDA for the period from 2 July 2007 - 30 June 2008 multiplied by 7 and reduced by assumed liabilities of 34 506 TPLN. There are no caps or floors for subsequent adjustments of the purchase price therefore it is highly dependent on the performance of acquired restaurants in the period from 2 July 2007- 30 June 2008. The Group expects based on the actual performance of the acquired business that the final purchase consideration will be reduced. The anticipated reduction approximates to 32 709 TPLN. The purchase consideration presented in the above table was not adjusted for that effect as the initial provisional accounting is not completed. The final purchase price will be determined as at 30 June 2008 based on the actual EBITDA.

SECURITY

The pledge was established on all shares which were part of the purchase consideration in order to secure the Group's potential future claims and receivables from the seller. Those may result from the described above adjustment to the purchase price (contingent consideration). The Seller is also responsible for any undisclosed liabilities that arose prior to the acquisition. To secure that, shares were transferred to the deposit account rather than directly to the Seller and will be gradually released within 5 years period. The potential receivables and claims from the Seller will be settled via cash or variable number of shares, depending on its market price upon settlement. Voting rights attached to the pledged shares shall be exercised by the seller.

GOODWILL

The provisional goodwill relates mainly to benefits of getting access to the Russian restaurant market and its customers. Due to the characteristic of the Group's restaurant operations, it does not hold a register of its customers which are not bound by any contract and are not individually identified. Restaurants in Russia operate in accordance with franchise agreements similar to agreements concluded with restaurants in Poland, Hungary and the Czech Republic. The management believes that franchise agreements concluded by OOO Pizza Nord are based on market conditions therefore they were not fair valued as intangible assets separately from goodwill.

The smallest cash generating unit of the acquired business is each individual restaurant. However goodwill was preliminary allocated to all Group's Russian restaurants as is monitored for internal management purposes on country basis and cannot be allocated on a non-arbitrary basis to individual restaurants. Goodwill will be tested for impairment for the first time by the end of June 2008, once the purchase price allocation is completed.

FINANCIAL IMPACT OF THE ACQUISITION

Based on the provisional fair values determined, from the date of acquisition to 31 December 2007, the acquisition contributed 57 332 TPLN to turnover and 1 705 TPLN to net profit.

If the acquisition had been made at the beginning of the financial year, OOO Pizza Nord would have contributed 112 299 TPLN to revenue and 5 350 TPLN to decrease net profit. This information takes into account the amortisation of acquired intangible assets, based on their provisional fair values, together with related income tax effects and should not be viewed as indicative of the results of operations that would have occurred if the acquisitions had been made at the beginning of the year.

Establishment of AmRest Coffee s.r.o.

In order to operate Starbucks cafes in Czech Republic, on 14th of April 2007 r. the Group established a new company - AmRest Coffee s.r.o. American Restaurants Sp. z o.o. subscribed for 82% of voting rights and shares and Starbucks Coffee International, Inc subscribed for 18%.

This company has been established in relation to the agreement with Starbucks Coffee International, Inc. described in Note 1a and 29.

Establishment of AmRest Kávézó Kft.

In order to operate Starbucks cafes in Hungary, on 31st of August 2007 r. the Group established a new company - AmRest Coffee Kft. American Restaurants Sp. z o.o. subscribed for 82% of voting rights and shares and Starbucks Coffee International, Inc subscribed for 18%.

This company has been established in relation to the agreement with Starbucks Coffee International, Inc. described in Note 1a and 29.

Establishment of AmRest D.O.O.

On 12th of October 2007 American Restaurants Sp. z o.o. and ProFood Invest GmbH ("ProFood") established a new company AmRest D.O.O., Serbia, Belgrade.

American Restaurants Sp. z o.o. subscribed for 60% of voting rights and shares and ProFood Invest GmbH subscribed for 40%.

The company will operate KFC restaurants in Serbia.

5 Operating expenses

Operating expenses are as follows:

	2007	2006
Depreciation (Note 10)	45 999	37 485
Amortisation (Note 11)	6 198	6 108
Food and materials	301 950	225 996
Utilities	26 715	22 454
External services	52 780	39 111
Payroll	158 614	111 657
Social security and other employee benefits	35 755	26 475
Operating leases (occupancy costs) (Note 26)	64 545	45 040
Marketing expenses	38 991	30 590
Continuing franchise fees	50 244	37 300
Insurance	1 052	1 127
Business travel	3 679	2 355
Onerous contracts	763	905
Other	4 569	2 171
	791 854	588 774
Total restaurant expenses	734 458	543 924
Depreciation and amortisation expenses (G&A)	2 809	3 416
Other general and administrative expenses	54 587	41 434
	791 854	588 774

Impairment costs are as follows:		
Impairment of inventory (Note 3, 14)	-	201
Impairment of receivables (Note 3, 33)	14	376
Total impairment of current assets	14	577
Impairment of assets held for sale (Note 3)	-	300
Impairment of property, plant and equipment (Note 3, 10)	1 694	2 240
Total impairment of non-current assets	1 194	2 540
Total impairments	1 708	3 117

6 Other operating income

	2007	2006
Management fee	51	313
Sublease income (Note 26)	1 748	2 095
Marketing income	2 168	1 696
Other operating income	4 474	1 401
	8 441	5 505

7 Finance income

	2007	2006
Interest income	1 515	458
Foreign exchange gain, net	2 167	4 726
Waiver of loan from related party (Note 31)	-	3 396
Other	-	91
	3 682	8 671

8 Finance cost

	2007	2006
Interest expense	(5 170)	(4 035)
Other	(2 793)	(812)
	(7 963)	(4 847)

9 Taxation

	2007	2006
Current tax	(16 258)	(8 613)
Change in deferred tax	1 021	(1 674)
Tax presented in profit and loss account	(15 237)	(10 287)

Tax rates applicable to the Company and its subsidiaries are as follows:

	Holland	Poland	Czech Republic	Hungary	Ukraine	Russia	Serbia	Bulgaria
2007	29.6%	19%	24%	20%	20%	24%	10%	19%
2006	29.6%	19%	24%	16%	20%	-	-	-

The deferred tax assets and liabilities were calculated using tax rates as follows:

	Holland	Poland	Czech Republic	Hungary	Ukraine	Russia	Serbia	Bulgaria
2007	29.6%	19%	24%	20%	20%	24%	10%	19%
2006	29.6%	19%	24%	20%	20%	-	-	-

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2007	2006
Profit before tax	63 930	48 812
Tax calculated at domestic tax rates applicable to profits in the respective countries	13 571	9 673
Permanent differences	(732)	(544)
Utilisation of previously unrecognised tax losses	188	35
Tax loss for current year for which no deferred tax assets was recognised	1 812	486
Deferred tax asset recognised in the period for previously unrecognised tax losses	250	331
Other differences	148	306
Tax presented in the profit and loss account	15 237	10 287

The weighted average applicable tax rate was 21% (for the period ended 31.12.2006: 23%). The decrease is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	31.12.2007	31.12.2006
Deferred tax asset:		
Deferred tax asset to be recovered after more than 12 months	261	350
Deferred tax asset to be recovered within 12 months	12 018	9 452
	12 279	9 802
Deferred tax liability:		
Deferred tax liability to be recovered after more than 12 months	213	40
Deferred tax liability to be recovered within 12 months	2 003	720
	2 216	760

Temporary differences after offsetting included in the calculation of deferred tax asset and liability are as follows:

	Deferred tax asset		Deferred tax liability	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Tangible fixed assets (depreciation)	3 714	6 867	2 216	760
Receivables	550	540	-	-
Provisions and impairments	6 255	889	-	-
Tax losses	1 513	899	-	-
Other differences	247	607	-	-
	12 279	9 802	2 216	760

Temporary differences before offsetting are as follows:

	Deferred tax asset		Deferred tax liability	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Tangible fixed assets (depreciation)	5 413	6 355	6 195	1 182
Receivables	550	540	-	-
Provisions and impairments	6 255	889	-	-
Tax losses	1 513	899	-	-
Other differences	247	1 629	573	88
	13 978	10 312	6 768	1 270

Tax losses carried forward as at 31 December 2007 are as follows:

Holland	6 122
Poland	858
Czech Republic	2 937
Hungary	4 293
Ukraine	1 973
	16 183

Year of expiry	Tax losses total value	Tax losses included in deferred tax asset	Tax losses for which no deferred tax asset was recognised
2008	3 152	-	3 152
2009	1 736	-	1 736
2010	1 456	-	1 456
2011	188	-	188
Without limits	9 651	1 513	8 138
	16 183	1 513	14 670

At 31 December 2007, the Group has not recognized a deferred tax asset relating to all tax losses, due to uncertainty regarding their realization. This uncertainty results form the planned restructuring and lack of operating activities of few subsidiaries.

Tax authorities may investigate tax returns (not closed by these authorities so far) of companies within the group in 3-5 years since the end of the period covered by these financial statements.

10 Property, plant and equipment

Movements in property, plant and equipment in 2007 and 2006 can be presented as follows:

2007	Land	Buildings & restaurant development assets	Machinery & equipment	Vehicles	Other tangible assets	Assets under construction	Total
Acquisition cost							
Balance at 1.1.2007	946	247 874	135 451	940	9 435	20 883	415 529
Acquisitions (Note 4)	-	6 593	14 789	204	519	5 094	27 199
Additions	-	23 054	23 735	-	4 616	47 857	99 262
Disposals	-	(11 867)	(5 729)	(6)	(612)	(1 660)	(19 874)
Transfers	-	31 662	9 363	-	228	(41 253)	-
Exchange rate differences	(27)	(3 235)	(3 396)	(38)	(412)	(1 096)	(8 204)
Balance at 31.12.2007	919	294 081	174 213	1 100	13 774	29 825	513 912
Accumulated depreciation							
Balance at 1.1.2007	-	126 525	85 688	518	4 314	-	217 045
Additions	-	28 091	15 358	265	2 285	-	45 999
Disposals	-	(9 206)	(3 344)	(5)	(301)	-	(12 856)
Exchange rate differences	-	(1 101)	(1 291)	(14)	(186)	-	(2 592)
Balance at 31.12.2007	-	144 309	96 411	764	6 112	-	247 596
Impairment losses							
Balance at 1.1.2007	-	5 541	14	-	33	1 191	6 779
Additions (Note 3, 5)	-	1 676	8	-	10	-	1 694
Disposals	-	(4 521)	(19)	-	(41)	(1 008)	(5 589)
Exchange rate differences	-	(74)	5	-	5	9	(55)
Balance at 31.12.2007	-	2 622	8	-	7	192	2 829
Net book value 1.1.2007	**946**	**115 808**	**49 749**	**422**	**5 088**	**19 692**	**191 705**
Net book value 31.12.2007	**919**	**147 150**	**77 794**	**336**	**7 655**	**29 633**	**263 487**

2006	Land	Buildings & restaurant development assets	Machinery & equipment	Vehicles	Other tangible assets	Assets under construction	Total
Acquisition cost							
Balance at 1.1.2006	1 912	228 478	119 480	688	5 388	6 354	362 300
Acquisitions	-	3 565	1 064	113	837	-	5 579
Additions	-	5 802	13 028	111	1 305	34 199	54 445
Disposals	-	(4 477)	(1 516)	(210)	(846)	(1 287)	(8 336)
Transfers	-	14 904	906	226	2 564	(18 600)	-
Transfers to assets held for sale (Note 18)	(1 004)	(3 172)	-	-	-	-	(4 176)
Exchange rate differences	38	2 774	2 489	12	187	217	5 717
Balance at 31.12.2006	946	247 874	135 451	940	9 435	20 883	415 529
Accumulated depreciation							
Balance at 1.1.2006	-	104 643	72 209	523	3 606	-	180 981
Additions	-	23 477	12 844	143	1 021	-	37 485
Disposals	-	(2 442)	(846)	(154)	(446)	-	(3 888)
Transfers to assets held for sale (Note 18)	-	(315)	-	-	-	-	(315)
Exchange rate differences	-	1 162	1 481	6	133	-	2 782
Balance at 31.12.2006	-	126 525	85 688	518	4 314	-	217 045
Impairment losses							
Balance at 1.1.2006	-	5 450	-	-	-	1 728	7 178
Additions (Note 3, 5)	-	2 217	-	-	23	-	2 240
Disposals	-	(2 174)	-	-	-	(521)	(2 695)
Transfers	-	32	-	-	-	(32)	-
Exchange rate differences	-	16	14	-	10	16	56
Balance at 31.12.2006	-	5 541	14	-	33	1 191	6 779
Net book value 1.1.2006	**1 912**	**118 385**	**47 271**	**165**	**1 782**	**4 626**	**174 141**
Net book value 31.12.2006	**946**	**115 808**	**49 749**	**422**	**5 088**	**19 692**	**191 705**

Property, plant and equipment presented below comprise items under finance lease, were the Group is the lessee:

	Land	Buildings	Machinery & equipment	Vehicles	Other tangible assets	Total
Acquisition cost 31.12.2007	800	2 650	16 463	241	477	20 631
Accumulated depreciation 31.12.2007		894	7 503	77	363	8 837
Net book value 31.12.2007	800	1 756	8 960	164	114	11 794
Acquisition cost 31.12.2006	827	2 738	53	-	-	3 618
Accumulated depreciation 31.12.2006	-	787	53	-	-	840
Net book value 31.12.2006	827	1 951	-	-	-	2 778

A calculation of the loss on the disposal of fixed assets and a summary of impairment losses incurred in 2007 and 2006 is presented in the table below:

	2007	2006
Proceeds from the sale of property, plant and equipment and intangible assets	520	1 082
Net book value of property, plant and equipment and intangible assets disposed	(1 814)	(1 753)
Loss on disposal of property, plant and equipment and intangibles	(1 294)	(671)
Gain on disposal of assets held for sale (Note 18)	139	2 082
Gain/(Loss) on disposal of property, plant and equipment, intangible assets and non-current assets held for sale	(1 155)	1 411

According to loan agreement with ABN Amro Bank N.V. (Note 20) the property, plant and equipment of American Restaurants Sp. z o.o. and American Restaurants s.r.o. are used as collateral. The net book value of these assets amounted to 181 085 TPLN (31 December 2006: 164 152 TPLN).

Depreciation expense has been charged in ‘restaurant expenses’ – 43 676 TPLN (previous period: 34 427 TPLN) and in general and administrative (G&A) expenses – 2 323TPLN (previous period: 3 058 TPLN).

11 Other intangible assets

Intangible assets movements in 2007 and 2006 can be presented as follows:

2007	Favourable leases	Rights to use Pizza Hut , KFC and Burger King trademarks	Other intangible assets	Total
Acquisition cost				
Balance at 1.1.2007	9 465	16 315	9 058	34 838
Acquisitions (Note 4)	-	1 422	266	1 688
Additions	-	3 431	2 876	6 307
Disposals	-	(992)	(727)	(1 719)
Exchange rate differences	-	(401)	(64)	(465)
Balance at 31.12.2007	9 465	19 775	11 409	40 649
Accumulated amortisation				
Balance at 1.1.2007	4 238	11 410	6 260	21 908
Additions	2 865	1 848	1 485	6 198
Disposals	-	(962)	(342)	(1 304)
Exchange rate differences	-	(143)	(35)	(178)
Balance at 31.12.2007	7 103	12 153	7 368	26 624
Impairment losses				
Balance at 1.1.2007	-	101	-	101
Additions	-	(30)	-	(30)
Disposals	-	-	-	-
Exchange rate differences	-	(1)	-	(1)
Balance at 31.12.2007	-	70	-	70
Net book value 1.1.2007	**5 227**	**4 804**	**2 798**	**12 829**
Net book value 31.12.2007	**2 362**	**7 552**	**4 041**	**13 955**

2006	Trademarks	Favourable leases	Rights to use Pizza Hut and KFC trademarks	Other intangible assets	Total
Acquisition cost					
Balance at 1.1.2006	338	8 389	14 851	8 843	32 421
Acquisitions	-	1 076	89	42	1 207
Additions	-	-	1 280	241	1 521
Disposals	(349)	-	(193)	(118)	(660)
Exchange rate differences	11	-	288	50	349
Balance at 31.12.2006	-	9 465	16 315	9 058	34 838
Accumulated amortisation					
Balance at 1.1.2006	39	1 377	9 642	4 979	16 037
Additions	69	2 861	1 814	1 364	6 108
Disposals	(110)	-	(193)	(119)	(422)
Exchange rate differences	2	-	147	36	185
Balance at 31.12.2006	-	4 238	11 410	6 260	21 908
Impairment losses					
Balance at 1.1.2006	-	-	62	42	104
Additions	-	-	-	-	-
Disposals	-	-	(4)	-	(4)
Exchange rate differences	-	-	1	-	1
Balance at 31.12.2006	-	-	59	42	101
Net book value 1.1.2006	**299**	**7 012**	**5 147**	**3 822**	**16 280**
Net book value 31.12.2006	**-**	**5 227**	**4 846**	**2 756**	**12 829**

Other intangible assets comprise mainly software.

There are no intangible assets self-generated and capitalised by the Group.

Amortisation expense has been charged in ‘restaurant expenses’ - 5 712 TPLN (previous period: 5 750 TPLN) and in general and administrative (G&A) expenses - 486 TPLN (previous period: 358 TPLN).

12 Goodwill

Changes in goodwill can be presented as follows:

	2007	2006
Acquisition cost		
Balance at the beginning of period	23 516	4 765
Additions (Note 4)	142 696	18 666
Exchange rate differences	(10 859)	85
Balance at the end of period	155 353	23 516
Impairment losses		
Balance at the beginning of period	-	-
Balance at the end of period	-	-
Net book value, beginning of period	**23 516**	**4 765**
Net book value, end of period	**155 353**	**23 516**

Acquisitions prior to 2007

Goodwill in the amount of 18 666 TPLN (18 693 TPLN as at 31 December 2007 after the adjustment for positive foreign exchange differences of 27 TPLN) relates to the acquisition of American Restaurants Kft. (previous name: Kentucky System Kft.) in June 2006, whereas goodwill in the amount of 4 819 TPLN (4 829 TPLN as at 31 December 2007 after the adjustment for positive foreign exchange differences of 10 TPLN) relates to the acquisition of miklik's food s.r.o. in May 2005.

New acquisitions

Provisional goodwill in the amount of 142 696 TPLN (131 831 TPLN as at 31 December 2007 after the adjustment for negative foreign exchange differences in the amount of 10 865 TPLN) relates to the acquisition of OOO Pizza Nord (Note 4).

Impairment tests

As at 31 December 2007 the Group performed tests for impairment of goodwill related to the acquisitions of American Restaurants Kft. and miklik's food s.r.o. The smallest cash generating unit of the acquired businesses is each individual restaurant in Czech Republic and Hungary. However goodwill was allocated to all Group's restaurants in each country as it is monitored for internal management purposes on country basis and cannot be allocated on a non-arbitrary basis to individual restaurants. This group of cash generating units for goodwill impairment test is consistent with the Group's reportable segment as determined in accordance with IAS 14.

Similar assumptions were for the impairment test of goodwill on acquisition of American Restaurants Kft. and miklik's food s.r.o. The recoverable amount of the cash generating unit was based on a calculation of value in use. This calculation uses cash flow projections based on past performance and expectations for the market development and the five-year business plan. A pre-tax discount rate of approximately 10.8 per cent has been used in discounting the projected cash flows. Budgeted operating margin was assumed at the level of about 9% and growth rate used to extrapolate cash flow beyond budget period was 5%.

The provisional goodwill related to the acquisition of OOO Pizza Nord will be tested for impairment once the provisional accounting is completed, i.e. as at 30 June 2008 (see Note 4).

13 Other non-current assets

The other non-current assets balance at 31 December 2007 and 31 December 2006 are summarized in the table below:

	31.12.2007	31.12.2006
Operating lease prepayments	11 753	13 308
Receivable from the previous owner of OOO Pizza Nord - operating lease contract (Note 4)	16 562	-
Prepayment (3 years) to the previous owner of OOO Pizza Nord - operating lease contract (Note 4)	10 600	-
Rent deposits	8 250	3 869
Other	787	549
	47 952	17 726

Receivable from the previous owner of OOO Pizza Nord in the amount of 16 562 TPLN is denominated in USD, matures within 7 years and its effective interest rate is 9.9%. The fair value of the receivable approximates the balance sheet value.

14 Inventories

Inventories at 31 December 2007 and 31 December 2006 comprise primarily of food and packaging materials used in restaurant operations. Inventories are stated net of provisions. The balance of provisions amounted to 795 TPLN as at 31 December 2007 and 31 December 2006. There were no changes of provisions for inventories in the 12 months period ended 31 December 2007 (previous period: increase of 201 TPLN) (Note 3, 5).

Inventories with a value of 7 363 TPLN (31 December 2006: 6 383 TPLN) are pledged as security for loan received from ABN Amro Bank N.V. (Note 20).

15 Trade and other receivables

	31.12.2007	31.12.2006
Trade receivables - third party	12 628	9 805
Trade receivables - related parties (Note 31)	56	93
Other taxes receivable	6 041	3 853
Other receivables	1 595	1 379
Provisions for receivables (Note 32)	(3 587)	(3 670)
	16 733	11 460

16 Other current assets

	31.12.2007	31.12.2006
Prepaid utilities	2 866	2 420
Prepaid rent	4 760	1 926
Prepaid insurance	187	293
Other	3 808	1 337
	11 621	5 976

17 Cash and cash equivalents and held to maturity financial assets

The cash and cash equivalents balance at 31 December 2007 and 31 December 2006 are summarized in the table below:

	31.12.2007	31.12.2006
Cash at bank	36 182	14 344
Cash in hand	10 691	10 897
	46 873	25 241

The Group purchased held to maturity financial assets (certificates of deposits) on November 2006 for the amount of 9 954 TPLN with a maturity on January 2007. The balance sheet value of the investment amounted to 9 984 TPLN as at 31 December 2006. Effective interest rate was 4.59%.

In January 2007 held-to-maturity financial assets matured and the cash was received in the amount of 9 984 TPLN. There were no held to maturity financial assets as at 31 December 2007.

The Group considers credit risk of cash at bank to be very low. Fair value of those investments approximates carrying amounts. The maximum exposure to credit risk of those investments approximates to their balance sheet value.

18 Assets held for sale

In May 2007 a transaction of selling a restaurant building located in Poland for 4 000 TPLN was concluded.

The calculation of gain on disposal of non-current assets classified as assets held for sale is as follows:

	2007	2006
Revenue from disposals of assets held for sale	4 000	5 000
Net book value of assets held for sale	(3 861)	(2 918)
Profit from disposal of assets held for sale	139	2 082

Non-current assets held for sale belonged to the geographical segment „Poland”.

As at 31 December 2007 the Group does not have any assets held for sale (31 December 2006: 3 861 TPLN).

19 Equity

Share capital

As stated in Note 1(a), on 27 April 2005 r. the shares of AmRest Holding N. V. commenced trading on the Warsaw Stock Exchange (WSE) in Poland.

As of 31 December 2007, there are 14 170 606 shares issued and outstanding (31 December 2006: 13 500 000 shares). All issued shares are fully paid. The authorized share capital consists of 15 000 000 shares.

On 27th of August 2007 the new issue of 670 606 shares was registered. The issue related to the acquisition of OOO Pizza Nord (further details - Note 4). The nominal value of the issue was 25 TPLN. Share premium amounted to 99 962 TPLN.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings of the Company.

Other reserves

Other reserves of 6 191 TPLN relates to the non-refundable contribution, without the issuance of new shares, made by the shareholders of the Group before the IPO on WSE.

Translation Reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations of the Group into PLN. Translation reserves as at 31 December 2007 relates to the following items:

	31.12.2007
Translation differences on goodwill	10 865
Exchange differences arising on the eliminated upon consolidation group loans for which settlement is neither planned nor likely to occur in the foreseeable future, which form part of a net investment in a foreign operation	8 675
Translations of the results and financial position of foreign operations into presentation currency	3 914
	23 454

20 Interest-bearing loans and borrowings

The table below presents interest-bearing loans and borrowings at 31 December 2007 and 31 December 2006:

Non-current	31.12.2007	31.12.2006
Bank loans	124 146	72 140
	124 146	72 140

Current	31.12.2007	31.12.2006
Bank loans	38 552	918
	38 552	918

Bank loans

Currency	Bank	Effective interest rate	31.12.2007	31.12.2006
PLN	BPH-PBK	6.62%	-	918
PLN	ABN Amro Bank N.V.	5.60%	77 000	-
CZK	ABN Amro Bank N.V.	3.81%	69 810	72 140
RUB	Raiffaisen Bank	12.26%	5 300	-
RUB	OAO FDC	12.50%	10 588	-
			162 698	73 058

Bank loans comprise mainly of investments loans bearing floating interest rates based on PRIBOR, RIBOR and WIBOR. Contractual reprising of bank loans and interest rate risk is on a monthly basis.

According to the loan agreement with ABN Amro Bank N.V., the Group is required to maintain certain financial ratios as specified in the agreement. These include net debt index, (the ratio of net debt to EBITDA), interest coverage and the balance sheet structure (the net fixed assets defined as total consolidated equity less net intangible assets and the net goodwill to total assets). The Group maintained all financial ratios described above as at 31 December 2007.

Please refer to Note 10 and 14 for details regarding security pledged for the above loans.

Effective interest rates are similar to market rates for given types of loans. Fair value of presented above liabilities is not significantly different from carrying amounts.

Maturity of bank loans is presented below:

	31.12.2007	31.12.2006
Less than 1 year	38 552	918
Between 1-2 years	55 927	13 741
Between 2-5 year	64 552	41 223
Over 5 years	3 667	17 176
	162 698	73 058

The Group has the following undrawn borrowing facilities:

	31.12.2007	31.12.2006
Floating rates		
- expiring within one year	14 489	10 202
- expiring after one year	57 000	23 831
	71 489	34 033

21 Employee benefits and share option plans

Long term service employee benefits

In accordance with the Company's employment regulations, certain employees have the right to jubilee payments for long-term employment in accordance with the Group's employment regulations. These employees receive a lump sum in local currency equivalent to USD 300 after the completion of 5 years of employment and a lump sum in local currency equivalent to USD 1 000 after the completion of 10 years of employment. The Group has made an accrual of 1 221 TPLN for the jubilee obligation as of 31 December 2007 and 913 TPLN as of 31 December 2006. The accrual for the jubilee obligation related to the management amounted as at 31 December 2007 4 TPLN. Actuarial assumptions: discount rate: 5.5% and expected turnover % per year: 40.

Share option plan 1

The plan was set up in 1999 and initially settled in cash. It related to the Group's key employees. Upon the Group's IPO on 27 April 2005, the plan was converted to settled in shares instead of cash. Additionally all obligations under the plan were assumed by ARC (See Note 1a). ARC assumed responsibility for the option settlements with employees (vested and not vested upon IPO). The value of liability in the amount of 1 944 TPLN was transferred to the equity.

Share option plan 2

In April 2005, the Group established an employee stock option plan for key employees, settled in shares. The total number of shares to which options are granted is determined by the Board but cannot exceed 3% of the total outstanding shares. In addition, the number of shares acquired by employees from options exercised is limited to 200 000 annually. Under the plan, the Company is entitled to determine among other matters, participating employees, number of options granted and the grant date. The option price and the vesting period will generally be the closing share price at the option grant date and carry either a 3 or 5 year vesting period.

The terms and conditions of the grants are as follows:

Grant date	Number of options granted	Vesting conditions	Exercise price in PLN	Contractual life of options
Plan 1				
at 30 April 1999	75 250	5 years, graded, 20% per year	6.4	10 years
at 30 April 2000	53 750	5 years, graded, 20% per year	25.6	10 years
at 30 April 2001	76 300	5 years, graded, 20% per year	25.6	10 years
at 30 April 2002	74 600	5 years, graded, 20% per year	16.0	10 years
at 30 April 2003	55 100	5 years, graded, 20% per year	16.0	10 years
at 30 April 2004	77 800	5 years, graded, 20% per year	19.2	10 years
Total	412 800			
Plan 2				
At 30 April 2005	79 300	5 years, graded, 20% per year	24.0	10 years
At 30 April 2006	75 000	5 years, graded, 20% per year	48.4	10 years
At 30 April 2007	89 500	5 years, graded, 20% per year	96.5	10 years
Total	243 800			

The number and weighted average exercise prices of share options for the 12 months period ended 31 December 2007 and 12 months ended 31 December 2006 are as follows:

	2007			2006		
	Weighted average exercise price	Number of options Plan 2	Number of options Plan 1	Weighted average exercise price	Number of options Plan 2	Number of options Plan 1
Outstanding at the beginning of the period	PLN 26.9	151 400	182 200	PLN 20.6	79 300	203 900
Exercised during the period	-	-	(17 800)	PLN 18.3	-	(9 140)
Forfeited during the period	PLN 29.4	(29 770)	(33 200)	PLN 19.7	(2 900)	(12 560)
Granted during the period	PLN 96.5	89 150	-	PLN 48.4	75 000	-
Outstanding, end of the period	PLN 42.3	210 780	131 200	PLN 26.9	151 400	182 200
Exercisable at the end of the period	PLN 22.2	45 770	123 380	PLN 20.0	15 760	146 660

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a trinominal tree model and Monte-Carlo model. The contractual life of the option (10 years) is used as an input into this model. Expectations of early exercise are incorporated into the trinominal tree model.

Fair value of stock options and performance participation plan units and related assumptions are summarized below:

	Granted in the period from 1/1/2007 to 31/12/2007	Granted in the period from 1/1/2006 to 31/12/2006	Granted in the period from 1/1/2005 to 31/12/2005		Granted till the end of 2004
	Plan 2	Plan 2	Plan 2	Plan 1	Plan 1
Average fair value at grant date	PLN 27.2	PLN 15.5	PLN 8.9	PLN 6.8	PLN 6.6
Average share price at grant date/date of valuation	PLN 96.5	PLN 48.3	PLN 25.7	n/a	n/a
Average exercise price	PLN 96.5	PLN 48.3	PLN 24.0	PLN 18.6	PLN 18.6
Expected volatility (expressed as weighted average volatility used in the modelling under the trinomial tree model)*	33%	31%	40%	40%	40%
Expected option life (expressed as weighted average life used in the modelling under the trinomial tree model	9.9 years	9.9 years	9.9 years	7.0 years	7.5 years
Expected dividends (commencing 2008)	18.8%	18.8%	18.8%	19.4%	19.4%
Risk free interest rate (based on interbank interest rates)	5.5%	4.98%	4.5%	4.5%	5.8%

* Prior to 2006 the Company had no history of public quotations on WSE and the expected volatility for options granted before 2006 was based on the historic volatility of comparable companies operating on the WSE (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. For options granted in 2006 and 2007, the fair value at grant date was based on actual volatility of quotations of the Company.

Share options are granted under a service condition. There are no market conditions associated with the share option grants.

Expenses recognized related to share-based payments plans can be summarized as follows:

	2007	2006
Value of employee services	1 433	497

Pension, health care, sickness fund state contributions

Expenses of contributions to the government are as follows:

	2007	2006
Pension, health care, sickness fund state contributions	31 291	26 328

There are no other compensation benefits (apart from these mentioned above) such as post-employment benefits (other than required by law in particular countries) or termination benefits.

22 Provisions

The table below presents a roll forward of provisions:

2007	01.01.2007	Additions	Used	Released	Translation reserve	31.12.2007
Onerous lease contracts	3 322	890	(869)	(1 185)	(35)	2 123
Provision for legal claims	2 243	-	(1 418)	(128)	-	697
	5 565	890	(2 287)	(1 313)	(35)	2 820

2006	01.01.2006	Additions	Used	Released	Translation reserve	31.12.2006
Onerous lease contracts	3 150	909	(323)	(449)	35	3 322
Provision for legal claims	1 540	703	-	-	-	2 243
	4 690	1 612	(323)	(449)	35	5 565

Provision for onerous contracts

As at the balance sheet date the Group recognised provision for loss making lease contracts. The contracts are mainly related to locations, where the Group does not operate restaurants but subleases locations to other entities at unfavourable conditions. Provision was calculated using 10.9% discount rate. The increase of discount rate by 10.00% (from 10.9% to 12.0%) would result in a decrease of provision by 54 TPLN.

Reserve for legal claims

From time to time, the Group is involved in routine litigation and proceedings during the current course of business. As of the balance sheet date, the Group has recorded the provision for legal claims detailed above, which represents the Group’s best estimate of the probable loss expected to result from such litigations or proceedings.

23 Other non-current liabilities

Other non-current liabilities comprise mainly non-current portion of deferred income from advertising services provided to one of the Group's suppliers (non-related party). For information on non-current portion please refer to Note 24. The Group has received in advance a cash remuneration of 750 TUSD for advertising services which are to be rendered over 5 years period, starting 1 January 2006. Non-current portion of deferred income in relation to that amounted to 1 014 TPLN and 1 521 TPLN at 31 December 2007 and 31 December 2006, respectively.

24 Trade and other accounts payable

Trade and other accounts payable are summarized in the table below:

	31.12.2007	31.12.2006
Accounts payable to third parties:	94 385	63 428
Trade payables	60 859	43 119
Uninvited rent and deliveries for restaurants	10 644	7 428
Payables to employees	7 518	5 162
Social insurance liability	4 566	3 447
Other taxes payable	4 127	1 711
Deposit received	-	80
Other accounts payable to third parties	6 671	2 481
Accounts payable to related parties (Note 31)	1 120	3 404
Accruals:	14 622	9 790
Bonuses to employees	4 386	3 669
Marketing services	986	-
Unused holidays	5 688	3 817
Professional services	2 191	2 255
Accrued acquisition costs (business combinations)	849	-
Other	522	49
Deferred income - current portion (Note 23)	1 006	800
Social Fund	417	481
	111 550	77 903

25 Finance lease liabilities

Finance lease liability – present value of liability:

	31.12.2007	31.12.2006
No later than 1 year	1 442	68
Later than 1 year, no later than 5 years	1 342	413
Later than 5 years	2 818	2 913
	5 602	3 394

Finance lease liabilities – minimum lease payments:

	31.12.2007	31.12.2006
No later than 1 year	2 154	669
Later than 1 year, no later than 5 years	3 685	2 657
Later than 5 years	5 570	5 972
Total minimum lease payments	11 409	9 298
Future finance charges on finance leases	(5 807)	(5 904)
Present value of finance lease liabilities	5 602	3 394

26 Operating leases

The Group has numerous operating leases, primarily for the rental of restaurant locations. Rental contracts for restaurant locations are typically concluded for a period of ten years, subject to certain minimum notice periods for cancellation.

Estimated minimum lease payments related to non-cancellable operating lease agreements are as follows:

	31.12.2007	31.12.2006
No later than 1 year	44 354	38 914
Later than 1 year, no later than 5 years	228 097	142 434
Later than 5 years	85 589	107 925
Total minimum lease payments	358 040	289 273

For numerous restaurants (mainly for those located in shopping malls) the rental fees are composed of a fixed fee and a fee contingent on the revenues of the restaurant. The contingent fee typically represents 2.5% to 9% of restaurant sales. Operating lease expenses are as follows (Note 5):

	2007			2006		
	Fixed part	Contingent part	Total	Fixed part	Contingent part	Total
Czech Republic	13 658	2 361	16 019	12 565	1 605	14 170
Hungary	3 499	346	3 845	1 445	303	1 748
Poland	21 421	13 080	34 501	18 651	10 471	29 122
Russia	9 479	251	9 730	-	-	-
Bulgaria	353	-	353	-	-	-
Serbia	97	-	97	-	-	-
	48 507	16 038	64 545	32 661	12 379	45 040

The Group also is also a party of sub-operating leases. Revenues from such contracts are as follows (Note 6):

	2007	2006
Czech Republic	81	83
Hungary	49	35
Poland	1 618	1 977
	1 748	2 095

27 Loan security

Loans are secured by various means of pledge and mortgage on tangible fixed assets and on inventories – see Note 10 and 14.

28 Earnings per share

Basic and diluted earnings per ordinary share are calculated as follows:

	2007	2006
Net profit attributable to shareholders of the parent	48 402	38 466
Ordinary shares at 1 January	13 500 000	13 500 000
Effect of shares issued	336 227	-
Effect of stock options granted in 2005	59 678	36 130
Effect of stock options granted in 2006	36 293	-
Effect of stock options granted in 2007	-	-
Weighted average number of ordinary shares	13 932 198	13 536 130
Basic earnings per share	3.50	2.85
Diluted earnings per share	3.47	2.84

The effect of potential ordinary shares resulting from stock options granted is slightly dilutive.

29 Commitments and contingencies

Under the signed franchise agreements related to KFC and Pizza Hut, the Group must from time to time upgrade, modify, renovate or replace all or part of its restaurants or any of their fittings, fixtures or signage or any of the equipment, systems or inventory used in the restaurant in order to maintain compliance with the relevant franchisor’s then current standards. During each of the initial term and the renewal term, if any, the franchisor may not require more than two comprehensive refurbishments of all fittings, fixtures, signage, equipment, systems and inventory in the “front-of-house” area of each restaurant to then current standards and more than one comprehensive refurbishment of all fittings, fixtures, signage, equipment, systems and inventory in the “back-of-house” area of each restaurant. The Group estimates the cost of upgrades at 1.5 percent of annual restaurant sales in future periods.

Commitments arose on concluded agreements with Burger King and Starbucks as well as main conditions of current and future franchise agreements are described in Note 1(a) and 1(f).

30 Investments in associates

Changes in investments in associates can be presented as follows:

	2007	2006
At the beginning of the period	1 221	574
Acquisition of shares	-	10
Share of profit of associates	1 132	637
Exchange differences	-	-
	2 353	1 221

The Group's investments in associates, all of which are unlisted, and their main financial data are as follows:

Name of associate	Country	Assets	Liabilities	Revenues	Profit/ (loss)	% of interest held
31 December 2007						
Worldwide Communication Services LLC	USA	145	79	-	(6)	33.33
Synergy Marketing Partners Sp. z o.o	Poland	127	71	2 733	6	26.66
Red 8 Communications Group Sp. z o.o.	Poland	5 287	2 095	16 027	1 962	17.33
Synergy Marketing Partners s.r.o.	Czech Republic	21	0	168	9	24.00
SCM Sp. z o.o	Poland	4 193	305	5 443	1 671	45.00
SCM s.r.o.	Czech Republic	188	79	425	109	40.50

Name of associate	Country	Assets	Liabilities	Revenues	Profit/ (loss)	% of interest held
31 December 2006						
Worldwide Communication Services LLC	USA	156	82	-	(83)	33.33
Global Communication Services Sp. z o.o.	Poland	41	98	-	(7)	33.33
Synergy Marketing Partners Sp. z o.o	Poland	2 758	2 664	19 525	18	26.66
Red 8 Communications Group Sp. z o.o.	Poland	2 410	882	10 458	445	17.33
Synergy Marketing Partners s.r.o.	Czech Republic	664	653	775	(17)	24.00
SCM Sp. z o.o	Poland	2 518	301	4 602	1 481	45.00

31 Related parties

Trade and other receivables from related parties:

	31.12.2007	31.12.2006
Metropolitan Properties International Sp. z o.o.	34	26
American Retail Concepts	-	11
American Retail Systems Sp. z o.o.	3	-
Associates	19	56
	56	93

Trade and other payables to related parties:

	31.12.2007	31.12.2006
ARC	524	556
American Retail Systems Sp. z o.o.	271	161
Associates	325	2 687
	1 120	3 404

Sales of goods and services:

	2007	2006
Metropolitan Properties International Sp. z o.o.	8	26
American Retail Systems Sp. z o.o.	103	84
Associates	83	72
	194	182

Purchases of goods and services:

	2007	2006
Metropolitan Properties International Sp. z o.o.	285	281
ARC	3 816	3 116
American Retail Systems Sp. z o.o.	1 841	1 609
Associates	5 261	18 193
	11 203	23 199

ARC, IRI, American Retail Systems Sp. z o.o., Metropolitan Properties International Sp. z o.o.

As described in Note 1(a), ARC together with its subsidiaries - IRI, American Retail Systems Sp. z o.o. are related parties as at 31 December 2007 and as at 31 December 2006. Metropolitan Properties International Sp. z o.o. is the company owned by Henry McGovern.

ARC was founded by Donald M. Kendall, Sr., Donald M. Kendall, Jr. and Christian R. Eisenbeiss, who served as Supervisory Board members of the Group as at 31 December 2007 and Henry J. McGovern who is a Management Board member of the Company and the senior executive managing the operating businesses in Poland and the Czech Republic.

The ownership structure of ARC as at 31 December 2007 is shown in the table below:

	Percent Ownership
Donald M. Kendall, Sr.	30.00%
Donald M. Kendall, Jr.	18.25%
Christian R. Eisenbeiss	28.36%
Henry J. McGovern	22.49%
David A. Bobilya	0.90%

The Group also received management and consultancy services provided by ARC for the Czech and Polish operating entities. The major obligation is for ARC to provide management services including paying the salaries and certain other expenses of certain members of the Group's management team. These salaries and services are invoiced to the Group's subsidiaries monthly. The professional fees paid by the Company and its subsidiaries to ARC amounted to 3 816 TPLN and 3 116 TPLN for the twelve months ended 31 December 2007 and 31 December 2006, respectively.

Additionally, the Group created a provision for estimated costs related to management services provided by ARC in the amount of 1 330 TPLN (31 December 2006: 1 611 TPLN).

Starting from 27 April 2005, ARC assumed obligations for the settlement of stock option plan (See Note 21).

In addition to its ownership interest in the Group, ARC conducts real estate operations through its wholly-owned subsidiary, American Retail Systems Sp. z o.o. (ARS). The Group leases three restaurant properties from ARS at market rates consistent with the lease terms and conditions in its restaurant leases with third parties.

As at 31 December 2007 r. the Group recognised in its consolidated balance sheet prepayments for rent amounting to 10 280 TPLN) made in 2005 on behalf of ARS in connection with concluded lease contracts for 4 restaurants for ten-year period starting in 2007.

The Group's offices in Wroclaw are also located in a building owned by ARS and Metropolitan Properties International Sp. z o.o.

The rent and other costs paid by the Group and its subsidiaries to ARS were 1 842 TPLN and 1 609 TPLN for the twelve months ended 31 December 2007 and 31 December 2006, respectively.

The rent and other costs paid to the company owned by Henry McGovern – MPI were 285 TPLN and 281 TPLN for the twelve months ended 31 December 2007 and 31 December 2006, respectively.

The Group payables in respect of the above mentioned transactions amounted to 795 TPLN and 161 TPLN as at 31 December 2007 and at 31 December 2006, respectively.

On 1 April 2006, waiver of loans from IRI and YUM! came into force, based on loan waiver agreements signed by IRI and dated September 4th, 2006. The agreements covered loans granted to the Group by IRI and YUM! in previous years. The carrying amount of these loans upon 1 April 2006 was 3 396 TPLN. As at 31 December 2005, carrying amount of these loans was 3 059 TPLN (1 332 TPLN (YUM!) and 1 727 TPLN (IRI)). Shortly before the waiver, YUM! transferred its receivables related to the loan to IRI. As loans were waived, the Group recognised in 2006 a profit in the amount of 3 396 TPLN which was presented as finance income (See Note 7).

Associates

Worldwide Communication Services LLS

Worldwide Communication Services LLS (WCS) and its subsidiaries provided the Group with marketing services until the end of March 2007. Amounts billed by WCS to the Group (mainly through its subsidiary – Synergy Marketing Partners Sp. z o.o.) for 2007 and 2006 amounted to 3 839 TPLN and 17 919 TPLN, respectively.

Transactions with key management personnel

Key management remuneration (members of the Management Board of AmRest Holdings N.V.) paid by ARC and directly by the Group is as follows:

	2007	2006
Management Board remuneration paid by ARC	40	120
Including additional benefits	-	-
Management Board remuneration paid directly by the Group	2 286	1 206
Including additional benefits	-	-
Management Board remuneration, total	2 326	1 326
Including additional benefits	-	-

Key personnel of the Group receive also remuneration from ARC (apart from the management of the Company, subsequently recharged to the Group) Management remuneration paid by ARC amounted to 3 815 TPLN and 3 282 TPLN for 2007 and 2006, respectively.

Key management participates also in share option programs (see Note 21). Share based payment expense which relates to key management amounted to 222 TPLN and 76 TPLN in 2007 and 2006 respectively.

	31.12.2007	31.12.2006
Number of options granted	131 000	117 000
Number of options available	102 800	83 400
Fair value of options at the moment of grant	1 415 000 PLN	918 300 PLN

There were no commitments to former employees as at 31 December 2007 and 2006.

32 Critical accounting estimates and judgments

Key sources of estimation and uncertainty

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate mostly to goodwill impairment, depreciation and amortisation, deferred tax.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy presented in Note 1n. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations (Note 12). No impairment was recognised in relation to goodwill existing at 31 December 2007 and 31 December 2006. The 10% increase of discount rate (from 10.8% to 12%) or the 10% decrease of operating cashflow, would not result in impairment charge.

Estimated depreciation rates

The increase of average useful lives by 10% would result in a decrease of depreciation expense for 2007 by approximately 4 609 TPLN.

Judgments

The most critical judgments relate to lease classification – See Notes 25 and 26 and recognition of deferred tax asset on tax losses carry forward – Note 9.

33 Financial instruments

The Group's activities expose it to a variety of financial risks: market risk (including currency and interest rate risk), liquidity risk and to a limited degree credit risk. The Group's risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse affects on the Group's financial performance.

Risk management is carried out under policies approved by the management.

Credit risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents and receivables. The Group places its cash and cash equivalents in financial institutions with high credit ratings. There are no significant concentrations of credit risk with respect to trade and other receivables as sales are primarily made in cash or via major credit card. In 2007 Group created additional provision for receivables exposed to credit risk in the amount of 14 TPLN (Note 3, 5). Maximum amount exposed to credit risk is 36 882 TPLN.

The timing structure of receivables and bad debt allowances is as follows:

	current	past due in days				**Total**
		up to 90	91 - 180	181 - 365	over 365	
Trade and other receivables	14 424	1 201	377	178	4 140	**20 320**
Bad debt allowance	-	(9)	(54)	(50)	(3 474)	**(3 587)**
	14 424	1 192	323	128	666	**16 733**

The Group did not recognise impairment of past due trade and other receivables amounting to 2 309 TPLN because it expects that they will be recovered in a total amount.

Interest rate risk

The Group's interest-bearing borrowings typically bear floating interest rates (see Note 20). The exposure to interest rate cash flow risk is not hedged. The Group analyses current market situation regarding interest rates taking into consideration refinancing or renegotiating the terms of contracts. The impact on profit or loss is analysed on a quarterly basis.

If interest rates on borrowings in the 12 months period ended 31 December 2007 had been 10% higher/lower, profit for the year would have been about 786 TPLN lower/higher.

Foreign currency risk

The Group is exposed to foreign currency risk arising from various currency exposures other than currencies used in the relevant companies of the Group. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities. In addition, the rent due on a significant portion of the Group's restaurant leases is indexed to US dollar or euro exchange rates. Although the Group seeks where possible to agree rents in local currency, many lessors still require rents to be indexed to euro or US dollar exchange rates.

In order to minimize exposure to foreign currency risk, among other things, the Group aims to reduce the impact of short-term fluctuations. Over the long term, however, permanent changes in the foreign exchange and interest rates would have an impact on consolidated earnings.

As at the 31 December 2007, Group's assets and liabilities are denominated mainly in the functional currencies of its subsidiaries. If the Czech crown had strengthened/weakened by additional 10% against the US dollar, profit for the year would have been 2 331 TPLN higher/lower.

The Group currently does not use derivatives to manage currency risk.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and equivalents and the availability of funding from adequate amount of committed credit lines.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Maturity of long term and short term loans is as follows (undiscounted):

	2007			2006		
	Capital instalments	Interests and other costs	Total	Capital instalments	Interests and other costs	Total
Less than 1 year	38 552	9 890	48 442	918	2 796	3 714
Between 1 - 2 year	55 927	13 226	69 153	13 741	2 491	16 232
Between 2 - 5 year	64 552	4 618	69 170	41 223	4 425	45 648
Over 5 years	3 667	70	3 737	17 176	489	17 665
	162 698	27 804	190 502	73 058	10 201	83 259

Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total engaged capital. Net debt is calculated as total borrowings (including borrowings and payables) less

cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The gearing ratios at 31 December 2007 and 31 December 2006 were as follows:

	12'2007	12'2006
Bank loans total (Note 20)	162 698	73 058
Less: cash and cash equivalent (Note 17)	(46 873)	(25 241)
Net debt	115 825	47 817
Total equity	291 423	155 875
Capital involved	407 248	203 692
Gearing ratio	28%	23%

34 Subsequent events

- On 21st January 2008 the letter of intent between AmRest and BKE regarding Bulgaria was signed. Both parties have agreed to enter into negotiations intended for BKE to grant AmRest a development agreement and franchise agreements in Bulgaria. The negotiations will include the specific terms and conditions that will be mutually acceptable to both parties as it relates to AmRest developing and operating Burger King restaurants in Bulgaria.
- On 27th February 2008 AmRest signed the final asset purchase agreement, regarding 9 Rostik's–KFC restaurants operated by OOO Tetra in Russia. The total transaction price amounted to USD 12 million. The agreement assumes that the payment for particular restaurants will be made through separate escrow account and cash will be released to the seller once the lease rights, regarding particular restaurants, are transferred from OOO Tetra to the Group. AmRest will fully control these restaurants once these rights are actually transferred.
- On 31st March 2008 AmRest signed the final asset purchase agreement, regarding 5 Rostik's–KFC restaurants operated by OOO Fast Food Restaurants Group in Russia. The total transaction price amounts to USD 6.15 million. The agreement assumes that the amounts regarding particular restaurants will be made through separate escrow account and final payments will be released once the lease rights, regarding particular restaurants, are transferred from OOO Fast Food Restaurants Group to AmRest. AmRest will fully control these restaurants once these rights are actually transferred.